



GOING THE DISTANCE: MAKING SURE THE LOAN FITS THE BUSINESS

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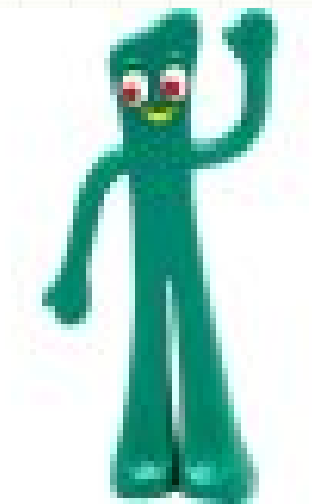


Rhode Island
Economic Development Corporation

Building the 21st Century Innovation Economy

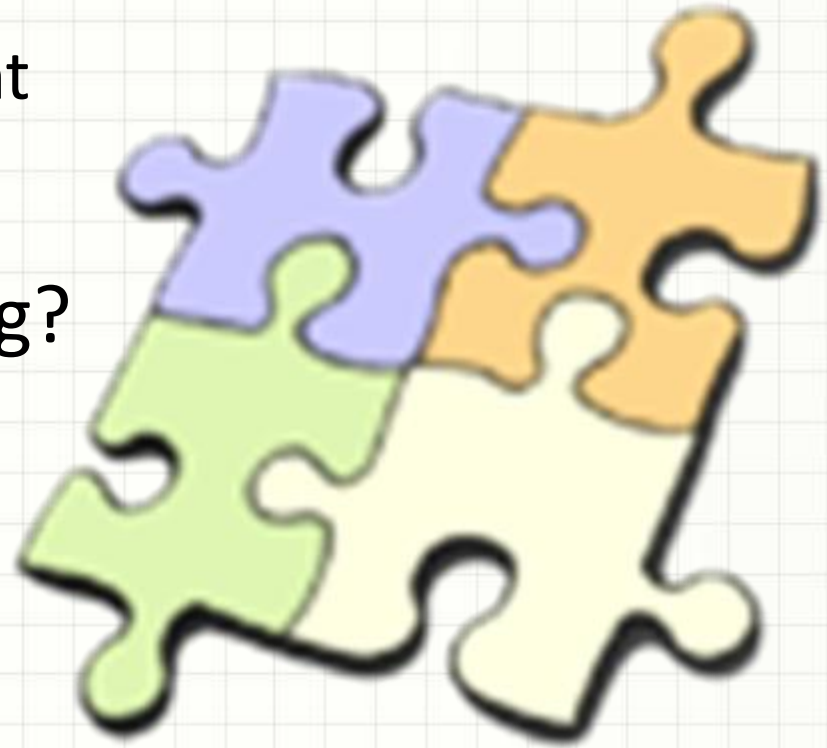
Servicing Basics

- It is not about the loan or the program; it is about meeting the needs of the client
- Manage Expectations
- Keep an open mind
- There is no such thing as “One Size Fits All”
- Every situation is unique
- Servicing starts at the first call
- Be Flexible
- Learn the business of the client
- Be Consistent



Think of the Business as a Puzzle

- What is the Big Picture?
 - Goals of management
- What Pieces are there?
- What Pieces are missing?
- Do the pieces fit?
- Keeping it together
- Changing Pictures



