Financing the Deal

Or

What Bankers want and how they need to see it

CLARUS ADVISORS, LLC.

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The Basics

Financial & Other Data

- 3 years externally prepared financial statements
- 3 years tax returns
- 1 year forecast and current year budget
- Purpose of financing and financial benefit
- Organizational Documents
- Business Plan

The Basics

How Deals are Underwritten

- Cash flow leverage
- Balance Sheet leverage
- Collateral
- Secondary source of repayment
- Strength of guarantees
- Management depth*
- Merits of the deal*

What Makes a Good Deal*

for the Bank

Leverage:

•Cash Flow <2.5X

•Fixed Charge Coverage >1.25X

•Funded Debt to Equity <4.0x

Collateral:

•Liquid

•Sale-able

Secondary Sources:

•Real Estate

•Investment Accounts

•Guarantees

The Terms

<u>Term Sheets</u>

- Length of Loan
- Amortization
- Rate – Fixed or Floating
- Covenants
- Not a commitment to lend

What you can expect

- Enhancements will be treated as an equipment loan or lease
- Terms will generally range between 3 to 5 year, fully amortizing
- Rates will be based on credit strength
- Equipment will be valued at 50% or less of cost
- 80% financing
- Fees… Fees… Fees…

Other Caveats

- Retrofits are easier to finance than new construction
- On smaller deals (less than $10mm), most banks do not understand the benefit
- Large Deals – more players available… costs are high

Questions
& Thank You

Richard Greene

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