

# Food Business Entrepreneurial Training Academy #10: Funding Your Company

## **Alameda County SBDC**

Hayward Adult School  
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ALAMEDA COUNTY  
**Community Development Agency**



# Questions To Get Started

- How much money do you have?
- What do you need money for?
- How much money will you need?
- What type of money is best for your business purpose?

# What might you need Capital For?

# Common Uses for Financing



- ❑ 1X only Start-up Expenses
- ❑ Working Capital until revenues cover costs
- ❑ Permanent Working Capital to bridge product development and Sales gap
- ❑ Growth Capital to expand by product lines or territories
- ❑ Debt-refinancing (difficult loans to secure)

**There are two primary ways to get  
funding for your business:  
Debt & Equity**

**So what's the difference?**

**Debt is another word for Loan.  
Banks provide you a loan and they  
want their money back.**

**Equity requires you to give up ownership in your business in exchange for future cash.**

**The equity provided is called “investment”.**



# Equity vs. Debt Financing Advantages

## Debt Financing

### Advantages:

- Relatively Easy & Quick
- Maintain control & ownership
- Interest & other costs tax deductible

## Equity Financing

### Advantages:

- Unsecured (no collateral)
- Share of financial risk (partners)
- Less pressure to make monthly payments
- May be able to borrow more
- Payback is negotiable

# Equity vs. Debt Financing

## Disadvantages

### Debt Financing

#### Disadvantages:

- Interest Costs Expensive
- Risk of profits not covering repayment
- Must share financial information
- Lender Restrictions & Limitations

### Equity Financing

#### Disadvantages:

- Risk of destroying personal relationships
- Give up part of profits
- Give up part of ownership of business
- Give up some control of business
- Legal restrictions

# Equity Financing

# Equity Sources

- Family & friends
- Channel partners
- Angels

# Food for thought

**People invest in people they  
know and trust**

# Your Network

- Your earliest stage capital is most likely to come from friends and family and their personal contacts
  - Everyone you know and everyone they know
- Ask your Family, Friends and Business Associates about investing
- Equity commitments can help you get a loan
- The more equity in place, the “safer” the business will appear to potential lenders, suppliers, landlords, etc.

# Channel Partners = Access to Cash

- ❑ Companies you buy from and sell to
- ❑ Go over your business plan with them
- ❑ Probably won't make a direct investment
- ❑ Negotiate for preferable trade credit terms
- ❑ Lower deposits, more days before bills are due and/or higher credit lines
- ❑ Better terms translate into less cash required

# Angel Investors

- High net worth individual investors
- Tend to be early but generally flexible
- All have their own processes
- *Who is passionate about your business/product?*



# Angel Investor sites

- ❑ [angel.co/food-and-beverages/investors](http://angel.co/food-and-beverages/investors)
- ❑ [Angelfoodnet.org](http://Angelfoodnet.org)
- ❑ [Foodangels.co](http://Foodangels.co)
- ❑ [Circleup.com](http://Circleup.com)
- ❑ Many more...

# Crowd Funding

# Crowd Funding

- A recent source of finance for startups
  - A Crowd Funding or “Crowdfunding” platform can be used to raise money for a campaign (may include startup funding)
  - Currently, “Contributors” do not receive ownership, rather they receive something of value (tickets to events, t-shirts, etc.) – this is about to change!
  - Very marketing/social media intensive
  - Build your social media support BEFORE you begin a crowdfunding campaign

# Crowd Funding

- Crowdfunding is forecasted to pass venture capital as a source of business funding in three years

2014: \$16.2 billion worldwide, up 167% from 2013

2015 forecast: \$34.4 billion

2025 forecast: \$93.0 billion (World Bank)

- 2014 Venture capital: \$48 billion

# Crowd Funding

Top non-equity crowdfunding sites:

- Kickstarter.com – all or nothing
  - about \$2.0 billion funded to date
- Indiegogo– option to keep a partial raise
  - about \$400 million raised to date
- Many rising competitors in niche markets taking market share from the leaders

# Crowd Funding

The SEC just published (Oct. 30) new rules allowing companies to raise equity funding from small investors

- Should start around middle of 2016
  - [circleup.com](http://circleup.com) (consumer packaged goods)
  - expect to see kickstarter and indiegogo
  - [crowdfunder.com](http://crowdfunder.com)
  - [craftfund.com](http://craftfund.com)
  - [equityeats.com](http://equityeats.com)

Many, many more...