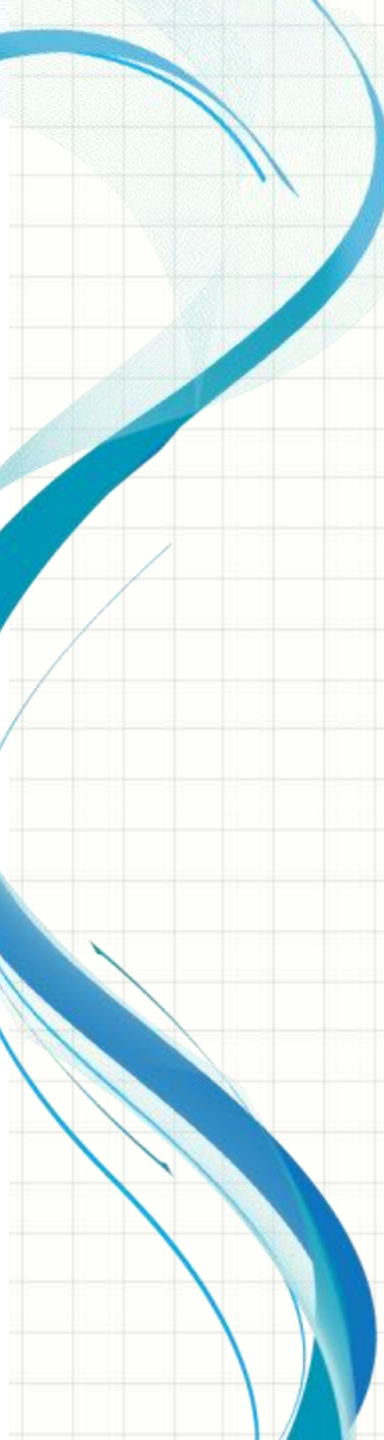
The Big Picture

- First contact is a pre-screen opportunity
 - Why are they calling?
 - How did they come to you?
 - What do they do? – Ask detailed questions
 - How long in business?
 - Who is their bank/lender?
 - What are they looking for?
 - How much/purpose?
 - What will it do for them?
 - Is business profitable?
 - How much revenue do they generate?
 - Growing/Stable/Experiencing Difficulty?
 - Do they have a business plan?
 - Does it include projections?

Identify the Missing Pieces



- Technical? Financial? Both?
- Assemble resources to meet the needs
 - Make introductions
 - Involve self in the process
 - Follow Up – Stay Involved
 - Give Guidance
- Is client ready for next step?
- Long Term Needs vs. Short Term Needs
- Not all pieces will fit – keep multiple options open



Evaluate the Request

- Many bank denials happen because applicant is unprepared or they are talking to the wrong lender
- Does the need match the request?
- Is the request appropriate for the need?
- Does the cost/benefit work?
- Find best fit for the request:
 - Long term needs require long term solutions & Short term needs require short term solutions
 - Working capital: Permanent or short term?



Putting it Together

- Structure financing around the need
 - Short term for short term
 - Long term for long term
- Fund in Stages – Set Benchmarks
 - Reduces risk for lender
 - Reduces cost for borrower
 - Base it on their plan
- Structure payments around business cycle
- Re-evaluate as necessary
- No is sometimes the right answer
 - Let them down easy – explain the reasons and identify next steps



Keeping it Together

- Servicing does not end with closing
- Continuous process
- Continue to follow up on ongoing Technical Assistance
- Site visits – if you are in the area, get in the habit of stopping in
- Stay Relevant – remind them of value you can provide as their business evolves
- Review reporting – stay on top of trends
 - Trends indicate direction of business
- Constant Communication
- Re-Evaluate as business evolves

Changing Picture: Workout & Collections



- Things Change: Deal With It
- First indication of trouble should not be a missed payment
- Back to basics – evaluate as a new opportunity
- Work with borrower to preserve business whenever possible – become their partner in a turnaround
 - Fund consultants if necessary
- Convince other lenders to follow your lead – no one wants to take a loss
- Restructure to new reality



Portfolio Power

- Borrowers do not exist in a vacuum
- There is nothing that has not been seen before – do not hesitate to use the experience in your portfolio
- See opportunities in the portfolio
 - Partnerships between borrowers
 - Mentoring opportunities
 - Contracting opportunities
 - Servicing opportunities
 - Acquisition opportunities: can be a way out of a difficult situation
- Referral Source



CASE STUDIES



LOCAL HOOKER RODS®

hardcore fishing gear

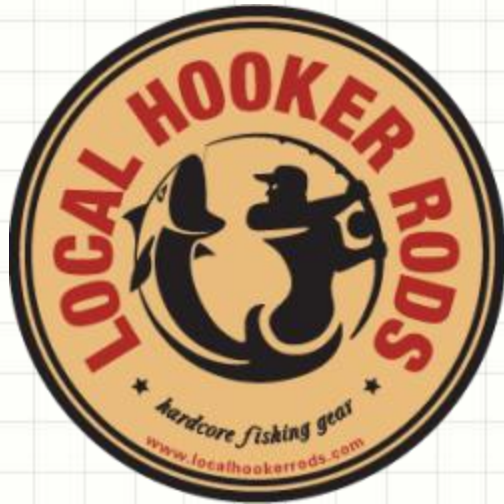
- Cold Call in Summer of 2010
- Company initially based in Massachusetts, but product manufactured in RI
- More than 1 year from first meeting to first funding of loan
- Ongoing Technical Support

