

Stu's View

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Maximizing Cash, Part 2: Financing

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In Part 1 of this article, we considered techniques to maximize cash flow by improving receivables, controlling production, and managing accounts payable. This article will explore financing as a vehicle for quick cash access.

Many companies have experienced tighter credit requirements from lenders, making it more difficult to acquire cash. Here are some viable options through the Small Business Association (SBA), including a new program created in the last year as part of the Jobs Legislation:

- **SBA (Traditional) 504:**
 - Offers a longer loan period than conventional loans, yielding lower payments.
 - Financing available up to 90% (Borrower investment = 10% of equity; 3rd party lender = 50% and 1st lien on equipment; SBA = 40% and 2nd lien)
 - Recommended for: Purchase of new assets and equipment (projects in excess of \$1M).
 - Restrictions: Requires that the investment be used to grow the business and yield job creation. Typical loan limit is \$4-5M. Personal guarantees will likely be required from anyone with 20% or more ownership in the business.
- **SBA 504 Loan Refinancing (New program):**
 - Similar structure to SBA traditional 504.
 - Recommended for: Refinance of a commercial mortgage on real estate purchased more than 2 years ago. Up to 90% of appraised value, and the loan proceeds in excess of the refinanced mortgage can be used for any legitimate business expense.
 - Restrictions: Temporary program (Oct. 2011 – Sept. 2012); other restrictions apply.

A good, flexible line of credit is another financing essential for businesses. The SBA offers two good credit line options for printers as part of their Cap Lines Umbrella Program.

- **Standard Asset Based Line**
 - Provides: A typical revolving credit line to finance cyclical growth and/or recurring short-term needs. Continuous access to your line of credit is based on existing assets (receivables, inventory, etc.). Loan is repaid as your cash cycle dictates.
 - Loan term: 5 years.

- **Small Asset Based Line**

- Asset based line with a cap of \$200k. Pledged collateral may include accounts receivable, inventory, contracts, purchase orders.
- Less strict servicing agreements than standard line.

Detailed descriptions of the SBA loan and line of credit programs may be found at www.sba.gov.

There are two other financing techniques we've employed for success in attaining cash flow:

- A sale/lease of the commercial building. In this arrangement, the building is sold to a 3rd party, then leased back, thereby converting the building's equity into cash.
- An owner or stockholder who redirects money market or other non-performing personal investments into a loan to the business. With a solid, profitable business, the owner can pay himself 7-10% -- whatever the comfort level is. The investment puts cash into the business, and the owner receives a more profitable return on investment than may be currently available with outside investment options. The owner may even be able to secure the loan.

The financing options presented here can help improve business cash flow – but as with any good financial decision, research must be done and all factors considered in selecting the best options for each unique situation. Call us if we can help.

Stu's View is contributed by Stuart Margolis, CPA and Partner of MargolisBecker LLC to provide information that helps firms operate profitably. More information can be found at www.margolisbecker.com.

About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing and allied graphic communications industry, assisting thousands of companies with strategic and financial management, valuation, mergers/acquisitions, accounting, audit and tax services. The firm is noted for its expertise in enabling printing companies to optimize profits. Proudly, it is the purveyor of the industry's *Cash is King*, and *Value-Added Principles of Management*, and compiles the annual Printing Industries of America Ratios, the industry's premier financial benchmarking tool.

About New Direction Partners

The team at New Direction Partners LLC has guided over 200 printing company owners through the sales and merger process. The advisory services reflect a full set of skills to help you sell or expand your business: valuation, management consulting, financial advisory and investment banking. The deep experience and industry expertise at New Direction makes it uniquely suited to serve printing, packaging and allied graphic arts businesses.