



STRATEGIC CAPITAL PLANNING

Do you have a capital plan to support your company strategy?

Your company's strategic success comes with capital requirements. Are you planning for them in advance or only when you realize you need the cash? By proactively planning, cultivating relationships with potential capital providers, and negotiating appropriate terms and covenants, you can find a capital solution for your company



that will best position it for success.

In this edition of *Executive Issues & Insights*, we explore key insights

drawn from the extensive C-suite and Board experiences of the NextLevel team on strategic capital planning.

NEXTLEVEL CASE STUDY

Rapidly growing company achieves cash flow needed to fuel continued growth

A consumer products manufacturer discovered a new distribution channel that provided an opportunity for rapid growth. The company used operating cash for initial funding of the long-term assets required, including a new plant and equipment needed to support the new market. However, it was soon running out of cash and unable to pay vendors in a timely manner due to the capital investment and need to increase inventory to support its 50 percent growth rate.

Since the company was profitable, several banks were interested in working with it to develop a financing plan and provide the funding to achieve its goals. But due to some challenges, including an earlier failed ERP implementation, it was unable to produce the clean financial statements and credible forecast required to give the banks confidence in moving forward.

The company brought in a NextLevel team member as interim CFO, who helped provide transparency for the banks and projections that would engender

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NEXTLEVEL INSIGHTS

Be rigorous in planning and structuring your finances

Look at least three years out to estimate the capital needed to support your strategic plan, especially when the company is growing rapidly so it doesn't outrun financing. Carefully consider how much and what kinds of debt and equity are optimal to support your strategy. Forecast with well-defined assumptions about revenues backed up by recent actuals and the best information you have on anticipated fluctuations in the market. Revisit quarterly, revising based on how closely performance matches projections. An experienced executive from outside can help you question key assumptions.

Cultivate and maintain relationships with key banks and other capital providers

The more acquaintances you have among potential capital providers who know your business, the better positioned you will be when you need financing. Get to know them and the financial vehicles they offer, and keep them informed about your company. Maintain these relationships, including with your current providers, throughout the year. Lenders' priorities or the company's needs may change, so it's important to keep your options open.

Create a narrative for capital providers backed by analytics

Once you have a clear understanding of your capital needs, create a brief but informative summary for potential capital providers that explains your business, the need for new capital, and the ability of the company to handle new debt and other obligations. This should be backed up by analytics and strong evidence that your financials are in good shape. Remember that lenders will always focus on

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confidence. First, he led the preparation of a detailed cash requirements forecast to define parameters for a more stable structure for capital-intensive financing. Next, he worked with two banks that were competing for the business, developing the financial reports and inventory tracking tools they needed to evaluate the special financing needs of the company. He negotiated terms with the banks, resulting in a combined \$17 million line of credit for working capital and term financing notes of various lengths that more closely matched the projected cash requirements of the company.

As a result, the company was able to fund new marketing efforts, new manufacturing capability, and growth in inventory so it could fully exploit the opportunity. The company met all its growth targets and was also then in a solid financial position to finance further growth.

**“ACCESS TO CAPITAL IS NOT
CREATED OVERNIGHT.”**

**When the time comes to borrow,
don't underestimate the value of well-
established relationships with banks
and other capital providers.**

More Information

To learn more about how NextLevel can help with strategic capital planning, call us at (800) 833-NEXT or email info@nlbev.com.

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downside scenarios, so be ready to show how the loan will still perform well under these conditions.

Negotiate details with foresight

Aim to negotiate as much flexibility as you need with your capital providers, particularly in the number and terms of debt covenants and the eligibility criteria for assets in asset-based loans. Run multiple worst-case scenarios against all proposed covenants to ensure you are leaving plenty of room to meet them and not setting yourself up for a breach. Try to either avoid covenants that place undue restrictions on your business or include benchmarks that phase them out over time based on performance. Negotiating in parallel with several providers can provide leverage in achieving flexibility.

Be proactive in communicating with capital providers

A good capital provider will be a partner in your success, so share with them your plans and projections and the assumptions behind them. If a projection shows a potential breach of covenant, inform your lender right away. Tell them how you'll address the issue and negotiate to waive or modify covenants to avoid a breach. Being proactive avoids unwanted surprises with your bank and builds trust and confidence toward a beneficial long-term relationship.

KEYS TO STRATEGIC CAPITAL PLANNING

- **Your financial planning:** Are you rigorously examining future capital needs?
- **Your relationships with capital providers:** Are you cultivating a wide network offering different financing tools that you can call on?
- **Your capital needs narrative:** Is it succinct and compelling to potential capital providers?
- **Your negotiations:** Do you understand the ramifications of all terms and covenants, and are you confident they can be met?
- **Your communication:** Are you proactive with your capital provider?