The Pieces

- Company started in 2005 by 9/11 WTC survivor
- Passionate management with Sales & Marketing background
- Company plateaued at \$125k per year in annual revenues due to capacity issues
- One sales person (President) and one rod builder on contract
- Solid market research and sales plan
- Weak on the financial side
- Strong reputation for quality & product performance
- More orders than ability to fill – “Great rods, if you can get one”

Missing Pieces

- Technical Assistance
 - Need financial guidance
 - Need to flesh out business plan
 - Need to locate manufacturing space
 - Need to identify/quantify financing needs
- Worked with local SBDC (Massachusetts) on plan. Introduced to finance grad student who assisted with plan.
- Located space – another borrower had excess space and was willing to rent out
- Back and forth with discussions & feedback for almost a year until ready





Putting it Together

- Permanent Working Capital Need
 - Establish manufacturing operation
 - Marketing development
 - Brand Penetration
 - Staffing & Training needs
- Approved \$250k loan
 - Advanced over 9 months based on achieving benchmarks
 - Tiered Payment Schedule
 - Interest only for 9 months (bring into season)
 - 12 months at \$2,500 (growth)
 - 72 months at \$4,040.50 (stabilization)

Keeping it Together

- Still a work in progress – funded in Q3 2011
- Total Sales increased over 300% from Q1 2011 to Q1 2012 (and climbing)
- Apparel Sales declined 87% due to lack of capital to purchase inventory; total sales increase is for rods alone
- Much new press for products – great reviews in field/major tournament wins – including 2011 IGFA World Championship
- Sales projected to exceed \$500k in 2012 and \$1.0 million in 2013

Changing the Picture

- Grad student handling accounting caught skimming
 - Fortunately caught early
- Brought in Part Time CFO (RIEDC referral)
 - Updating financial plan
 - Assisting in attracting investors
 - Tightening financial controls
- Introduced to another borrower in apparel business
 - Discussing a licensing agreement
 - Apparel company provides inventory & sells on terms to LHR customers
 - LHR gets licensing fees & commission
- Cash remains tight, but Cash Flow increasing

AFI Inc. (not actual name)

- Referral from Lender
- Company spinoff from closed manufacturer
- Established product line and brands
- Established management team
- Ongoing involvement in company

The Pieces

- Company spun off from existing manufacturer which had closed RI facility and abandoned product line
- Strong management team
- Funding for equipment purchase from closed manufacturer – Working Capital needs funded through equity
- Existing product line and brand recognition



Putting it Together

- Limited technical assistance needs
- Fairly standard equipment loan – unable to get through traditional channels due to economy and “start-up” nature of company

Keeping It Together

- Initial sales did not meet expectations, requiring payment modification in first year
- Had later opportunity to purchase additional equipment to eliminate overseas outsourcing
 - Arranged equipment lease through third party
- Currently moving to larger facility, requesting assistance
 - Engaged RIMES to assist, may modify note



Colonial Mills, Inc.

- 35+ year old manufacturer of braided rugs located in Pawtucket, RI
- Unique niche market, specializing in short-run production with quick turnaround (< 7 days)



NEW!

brooklyn™ INDOOR/OUTDOOR!

The Pieces

Dangers

- 45%+ sales decrease from 2007 to 2009 (\$11MM to \$6MM)
- High customer concentration – JC Penny Catalog (60% of revenues) – JC Penney discontinued catalog in late 2010
- High losses
- Highly leveraged balance sheet
- Credit facilities at maximum
- No liquidity
- Supplier difficulties due to stretching of trade credit
- Rolling layoffs due to lack of materials to produce
- COD terms with most suppliers
- Existing SBLF loan w/balance of \$74k at risk





Opportunities

- Strong management team
- Owner carried losses through equity investments
- Bank supportive – extended additional credit (SBA Loans) despite downturn
- New sales opportunities:
 - Online sites such as Overstock.com offering high margin opportunities
 - Restoration Hardware / Pottery Barn, etc.
- Management brought in turnaround consultants and executed plan to restructure operations, eliminating over \$2.0MM in overhead and returning company to break-even

Decision Parameters

- 87 employees in economically depressed area
- Existing \$74k loan at risk
- Extensive analysis showed \$400k needed immediately to continue operations and continue turnaround plan
- Operations turned around and profitable in 2010, but company and ownership lacked funds to keep it going
- Bank lender unable to advance additional funds or increase credit lines due to SBA rules.



