



Funding Your Business 101

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Small Business and Technology
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SBTDC

- Provides one-on-one confidential business counseling in the areas of:
 - Sales/Marketing
 - Human Resources
 - Operations
 - Financing
 - Government Procurement
 - Technology Development
- Funded by the SBA and the University of NC System.
- 15 Offices across the state.
- UNC Charlotte office worked with over 600 clients in 2009.



Funding Resources

Capital Opportunities for Small Business
– Over 100 pages of funding sources
for businesses in North Carolina.

www.sbtfdc.org

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Major Types of Funding

- Grants
- Debt
- Equity
- Government related
- Other sources





Rule #1

Not All Money is Created Equal

- If you accept the money, what are the conditions?
- What happens if you are unable to meet your funding obligations?





Grant Funding: What is it?

Simply put, money you don't pay back.

SBTDC





Grant Funding

More media hype than reality

- Niche oriented
- Small amounts of money
- Conditions attached
- Primarily for non-profits & local governments

If you don't believe me visit www.grants.gov





Debt Funding: What is it?

Money you pay back over time with interest.





Debt Funding: Common Types

- Second mortgage
- Asset based loan (factoring)
- Insurance or 401(k) loans
- Credit card
- Bank term loan
- Line of credit





Bank Term Loans

- Example: Borrower agrees to repay \$50,000 over 5 years at prime + 2% interest rate.
- Loan proceeds can be used for almost anything.
- Terms should reflect the useful life of items purchased.
 - Working capital: up to 5 years
 - Equipment & vehicles: 5 to 7 years
 - Real estate: 15 to 20 years





Bank Line of Credit

- Borrower only pays interest on the amount of the loan outstanding.
- The loan should be used only to finance short term company needs like inventory or large orders.
- The loan has to be paid off within a 12 month period before continuing with the loan.





The Five C's of Credit – How Banker's Make Their Decision

- Capacity
- Capital
- Collateral
- Character
- Conditions





The Five C's of Credit – How Banker's Make Their Decision

- **Capacity:** The business must be able to support its debts and expenses, and be profitable.
 - Can you make the monthly loan payments? Is there any money left over?
 - Are the numbers realistic?
 - Are you making a salary?
 - What do your tax returns say?
 - Do your financial ratios agree with industry standards?





The Five C's of Credit – How Banker's Make Their Decision

- **Capital:** Money you and/or your investors are putting in or equity you already have in the business.
 - Post loan, is your debt to equity ratio 3:1 or less?
 - Your personal debts are also reviewed.
 - Borrowing your investment is not considered equity.





The Five C's of Credit – How Banker's Make Their Decision

- **Collateral:** The value of assets that secure the loan. Your ability and willingness to guarantee the debt personally if the business can't cover it.
 - In most cases this means investors too.
 - Collateral value is “distressed sale” value; not fair market value. For example:
 - Office furniture: 10% - 25% FMV
 - Equipment/Vehicles: 10% - 50% FMV
 - House – 75% of equity
 - Inventory – 0% to 50% of your cost. Not resale value.
 - Co-signors may pledge their collateral in certain situations.
 - SBA guarantee may help





The Five C's of Credit – How Banker's Make Their Decision

- **Character:** of the borrower and guarantors. Credit must be good. Problems must be explained.
 - Bankruptcy and low credit scores can cause problems.
 - Do you have what it takes to run a business?





The Five C's of Credit – How Banker's Make Their Decision

- **Conditions:** The economy, industry trends, or anything that will affect your business.
 - If everyone else in your industry is struggling, how are you going to excel?
 - What is your industry's long term forecast?





Elements of a Loan Package

First ask the Banker what you need.

- Credit Report (Banker obtains the report)
- Personal Financial Statement (net worth)
- Historical Financials (3yrs)
- Historical Tax Returns (3yrs)
- Business Plan
- Proforma Cash Flow (2-3yrs)
- Proforma Income Statement (2-3yrs)
- Proforma Balance Sheet (2-3yrs)





Common Mistakes Bankers See in Funding Proposals

- Competition does not exist.
- Lack of payback ability.
- Unrealistic projections (the hockey stick)
- Mistakes and errors especially in financials.
- **INCOMPLETE PLANS**





Rule #2

“No’s” don’t last forever.

- You may not qualify given your current situation.
- Funding is a process, not a one time event.





Equity Funding: What is it?

Money received for ownership in your company. No repayment terms.





