



# START UP SUCCESS

LEARN THE ESSENTIAL FINANCIAL STEPS  
TO GO FROM DREAMERS TO DOERS



# PRESENTATION OVERVIEW

## PART 1

How to prepare for, pitch and negotiate financing

## PART 2

Budgeting and construction

## PART 3

Operations



# THE BIG STEPS OF FINANCING

1. Financial documentation and business plan
2. The Five Cs
3. The Pitch
4. Handling objections and negotiations



# THE FIVE C'S OF LENDING

FINANCING OUTCOMES ARE A RESULT OF A LENDER'S ABILITY TO MEASURE RISK.

1. Cash (Capital)
2. Collateral
3. Capacity
4. Character
5. Conditions

**Create supporting evidence and defensible arguments for each of these.**



# HOW LENDING DECISIONS ARE MADE

Borrower prepares and provides documentation.



Borrower meets with lender representative and reviews.



Lender representative prepares case for loan committee (underwriting).



Documentation goes to loan committee.



Loan committee decides on funding and terms.

## PREPARATION

### FINANCIALS

Profit and Loss (Pro Forma)  
Balance Sheet  
Statement of Cash Flow  
Sources and Uses

### BUSINESS PLAN

### TEAM

Experience  
Financial Horsepower  
Personal Credit Score

# BEST PRACTICES

1. Create three-year projection packages that you give to all prospective lenders.
  - Overview
  - Full monthly
2. Make core financials dynamic and variable driven.
  - Allows for adjustments as more information becomes available.
  - Functions as a model for founders to gain confidence in the venture.

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# PROFIT AND LOSS

Contains revenue, cost of goods (COGS), operating expenses and other expenses including depreciation, interest and taxes.

## THE GOALS:

1. Character: Show business acumen.
2. Capacity: Show REALISTIC profitability.
3. Capacity: Show at least a 1:1.2 debt-to-income prior to cash negative.