# Debt Financing

# What banks are looking for

## The 5 C's of Credit:

- 1. Coverage - financial forecast
- 2. Capital – expect to put in at least 20-30% of costs
- 3. Capacity – experience and good business plan
- 4. Character – FICO score and story
- 5. Collateral – any assets to back up the loan?



# Character

Lenders are interested in the type of person you are

- They are lending you money & want to be repaid
- Do you honor your agreements?
- Credit reports are the major source of information on character.

Fair Isaac Corporation (FICO)

- Defacto industry standard for financial institutions

Know your FICO score before you start

- [creditkarma.com](http://creditkarma.com), [creditsesame.com](http://creditsesame.com), [creditera.com](http://creditera.com)

# SBA Loan Programs – “The Big 3”

- **SBA Microloan**

- Working Solutions, OBDC, Opportunity Fund

- **7(a) Business Loan**

- Many commercial banks

- **504 Certified Development Company (CDC) loan**

- Exclusive 504 lenders, many banks

# SBA Microloans – at a glance

<b>Maximum Loan Amount</b>	\$50,000
<b>Average Loan Amount</b>	\$26,000
<b>Interest Rate</b>	Fixed. Averages 7.9%
<b>Maximum Loan Term</b>	6 years
<b>Collateral</b>	Microlender's own collateral policy
<b>Use of Proceeds</b>	Working capital, inventory, supplies, & equipment only
<b>Volume of Loan Activity in SFDO</b>	57 loans for \$1.5 million, FY 2014
<b>Lenders</b>	Non-profit Microlenders approved by SBA
<b>Special Features</b>	Free technical assistance for the borrower

# Microloan Borrower

## Characteristics:

- ❑ A microenterprise may be a start-up
- ❑ Borrower may have had some credit problems in the past
- ❑ Borrower is not a viable candidate for a bank loan

## Microloan application process:

- ❑ SBA resource partners, SCORE & SBDC, can assist borrower with financial projections
- ❑ Borrower discusses financing need with the Microlenders that serve borrower's county
- ❑ Borrower submits completed application to Microlender

# SBA 7(a) Guaranty Loans – at a glance

<b>Maximum Loan Amount</b>	\$5,000,000
<b>Average Loan Amount</b>	\$490,000
<b>Interest Rate</b>	Usually Variable. Maximum interest rate is generally Prime + 2.75%
<b>Maximum Loan Term</b>	10 years (up to 25 years for real estate)
<b>Collateral</b>	All available collateral (including personal assets) up to loan amount
<b>Use of Proceeds</b>	Working capital, inventory, equipment, RE, debt repayment, bus. acq., franchise
<b>Volume of Loan Activity in SFDO</b>	1,251 loans for \$607 million, FY 2014
<b>Lenders</b>	Most banks, some credit unions, and a few “non-bank lenders”
<b>Special Features</b>	No prepayment penalty unless loan term exceeds 15 years

# SBA 7(a) Borrower

Usually an existing business, although startups are eligible:

- ❑ For each owner of 20% or more of the business, personal credit must be satisfactory (no recent bankruptcies)
- ❑ Personal credit score must meet lender's minimum requirement.

7(a) loan application process:

- ❑ Written business plan is typically required
- ❑ SBA resource partners, particularly SBDC, can assist borrower to prepare financial projections
- ❑ Borrower contacts 7(a) lenders to discuss financing need
- ❑ Lender provides application forms & reviews application for approval prior to submission to SBA

# SBA 504 CDC Loans – at a glance

<b>Maximum Loan Amount</b>	\$5,000,000 (\$5.5M for manufacturers & energy efficiency projects)
<b>Average Loan Amount</b>	\$869,000
<b>Interest Rate</b>	Fixed. 4.77% as of October 2015
<b>Maximum Loan Term</b>	20 years, fully amortizing
<b>Collateral</b>	2 <sup>nd</sup> D/T on project property
<b>Use of Proceeds</b>	Only for acquisition or construction of commercial RE, or heavy equipment
<b>Volume of Loan Activity in SFDO</b>	221 loans for \$192 million, FY 2014
<b>Lenders</b>	Non-profit Certified Development Companies (CDC's) approved by SBA
<b>Special Features</b>	SBA loan is 100% guaranteed, may not exceed 40% of project value, & is in 2 <sup>nd</sup> lien position behind a non-guaranteed bank loan. Minimum 10% borrower injection.