Equity Funding: Common Types

- YOURS
- Business Partner
- Angel Investors
- Venture Capital





Angel Investors

- Typically high net-worth individuals
- No two are alike
- Investment needs vary
- Found through networking





3 Types of Angel Investors

- Friends and Family
- People in the industry, Customers or Suppliers
- Professional Investors, Networks and Funds





Friends and Family

- First group entrepreneurs typically approach.
- Business can be at any stage: early stage startup to existing.
- Investment can be as small as a few thousand dollars.
- Investment decision based more on relationship than business model.
- Exit strategy may not be an issue.





People in the Industry, Customers or Suppliers

- Second group entrepreneurs typically approach.
- Business can be at any stage: early stage startup to existing. Typically in business.
- Easy to explain. They get it.
- Financial expectations beyond investment.
- Decision based more on business model and the entrepreneur rather than any personal relationship.
- Exit strategy needs to be defined and reachable within 5-7 years.





Professional Investors, Networks and Funds

- Last group entrepreneurs typically approach.
- Can be a startup but typically a company generating some sales showing market acceptance.
- Decision based solely on business model and the entrepreneur. No personal relationship.
- Exit strategy needs to be defined and reachable within 5-7 years.
- Investment can vary starting around \$20,000 from an individual, or \$50,000 and up from a fund.





Professional Investors, Networks and Funds (continued)

Angel Networks

- Group of investors who invest on their own.
- The network does not have money to invest.
- Likes high growth companies with defined exit.
- Local example: Wed3

Angel Funds

- The fund raises money to invest in companies.
- Members vote to determine who gets funding.
- Likes high growth companies with defined exit.
- Local example: IMAF Charlotte





What is a Venture Capital Firm?

- A company formed to invest in particular types of businesses.
- Raises money from individuals and other companies.
- Has a specific investment strategy.
- Makes the investment decisions for the investors.
- Manages the investment portfolio for the investors.





Venture Capitalists

- Attracted to hyper-growth, profitable companies.
- Likes “protected” products/services.
- May end up being your largest stockholder.
- Likes to have input in major company decisions.
- Minimum investment: \$250,000 to \$500,000.
- Expects to cash out in 5-7 years.
- Exit strategies are typically going public or selling the company.
- Company typically does not have the cash flow to buy the VC’s stock.





Government Related Funding

- Small Business Administration (SBA)
- State programs
- Local government programs





Small Business Administration (SBA)

- Reduces the bank's risk by guaranteeing part of the loan.
- SBA lends only in disaster situations.
- You apply to the bank not the SBA for the guarantee.
- You can ask your lender to see if an SBA loan guarantee would improve your chances.

www.sba.gov





State Sources of Funding

■ Qualified Business Tax Credit

- For manufacturing, processing, warehousing, wholesaling, research and development, or a service-related companies.
- 25% state income tax credit up to \$50,000.
- Details at www.secstate.state.nc.us

■ Article 3J

- State income tax credit varies by county
- Credit applies to hiring employees and equipment purchases.
- Details at www.nccommerce.com





Local Sources of Grant Funding

- **City of Charlotte Façade Improvement Grant**
 - 50% reimbursement for eligible renovations to a building's façade or bring signage, landscaping or parking lot up to code.
 - Must be in the City's Business Corridor Revitalization Program Geography.
 - Maximum awards: \$10,000 up to 3,000 square feet to \$65,000 for shopping centers over 30,000 square feet with 4 tenants or more.
 - Details at www.charmeck.org





Local Sources of Grant Funding

■ City of Charlotte Security Grant

- 50% reimbursement for eligible security improvements.
- Must be in the City's Business Corridor Revitalization Program Geography.
- Maximum awards: \$3,000 single units; shopping centers up to \$15,000.
- Details at www.charmeck.org





Local Sources of Funding

■ City of Charlotte Business Equity Loan Program

- For businesses near uptown and certain types of businesses away from the city's center.
- 25% to 40% loan based on total loan needs.
- 1 new job for every \$65,000 borrowed (non-manufacturing) and 1 new job for every \$100,000 borrowed (manufacturing)
- Loan payments deferred for 1-3 years.
- Administered by Self Help Credit Union.
- Details at www.charmeck.org





Other Sources of Funding

- Leasing
- Customers
- Suppliers





Rule #3

Ask what it will take to get a “Yes”?

- Always ask this question!
- Now you know what to work on.





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*The SBTDC is administered by North Carolina State University
on behalf of The University of North Carolina system
operated in partnership with the US Small Business Administration.*