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Income																										
Memberships					4500	5445	6390	6885	7425	7920	8145	8190	8100	8145	8280	8325	9045	10125	11025	11475	11925	12285	12150	11790	11205	108
Daypasses					7000	8920	10580	11420	9480	11900	11480	10840	9000	8120	11620	10860	12960	15460	17000	17680	14140	17100	15900	14460	11560	100
Youth Programming					1000	1059	1175	1180	1185	1190	1195	1500	1506	1512	1366	1372	1447	1526	1686	1679	1672	1665	1658	2064	2055	20
Adult Programming					1500	1664	1846	1946	2052	2061	1863	1684	1691	1698	1705	1712	2235	2469	2727	2851	2981	2969	2661	2385	2375	23
Product Sales					2125	2605	3066	3305	3351	3709	3177	2269	2115	2057	2344	3183	4188	4760	5195	5406	5301	5651	4649	3181	2859	26
Equipment Rental					630	803	952	1028	853	1071	1033	976	810	731	1046	977	1166	1391	1530	1591	1273	1539	1431	1301	1040	9
Sub-Lease Revenue					2060	2060	2060	2060	2122	2122	2122	2122	2122	2122	2122	2122	2122	2122	2122	2122	2185	2185	2185	2185	2185	21
Total Income	0	0	0	0	18815	22556	26069	27824	26468	29973	29015	27581	25344	24385	28483	28551	33163	37853	41285	42804	39477	43394	40634	37366	33279	311
Cost of Goods																										
Retail					1381	1693	1993	2148	2178	2411	2065	1475	1375	1337	1523	2069	2722	3094	3377	3514	3445	3673	3022	2067	1858	17
Cost of Goods	0	0	0	0	1381	1693	1993	2148	2178	2411	2065	1475	1375	1337	1523	2069	2722	3094	3377	3514	3445	3673	3022	2067	1858	17
Gross Profit	0	0	0	0	17434	20863	24076	25676	24290	27562	26950	26106	23969	23048	26960	26482	30441	34759	37908	39290	36032	39721	37612	35299	31421	293
Operating Expenses																										
Admin Costs					564	677	782	835	794	899	870	827	760	732	854	857	995	1136	1239	1284	1184	1302	1219	1121	998	9
Advertising and Marketing					245	293	339	362	344	390	377	359	329	317	370	371	431	492	500	500	500	500	500	486	433	4
Insurance					470	564	652	696	662	749	725	690	634	610	712	714	829	946	1032	1070	987	1085	1016	934	832	7
Maintenance					282	338	391	417	397	450	435	414	380	366	427	428	497	568	619	642	592	651	610	560	499	4
Minor Improvements					282	338	391	417	397	450	435	414	380	366	427	428	497	568	619	642	592	651	610	560	499	4
Misc					376	451	521	556	529	599	580	552	507	488	570	571	663	757	826	856	790	868	813	747	666	6
Payroll Expenses	3500	3500	3500	3500	6377	6422	6481	6502	6524	6527	6489	6514	6516	6519	6491	6493	6613	6676	6759	6783	8087	6804	6741	6767	6763	67
Professional Fees					282	338	391	417	397	450	435	414	380	366	427	428	497	568	619	642	592	651	610	560	499	4
Rent and CAMS	0	0	0	0	8333	8333	8333	8333	8333	8333	8333	8333	8333	8333	8333	8333	8417	8417	8417	8417	8417	8417	8417	8417	8417	84
Utilities					\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500
Total Expenses	3500	3500	3500	3500	20711	21254	21781	22035	21877	22347	22179	22017	21719	21597	22111	22123	22939	23628	24130	24336	25241	24429	24036	23652	23106	228
Net Ordinary Income (EBITDA)	-3500	-3500	-3500	-3500	-3277	-391	2295	3641	2413	5215	4771	4089	2250	1451	4849	4359	7502	11131	13778	14954	10791	15292	13576	11647	8315	65
Profit Margin	0%	0%	0%	0%	-17%	-2%	9%	13%	9%	17%	16%	15%	9%	6%	17%	15%	23%	29%	33%	35%	27%	35%	33%	31%	25%	2
Other Income/Expense																										
Interest Expense	-1305	-1297	-1289	-1280	-1272	-1263	-1255	-1246	-1238	-1229	-1220	-1211	-1203	-1194	-1185	-1176	-1167	-1158	-1149	-1140	-1130	-1121	-1112	-1102	-1093	-10
Income Tax																										
Personal Property Tax								-4000																		
Depreciation and Ammortization					-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-8500	-8500	-8500	-8500	-85
Total Other Expense	-1305	-1297	-1289	-1280	-3272	-3263	-3255	-7246	-3238	-3229	-3220	-3211	-3203	-3194	-3185	-3176	-3167	-3158	-3149	-3140	-3130	-9621	-9612	-9602	-9593	-95
Net Income	-4805	-4797	-4789	-4780	-6549	-3654	-960.5	-3605.5	-825	1985.5	1551	878	-953	-1743	1663.5	1182.5	4335	7972.5	10629	11814	7660.5	5670.5	3963.5	2044.5	-1278	-300

## PREPARATION

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Forma)?**

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# PROFIT AND LOSS

The Punch Line: Debt to Income Ratio aka Debt Service Coverage Ratio

DSCR = Annual debt service : EBITDA

Year 1

EBITDA: \$100,000

ALL Principle and Interest Payments: \$100,000

DSCR = 1:1

Year 2

EBITDA: \$125,000

ALL Principle and Interest Payments: \$100,000

DSCR = 1:1.25

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# PROFIT AND LOSS

## SUMMARY

1. This is the second most important document you give a lender. Do it right and be ready to defend it.
2. P&L must show at least a 1:1 DSCR in order to receive financing.

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# BALANCE SHEET

- Statement of assets and liabilities at a given point in time.
- Great overview of the company's health.

## ASSETS

- Equipment
- Health

## LIABILITIES

- Loans, credit cards and payroll liabilities

Requested for existing businesses. Less common for new ones. If requested, create fiscal year-end projections.

