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## Securing Debt Financing

Changing market dynamics often lead to additional debt financing requirements for companies active in the LPG business. Management needs to access the required capital, at a competitive interest rate and with the best available terms and conditions while maintaining a capital structure flexible enough to respond to yet additional changes in the Company's competitive landscape.

### **The question is: How?**

The battlefield of the LPG competitive marketplace is littered with the corpses of companies that failed to achieve success in the financing process. But, failure to obtain the required financing is often not an indictment of a company's abilities, but of how the financing proposal was structured, how the company's opportunities were presented and whether or not financing sources with underwriting standards compatible with the credit quality of the prospective borrower were contacted. Obtaining new financing requires a process just as do the operational aspects of an LPG business.

The financing process involves five steps:

- Determining your company's true financing needs.
- Matching financing needs with the appropriate type of financing.
- Developing a financial proposal.
- Selling the proposal to the appropriate financing source.
- Negotiating the final terms and conditions.

### **Determining financing needs**

Your company's financing requirement is not some magical number that you discover, but rather a number created by management's strategic and operational decisions and analyzing the capital requirements to successfully implement those decisions. It involves rethinking those decisions and making any appropriate modifications or even wholesale changes.

It's not guesswork, but analysis of upfront costs and ongoing cash flow surplus or deficits. Determine the true amount of debt capital required.

### **Matching financing needs**

Utilizing debt-financing means running your business using

someone else's money. The primary types of debt financing include accounts receivable financing, inventory financing, purchase order financing, machinery and equipment financing, real estate mortgages and unsecured debt. These financing types have different interest rates, fees and amortization structures. Generally you attempt to match maturities - to finance short-term working capital requirements, you look to finance short-term assets such as accounts receivable and inventory; long term assets such as real estate, seek long term financing such as mortgages.

If your company has significant value in its real estate holdings, it might be appropriate to refinance your real estate and put the mortgage proceeds into the company to finance working capital needs if the mortgage has an attractive interest rate, low amortization and ease of access to the financing than an accounts receivable-inventory type financing facility might.

What is important is to determine which type of financing is appropriate for the amount that you are seeking? The determination of the amount and type of

financing required provides the foundation upon which to develop the financing proposal.

### **Developing a financing proposal**

Often management will lament about having their financing request denied when all they did was send copies of tax returns to a local banker. A successful financing proposal presents a vision of where your company is, where it is going, and highlights the resources required.

### **The Financing Proposal**

- Profiles the resources required – identifying what resources (management and staff talent, fixed assets, intellectual capital and capital) are required to execute on the company's vision.
- Identifies what resources your firm is contributing – highlight strengths of personnel, products, customers, markets, existing infrastructure and existing capital base.
- Identifies new capital requirements – what amount and types of financing you're seeking and how and when the company will be in a position to repay it.

### **Selling proposal**

You wouldn't propose LPG sales to a coal burning power facility. Focus your resources. Your financing proposal should be sent only to capital sources that provide the type and size of financing you are applying for, and seek prospective borrowers with characteristics similar to yours in terms of credit quality, industry and geographic focus.

### **Close the deal**

The financing source term sheet highlights the major provisions of the proposed financing. Often many elements of the offer are open for negotiation. After all, issuance of the term sheet is an indication of an interest in providing the financing. Negotiable issues, beyond just interest rates and amortization schedules, include the amount of the upfront deposit, annual facility fees, advance rates on collateral such as accounts receivable and inventory, minimum deposit balances, whether or not a personal guarantee is required, prepayment penalties and the term of the facility.

A capitalization consistent with your company's cash flow, strategic vision and operational plans is required to allow for profitable growth. Committing, the resources required to secure the appropriate debt financing will act as a preventative measure against the need for emergency intervention tomorrow.

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