WHAT DO YOU DO?

Putting It Together

- Double Down & Support Company
 - Increased SBLF loan to \$350k (normal limit \$250k)
 - City of Pawtucket CDBG loan for \$100k (normal limit \$50k)
 - Restructure bank debt to reduce rate & increase term
 - All lenders 12 months interest only, 10 year repayment terms at 5.0% current rates
 - Renegotiate terms with vendors

Keeping It Together

- Today – company on plan for revenues, above plan for profits due to margin improvement
 - #1 selling area rug for Restoration Hardware & Pottery Barn Kids
 - Products in trials with LL Bean to replace current vendor
 - High volume of new customers
 - Loss of JC Penny Catalog made up with new customers
 - Company exploring possible purchase of new facility when current lease expires in 2014
 - Working with RIMES to determine need, RIEDC site locator for facility and RIEDC/Bank/OSBDA for financing

NWDT, LLC (not actual name)

- Referred by accountant to RIEDC
- Company provides training services in various trades
- Profitable, well established
- Ownership in place only 2 years
- Opportunity to open second location and expand program offerings

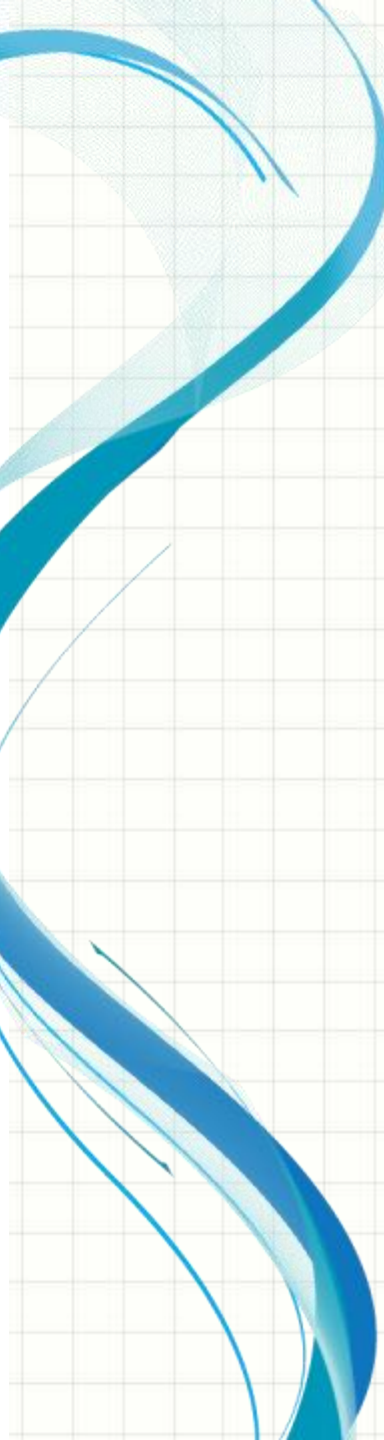
The Pieces

- Management has good history of results
- Solid plan to expand and market services
- Partnership with RIDLT
- Profitable current operation
- Expansion is large undertaking
- Weak collateral
- Training for needed skills in market



Putting It Together

- Technical Assistance
 - Introduce to RIDLT for training
 - Work with CPA for financial oversight
 - Introductions to area companies in need of training services
- Loan: Permanent Working Capital advanced over 12 month period to cover losses during start-up phase.
- Interest only until stabilized, then fully amortizing over 60 months



Changing Picture

- Borrower hit snags early on
 - Manager for new location not right person to build business
 - Constantly changing contract terms with clients
 - Alienated client base
 - Overspent
 - Programs inappropriate for needs
 - Kept situation hidden from ownership with false set of books



Keeping It Together

- Payment moratorium while owner took control of operation and tried to salvage
- Extensive workout negotiations with landlord
- Ultimate closure of new facility and retrenching of business to original model
- Restructure of debt to repay over a 10 year period; advance \$25k additional to keep remaining business operational
- Still struggling, but situation slowly improving

Summary

- Manage Expectations
- Keep focused on big picture
- Things change – be adaptable
- Know your borrower
- Follow up
- Stay in the loop
- BE FLEXIBLE



QUESTIONS?