**THE GOAL:** Show a healthy balance between good liabilities and solid assets (capacity, cash and collateral).

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# BALANCE SHEET



#### Balance Sheet Years 1-3

Prepared by:  
Zac Robinson

Company:  
Vertical Solutions

Assets	Year 1	Year 2	Year 3
<b>Current Assets</b>			
Cash	\$ 92,214	243,917	428,116
Accounts Receivable	\$ 16,210	\$ 17,006	\$ 17,945
Inventory	7,000	7,000	7,000
Prepaid Expenses	15,333	7,667	-
Other Initial Costs	13,333	6,667	-
<b>Total Current Assets</b>	<b>\$ 144,091</b>	<b>\$ 282,256</b>	<b>\$ 453,061</b>
<b>Fixed Assets</b>			
Real Estate-Land	80,000	80,000	80,000
Real Estate-Buildings	450,000	455,000	465,000
Leasehold Improvements	57,000	57,000	57,000
Climbing Walls and Pads	250,000	250,000	250,000
Climbing Holds and Volumes	30,000	30,000	30,000
Other Fixed Assets	20,000	20,000	20,000
<b>Total Fixed Assets</b>	<b>887,000</b>	<b>892,000</b>	<b>902,000</b>
(Less Accumulated Depreciation)	74,065	150,558	227,436
<b>Total Assets</b>	<b>\$ 957,025</b>	<b>\$ 1,023,698</b>	<b>\$ 1,127,625</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Accounts Payable	435	486	549
Commercial Loan Balance	364,227	325,099	282,300
Commercial Mortgage Balance	78,256	54,471	28,456
Credit Card Debt Balance	27,227	-	-
Other Bank Debt Balance	23,052	15,748	8,070
Line of Credit Balance	-	-	-
<b>Total Liabilities</b>	<b>493,197</b>	<b>395,804</b>	<b>319,375</b>
<b>Equity</b>			
Common Stock	300,000	300,000	300,000
Retained Earnings	163,828	327,894	508,251
Dividends Dispersed/Owners Draw	\$ -	\$ -	\$ -
<b>Total Equity</b>	<b>463,828</b>	<b>627,894</b>	<b>808,251</b>
<b>Total Liabilities and Equity</b>	<b>957,025</b>	<b>1,023,698</b>	<b>1,127,625</b>
<b>Balanced?</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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# STATEMENT OF CASH FLOWS

Reports cash generated and used in a period.

Differs from P&L due to:

- Principle payments
- Capital investments and purchases
- For accrual basis accounting, “booked” revenues and expenses may not have been received or paid.

**THE GOAL:** Show that the business is always cash positive.



# Cash Flow Forecast Year 1

Prepared by:  
Zac Robinson

Company:  
Company

Information is pulled from your Sales Projections, Payroll and Operating Expenses, as well as total payments due on any loans.

You can also add in any additional inventory (this refers to growing the total amount of inventory held for your retail area, not simply replacing sold products) or any distributions to Owners or other Dividends paid.

