Financing a New Acquisition

ALL THINGS FINANCIAL

Paul Fyfe, an Independent Financial Advisor, Property and Business Broker explores and gives commentary on the above subject.

While growth is best funded through existing capital, buying an added-value business could be an opportunity too good to miss. So, how do you pay for it?

Financing the purchase of a new acquisition is much the same process as financing a startup. Once you've decided that you are ready to take on the added responsibilities, you need to ensure that you have enough capital to pay the purchase price as well as the ongoing cost of employees, raw materials, stocks, storage, etc.

As with a new business venture, you have two funding options:
• equity finance (own funds, or loans from family, friends or shareholders); and
• debt finance (a loan from a bank or finance institution).

Use the following list as a starting point for sourcing finance. Tick off the options that you think will be the most likely sources of help:

- Personal savings.
- Friends and family
- A bank loan.
- A bank overdraft.
- Investors.
- Customer and supplier financing.
- Strategic partners (alliances with other businesses).
- Inventory financing (a bank line of credit secured by your inventory).
- Equipment leasing instead of buying.

If a bank loan is how you intend to finance an acquisition, remember that banks look for evidence of viability. You can demonstrate this by having a sound business plan that outlines the details and projections of your business and specifically the new acquisition.

If you haven't already, visit the **Standard Bank** business banking website at www.standardbank.co.za to download a business plan template and spreadsheets that will help you with these projections. This business plan must show strong projected cash flow. It must also show that you/your partners have a sound understanding of the new business, as well as the skills to run and manage it.

Bear in mind that applicants who make contributions in the form of cash and assets have a better chance of getting a loan

because it shows their willingness to take the risk. If you can't contribute cash, offer collateral. Also remember that several institutions will finance certain deals if there is a BEE component, or if the deal has significant development spin-offs. For more information on these funding organisations, contact the BRAIN National SMME Information Centre on 0860 103 703 or visit www.brain.org.za/sections/financing.html.

And if they STILL say no ...

If you've approached banks, your generous uncle, and even your ex, but are still coming up short, you'll

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need to look for the extra cash within your business. It'll take time, but in the long term it will improve your general cash flow, not to mention your credibility with the bank. Here are a few ways of tightening your business belt.

- Manage inventory more carefully – only stock what you need.
- Invoice early.
- Don't expand unless you can afford it, and don't buy what you can make do without.
- Negotiate longer payment terms with your suppliers, or ask for early-payment discounts.
- Consider raising your prices.

Why a bank might refuse a loan

- Applicants may not have the competency needed to ensure viability of the business.
- The new acquisition is perceived as high risk.
- The applicant isn't able to offer collateral.
- The business plan is not "bankable" because of a lack of feasibility, poor quality, or inadequate information. If you use a consultant to draw up your business plan, make sure it includes plenty of your input and insight into the business itself.
- Unsuitable profit margins.
- Insufficient security.
- Lack of owner commitment.
- The purpose of the loan is not justified, or it is difficult to determine the risk involved.

A loan application checklist

Make sure your loan application includes the following:

- A clear outline of what you want, and why.
- The history and background of your business.

Information on:

- Your share capital.
- Key personnel.
- Management information and accounting systems/policies.
- Trading results.
- Taxation.
- Contingencies and litigation.
- Profit projections.
- Cash flow forecasts.
- Current borrowings /liabilities.
- Security

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