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Episode 1: Where does my business fit? (Transcript)

(INTRO MUSIC BED)

Moderator: This is Capital Conversations Episode one; Where do I fit? Capital Conversation is brought to you by Hennessey Capital. To learn how Hennessey Capital can help your business please visit; Henesseycap.com.

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Moderator: In today's often challenging job market, there seems to be an increase in those who are interested in starting a new business or growing their current small business into new markets and industries. All entrepreneurial ventures, regardless of business model or industry, seem to lead to the same place, because almost all require the same thing... financing.

With me today is someone who I think can help. Meet Mike Semanco, President & COO of Hennessey Capital.

He is going to attempt to demystify the financing quandary and provide some insight on how small business financing works.

Mike has over 20 years of experience in the financial services industry, ranging from personal investment planning to commercial lending, leading up to the start of Hennessey Capital in 2002.

Welcome Mike!

Semanco: Thanks Beverly.

Moderator: Many entrepreneurs have a great idea and decide to make it into a business. They write a business plan, they determine production and delivery of their product or service, they conduct the market analysis and then they reach the "now what?" point when it comes to financing their business. How should an entrepreneur approach seeking the ideal funding?

Semanco: Well they really need to do it when they complete the business plan from the very start. The notion of creating the idea of building it and they will come, has just gone away. Business owners need to partner with a financial professional on the front end of the transaction, so they can advise them on almost every step of the way, depending on what stage they need financing.

Moderator: So what types of financing are available for small businesses today?

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Semanco: For start-up companies, there's really four main sources; friends and family, angel investment, venture capital or seed capital, and SBA loans that are guaranteed.

Moderator: Okay, so let's focus on one for right now. We hear many entrepreneurs talk about venture capital. It seems like this is the ideal type of financing. What exactly is venture capital and how does it all work?

Semanco: Well, every small business owner feels like they should have venture capital as part of their business, and it is a funding vehicle for small companies and mid sized companies; but mainly for high growth businesses. It can be used for early stage investments; seed capital. It is mainly used for established companies with revolutionary ideas, technology, or really intellectual property that can be grown into multi-million dollar organizations. The reason for that is VCs are looking to achieve five to ten times the return on their initial investment. So they're looking to invest in firms with strong exit strategies, IPOs or maybe a sale to a competitor in order to achieve those investment results.

Moderator: That's good information. But, the national news is currently flooded with all this information on the credit crunch and banks having difficulties. How does this impact financing for the small business, now?

Semanco: Dramatically! Small businesses are having a big challenge in trying to get the capital they need to continue to support their business. And this is really due to the bank portfolios deteriorating over time. The capital the had on hand to lend to small business owners, are now being used to offset credit losses. In today's credit market, the guidelines for lending have grown tighter. And a company that normally would have had access to this capital twelve months ago, is not seeing it available to them today.

Moderator: So, if a company does need to get bank financing, what do they need to do to prepare for that?

Semanco: First and foremost is keeping your financial house in order, and preparing to approach the bank. Reliable financial statements, understanding your credit history if there is any blemishes on it, developing a solid business plan, and really a game plan to repay the debt is what the banks are going to look for.

Moderator: So if a company approaches a bank, and the funding is not available, what additional options are they open to?

Semanco: It really depends upon what stage your company is in; Whether it's early stage or mid or late. Free revenue companies can look at angel investment or SBA loans as kind of the start-up capital. Later stage companies can look at asset based

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finance; Purchase order financing, factoring, real estate leveraging, equipment leasing; Everything that plays into that asset based finance.

Moderator: If a company already has sales, what stage is that?

Semanco: It's going to be in the asset based lending space. So they're going to be looking at receivables, purchase orders, inventory, real estate, or equipment in order to get the capital to fund their business.

Moderator: So you briefly mentioned leveraging receivables? How does that work?

Semanco: Companies leverage receivables in order to get paid faster, essentially. Receivable financing is used to accelerate the payment that they would normally receive on their invoices. If they provide a good or a service to their customer, and they expect to get paid in sixty days, businesses can use receivable financing to get paid at the moment they deliver the product or provide the service.

Moderator: How does a small business prove they have those receivables? The contracts or the invoices? How does that work?

Semanco: Well, they're going to be working off of the purchase order with their customer, and they're going to supply to the lender an invoice, along with any support documentation to show that they delivered the product or they performed the service that was in accordance with the purchase agreement.

Moderator: Do you have an example or a case study that you can share with us today, on how this all works, this leveraging receivables works?

Semanco: Well the receivable side of it, you mainly see it in obviously a lot of companies; Anybody who delivers a product or service. We see it, many times in service based businesses, mainly staffing companies is the primary focus. And what typically happens is you have to pay your people in a staffing company long before you get paid by your customer. So, companies are able to leverage the value of that asset, they're people. When they work for the next two weeks, they can use that receivable to make payroll, cover over-head, and not have to wait sixty or ninety days to get paid by the customer.

Moderator: And it seems today more then ever, companies are going out ninety, even six months to get paid. So that seems like a great option or alternative for people who have those kind of client payment issues.

Semanco: Yeah, it's very valuable, and in a tightening credit market you're going to have that typical thirty day pay. So, thirty is going to turn into forty or forty-five or fifty.

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The more that you can speed up that cash flow into a current period, so you can meet payroll and meet current obligations is going to be better for you.

Moderator: It seems like there is lots of options for financing out there for small business. With your twenty years of experience, what would be one piece of advice that you would offer to small business as to seeking funding?

Semanco: I would recommend that they match the need with the mechanism that they're getting from a lending perspective. So, if the need is short term capital financing, don't use your equipment or your real estate to fund that need. The last thing you want to have (and we're talking about service businesses), the last thing you want to have in a service business is a long term obligation, if for some reason your sales drop off, you still have to make that monthly payment.

Moderator: Mike, your insights on navigating today's slippery financial slope have been great.

Moderator: Make sure to subscribe to our Capital Conversations Podcast for free in iTunes, so that you can get new episodes delivered to your ipod and desktop when they are available. See you next time.

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