	August	September	October	November	December	January	February	March	April	May	June	July	Annual Totals
Beginning Balance	50,000	51,402	29,072	29,456	38,017	29,109	36,578	7,017	30,785	38,929	61,670	85,863	
Cash Inflows													
Cash Sales	43,150	41,447	41,072	42,328	45,094	48,645	52,125	55,012	56,366	55,920	54,095	51,317	586,571
Accounts Receivable	-	8,091	10,468	10,291	10,504	11,101	11,939	12,814	13,573	14,007	14,008	13,638	130,433
Total Cash Inflows	43,150	49,538	51,540	52,619	55,598	59,746	64,065	67,826	69,938	69,926	68,103	64,955	717,003
Cash Outflows													
Investing Activities													
New Fixed Asset Purchases	-	30,000	-	2,000	20,000	-	50,000	-	2,000	3,000	-	-	107,000
Additional Inventory													-
Cost of Goods Sold	7,025	7,142	7,081	7,281	7,728	8,308	8,845	9,326	9,539	9,451	9,175	8,732	99,633
Operating Activities													
Operating Expenses	1,404	1,405	3,861	1,457	3,458	1,460	1,461	1,412	1,435	1,414	1,415	1,466	21,648
Payroll	21,784	21,784	21,784	21,784	21,784	21,784	21,784	21,784	21,784	21,784	21,784	21,784	261,409
Taxes	-	-	6,895	-	-	9,189	-	-	15,501	-	-	15,086	46,671
Financing Activities													
Loan Payments	11,536	11,536	11,536	11,536	11,536	11,536	11,536	11,536	11,536	11,536	11,536	11,536	138,428
Owners Distribution (above payroll)													-
Line of Credit Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit Repayments													-
Dividends Paid													-
Total Cash Outflows	41,749	71,867	51,157	44,058	64,506	52,276	93,625	44,058	61,795	47,185	43,909	58,604	674,790
Net Cash Flows	1,402	(22,329)	383	8,561	(8,908)	7,469	(29,561)	23,768	8,143	22,741	24,194	6,350	42,214
Operating Cash Balance	51,402	29,072	29,456	38,017	29,109	36,578	7,017	30,785	38,929	61,670	85,863	92,214	
Line of Credit Drawdown	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	51,402	29,072	29,456	38,017	29,109	36,578	7,017	30,785	38,929	61,670	85,863	92,214	
Line of Credit Balance	-	-	-	-	-	-	-	-	-	-	-	-	-



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# SOURCES AND USES

Fixed Assets	Amount	Depreciation (years)
Real Estate-Land	80,000	Not Depreciated
Real Estate-Buildings	350,000	20
Leasehold Improvements	50,000	7
Climbing Walls and Pads	250,000	7
Climbing Holds and Volumes	30,000	5
Other Fixed Assets	20,000	5
<b>Total Fixed Assets</b>	<b>780,000</b>	

Operating Capital	Amount
Pre-Opening Salaries and Wages	
Prepaid Insurance Premiums	
Inventory	7,000
Legal and Accounting Fees	8,000
Rent Deposits	
Utility Deposits	
Supplies	
Advertising and Promotions	
Licenses	15,000
Other Initial Start-Up Costs	20,000
Working Capital (Cash On Hand)	50,000
<b>Total Operating Capital</b>	<b>100,000</b>
<b>Total Required Funds</b>	<b>880,000</b>

Sources of Funding	Percentage	Totals	Loan Rate	Term in Months	Monthly Payments
Owner's Equity	34%	300,000			
Outside Investors	0%				
<b>Additional Loans or Debt</b>		<b>580,000</b>			
Commercial Loan	45%	400,000	9.0%	96	5,860
Commercial Mortgage	11%	100,000	9.0%	48	2,489
Credit Card Debt	6%	50,000	18.0%	24	2,496
Other Bank Debt	3%	30,000	5.0%	48	691
<b>Total Sources of Funding</b>	<b>100%</b>	<b>880,000</b>	Cell E39 must equal cell D29		11,536
<b>Total Funding Needed</b>			0 You are fully funded (Balanced)		

**THE GOAL:** Provide a dashboard summary of where funding is coming from and what it is being used for (collateral and capital).



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# BUSINESS PLAN

## EXECUTIVE SUMMARY (WRITE THIS LAST!)

- One page

## DEFINE THE BUSINESS

- Describe the general concept
- Specifics

## WHY IS IT A BUSINESS?

- Market analysis
- How does it generate revenue?
- What are major expenses?
- How is it promoted?

**THE GOAL:** For the founders to think through the business and show to lenders that you have character, capacity and conditions.

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# TEAM

- Think of it as applying for a job. The lender is hiring your team.
- Describe each team member's experience, education, passion and strengths.
- Describe why the team will operate well together.
- Include resumes
- *Operational experience is hugely important.*

**THE GOAL:** Show that the team contains the skillsets and experience to execute on the business plan, that the business plan can be believed and that there is financial support if the business does not do well (character and capacity).