# 504 Borrower

Typically a seasoned business that can demonstrate repayment ability from historical cash flow

- ❑ Owners have sufficient personal assets to cover minimum 10% down payment (20% for less proven situations)
- ❑ Borrower seeks to avoid the uncertainty of lease renewals and rent increases, and benefit from commercial RE ownership

504 CDC loan application process

- ❑ SBA Partner such as the SBDC or real estate broker may introduce borrower to either a 504 CDC, or a bank 1st mortgage lender
- ❑ CDC and bank 1st mortgage lender work together to coordinate the dual application process



# Non-SBA Loan Programs

## **Non-SBA loan sources include:**

- Conventional Loans (Major Banks)**
- Special Funds and Programs**
  - **OBDC (up to \$250,000)**
  - **CBB Green Fund**
- Online Direct Lending Platforms**
- Peer to Peer Lending**
- Other**

# Peer to Peer Lending

- ❑ Arrangement of lending money to unrelated individuals with an intermediary
- ❑ Takes place on online “platforms” that facilitate and service the loan
- ❑ Typically unsecured loans
- ❑ Platforms validate borrower information
- ❑ Lenders (individuals) choose to whom they loan funds

# Peer to Peer Lending

- [zip.kiva.org](http://zip.kiva.org) – zero percent loans
- [lendingclub.com](http://lendingclub.com) – average loan is \$15,000 @ 13.4%
- [prosper.com](http://prosper.com) -- average loan is \$13,000 @ 13.9%

Many others...

# Other Financing Sources

- ❑ Credit cards (**watch out!**)
- ❑ Equipment Leases
- ❑ Accounts Receivable Financing
- ❑ Trade Credit

# Incubators

# Incubators and Accelerators

- Many different models of support
  - Incubators usually space-based and early stage
  - Accelerators usually advise after company has started
- May include one or more of the following in exchange for an equity share:
  - space
  - advice
  - funding

# Food Incubators

- La Cocina – San Francisco
- Renaissance Center - Marin
- Kitchen@812 - Pinole

Many commercial kitchens also offer support along with space rental – **do your homework...**

# Courting Bankers/Investors



# Courting the Money

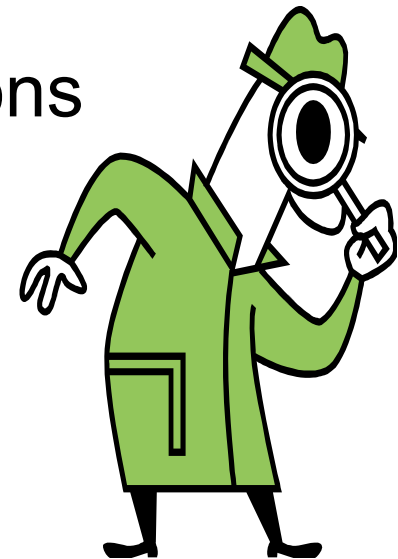
**Shop Around!**

**Find a lender/investor that likes your  
type and stage of business**

**This is a “campaign” that will take a lot  
of time**

# What else banks look for

- ❑ Years in business
- ❑ Your Business Plan
- ❑ 2 years of monthly financial projections
- ❑ Secondary Source of Income
- ❑ Personal Guarantee



*“Hmmm that is a REALLY good Business Plan!”*

# What Documents to Bring

- A current Profit and Loss Statement and Projected Cash Flow
- Current Personal Financial Statement
- Itemized Use of Proceeds
- List of Collateral and estimated value.
- Business Plan
- Schedule of Business Debt
- Personal and Business Tax Returns last 3 years
- Copy of leases and all pertinent agreements

# Don't get a "No"

## GET:

- A referral
- Qualitative advice on your plan
- Quantitative advice on how to change the numerical assumptions
- Information on the competition

THANKS EVERYONE