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Episode 2: Entrepreneurial Do's and Don'ts (Transcript)

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**Moderator:** This is Capital Conversations Episode Two: Entrepreneurial Dos and Don'ts. Capital Conversation is brought to you by Hennessey Capital. To learn how Hennessey Capital can help your business please visit; [Hennesseycap.com](http://Hennesseycap.com).

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**Moderator:** Entrepreneurs are an industrious group. Their relentless curiosity and willingness to take risks often propels them to success. However, no one wants to take risks when it comes to financing their business. The financial landscape can be a confusing place for small business owners looking to establish or grow their business.

With me today again is Mike Semanco, the President and Chief Operating Officer of Hennessey Capital. We're going to talk about tips that will help you entrepreneurs secure the right type of financing for your business and shed light on how to avoid common mistakes. His twenty years of experience in the financial services industry, ranging from personal investment planning to commercial lending will be helpful in this discussion. Good to see you, Mike!

**Semanco:** Thank You, Beverly

**Moderator:** First and foremost, how should an entrepreneur begin their process, as they search for the proper way to fund their business?

**Semanco:** The entrepreneur needs to understand what stage of the game their in. We talk a lot about the Spectrum of Finance, which typically include friends and family money, or their own personal cash, asset-based finance for mid-staged companies, and traditional bank lending for later stage companies.

**Moderator:** So is one type of financing more attractive than another?

**Semanco:** You know, not really. I think it depends on the stage of the game their in. Traditional bank financing is the most affordable option. However, small business owners really need to find their niche, and again use a balance for their business model. A lot of times, multiple layers require to have a successful capital structure. It includes your own personal cash, it includes a level of friends and family, it includes bank financing, and a lot of times it includes supplemental financing to what the bank can provide you.

**Moderator:** When approaching a potential lender, what are they looking for?

# Transcription



**Semanco:** The business owner needs to look at it like job interview. They need to be prepared for what kind of questions are going to be asked. And what the bank is looking for on their end is really going to be a succinct way to explain their business. From a financial perspective, they need to have financial statements, projections, and make them real. They also need to explain how I'm going to use the money and how will it be repaid to the bank.

**Moderator:** I would imagine lenders are asking tough questions. If it's like a job interview; What sort of things should a business owner look for, or be prepared for, when approaching a lender?

**Semanco:** While the first question they're going to ask is how much money of your own do you have in the venture? How much skin do you have in the game, and really gauging what level of commitment the business owner has. They're also going to want to know what the business owner sees as their biggest challenge. The sky is not always blue, especially from the lender's perspective. So, they want to bring the business owner down to Earth a little bit, and really make them think about what challenges they're going to have. The last piece of it is; If I don't provide you a loan as a bank, have you thought about other financing options that could bridge the gap until I'm ready to provide you that loan.

**Moderator:** Most entrepreneurs start a business based on their extensive experience and a certain area or industry they are comfortable with. Is there a risk in providing too much information in these interviews?

**Semanco:** I think there is. Mainly, a bank is not going to take the time to read a fifty page business plan. They're going to want to see the business idea communicated in a very succinct fashion. We talked a lot about an executive summary to explain what the business model is, how they're going to make money, the use of cash, and how they're going to repay the debt at the end of the day. So, having all the information is required, but on the front end, that first interview, again, think about first impressions. They need to make sure they make a good first impression.

**Moderator:** So you get past the first hurdle; how much capital does an entrepreneur already have to have invested in the business for a lender to listen to them about establishing or increasing a line of credit?

**Semanco:** Yeah, I don't think there is a magic number that they need to have in the game, but the business owner needs to know that the bank wants to know they have some skin in the game. They also need to know that if for some reason there's a shortfall in bank financing, where is the business owner going to get capital from. Do they have the resources to do that. Whether it's through their own means, or calling on friends and family to bridge that shortfall.

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**Moderator:** In addition to a strong business plan, what type of documentation does a small business owner need to present when meeting with a potential lender?

**Semanco:** They're going to look for research on the product offering that the business owner wants them to fund. Whether it's a consumer based product or an industrial product that is going to be sold into a brand new industry, the lender wants to see that they done the research and make sure there's a market for it. Current financial statements, cash flow projections, sources and uses of cash, and back log reports are going to be validated by the lender, to make sure that the business owner has thought threw realistic projections and realistic opportunities for their product.

**Moderator:** An entrepreneur has added their own skin in the game, they have their capital all set, a strong business plan, but does personal credit history play a role in securing lending?

**Semanco:** It certainly does. The bank is going to be looking for not only what your credit score is, but how can you substantiate a low credit score. For instance, a prior bankruptcy, divorce, anything that's impacted that. But more importantly, they're going to be looking at what skeletons are in the closet. They want to make sure they're doing business with good business owners, and people of sound character.

**Moderator:** After all this, they go to the bank, you know, an entrepreneur goes to the bank, they present their business plan, they answer all the questions; What if they get a no from the bank. What are additional options available?

**Semanco:** We tell entrepreneurs; don't be afraid to ask another lender. Ask another bank. Every bank is going to have the same basis for their credit guidelines. But some banks may be hungrier then others, depending on what the industry is. So, we tell business owners to look at other banks, look at other options, don't be afraid to ask nontraditional bank sources.

**Moderator:** Mike, based on your experience, what is the single biggest mistake you see entrepreneurs make when seeking funding?

**Semanco:** You know, it really gets down to having realistic expectations for funding your business. Business owners are very passionate about their ideas and they expect others to feel the exact same way. Unfortunately, lenders and investors are concerned about one thing, and that's getting repaid for the money they are going to lend. They need to be convinced they aren't taking risks that are uncalculated. They want to mitigate their risks as best they can, and make sure the business owner can stand behind what they do.

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Overall, entrepreneurs need to provide a thorough, smart assessment of their business opportunities, be honest with the threats that are involved to the business plan, be forthcoming and very professional. Lenders want to make smart choices and they want to help customers. The business owner needs to make it easier for them.

**Moderator:** Mike, your wisdom on the financial lending process has been so helpful today.

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