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# INDIVIDUAL FINANCES

For all partners near or above 20% ownership and for all guarantors:

- Three years business and personal tax returns
- Personal financial statement

*Lenders will do a “Global” DSCR, which matters A LOT!*

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# PERSONAL CREDIT SCORE

SIGN UP FOR A CREDIT MONITORING SERVICE.

Optimize credit:

- Pay down credit card debt.
- Keep accounts open.
- Slowly increase number of accounts.
- Limit inquiries.

This takes time, so start now.

# THE BIG STEPS

1. Financial Documentation and Business Plan
2. **Your team and the Five C's**
3. The Pitch
4. 4. Handling objections and negotiations

## **CASH:**

Do we have at least 10% down payment?

## **COLLATERAL:**

Do we have a strong guarantor?

# COLLATERAL

## STRONG

- Real estate

## ARGUABLE

- Climbing walls, pads, holds
- Equipment
- Personal assets

## USUALLY NOT COUNTED

- Tenant improvements



Make a list and attribute collateral value to each line item.

# FINAL CHECKLIST

1. Documentation
  - P&L with cash flow
  - Sources and uses
  - Executive summary
  - Team summary with resumes
  - Guarantors tax returns
2. Source for 10% to 20% down payment
3. Guarantors that establish a 1:1 Global DSCR
4. Sufficient collateral (80% to 90% LTV)

*GET PSYCHED! YOU'RE READY!*

# THE BIG STEPS

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# TYPES OF LENDERS

## DOWN PAYMENT/ SUBORDINATE DEBT

Friends, family and fools

Angel investors

Redevelopment agencies and city loans

Seller carries, landlord loans

## BANKS (INCLUDING THE SBA)

- National
- Regional and local
  - Community banks and credit unions

# USE YOUR CHAMPION TO FIND LENDERS

## THOSE THAT WILL PROFIT FROM YOUR SUCCESS:

- Real estate agent
- Landlord
- Wall builder
- Contractor

## THOSE THAT BELIEVE IN THE CAUSE:

- Community and business leaders
- Super-psyched climbing community members
- Local government

# WHERE THE RUBBER MEETS THE ROAD

1. Practice with the friendly, unlikely or unwanted.  
Listen to objections and create talking points to minimize them.  
Find out what resonates and refine.
2. Pitch to the lenders you really want.  
Find two to four core sources and nurture those.  
You want options!  
Research them and ask questions.



# THE COURTING PROCESS

Lenders need you!

Loan agents are paid by performance.

Be confident, knowledgeable and prepared.

The closer you can get to a loan committee, the better.

“Good” (lower risk) borrowers get better terms.

Ask for term sheets, read the details and do the math.

If you have options, terms are negotiable. If you don't have options, pretend like you do.

# THE BIG STEPS

1. Financial Documentation and Business Plan
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# HANDLING OBJECTIONS: DON'T GIVE UP!

Discuss conditions that would alleviate each (or some!) objection. Get specific with amounts and tasks.

## LOW GLOBAL DSCR

- Add guarantor
- Add partner with operational experience
- Offer cash reserve account

## LIGHT COLLATERAL (LOAN-TO-VALUE TOO HIGH)

- Add cash
- Reduce loan amount
- Add guarantor

**BE CREATIVE. IF YOU CAN'T STRENGTHEN ONE "C", STRENGTHEN A DIFFERENT ONE.**

# TERM SHEETS AND NEGOTIATION

## NEGOTIABLE:

- Bank rate
- Bank fees
- Title fees
- Guarantors (except for 20%-plus owners)
- Collateral
- Covenants
- Pre-payment penalties
- Term
- Cash reserves

## NON-NEGOTIABLE

- SBA terms, SBA fees and rate

**BUT YOU HAVE TO HAVE OPTIONS IN ORDER TO NEGOTIATE!**



*You're an entrepreneur!*

CREATE A TASK LIST. BE TENACIOUS.