

fordham

For business owners  
Accounting & Tax  
Investment Management  
Strategy & Planning

# how should I fund my business?



# Is your funding structure right?

**Right now, your bank uses tools to analyse their risk and their return from you as a client. Right now, they may have the wrong picture of your affairs and you may have the wrong facilities. At best, that will only cost you money.**

External financing is a great method to facilitate your growth plans, expand your operations, purchase stock, fund new ventures, develop new products and make other investments. Without such borrowings, the only other source of funding is the owner's equity or retained (after tax) profits. That means that for most businesses, debt is fundamental. Properly structured, external debt can be a whole lot cheaper than giving away equity.

**However, debt funding can come at a price that is higher than the business owner realises.** If your banker does not properly understand your business, your risk management, your structure, your financials, your governance or your security, then they may assess you wrongly. With the wrong risk profile, your rate premium is higher, their management of you is more "active" and you may have too many assets tied up as security for the banks.

Similarly, many business owners have structured their package in an inefficient manner and this costs them unnecessary fees and interest. Facilities which are "in-funds" concurrently with debt could cost the business up to a 10% premium. Alternatively, short term funding is often unwittingly used to fund long term investments. History is littered with examples of great businesses which have failed in a credit crisis when they have borrowed short term to fund long term assets.

And, of course, many owners have no idea about their guarantees, cross guarantees and alternative securities. Worse, bank covenants can be too onerous and are often breached. A downturn in your business could see you move to "credit watch" ... an expensive experience normally ending in tears.

Fordham's **Funding Facilities Review** is designed to ensure that your arrangements with the bank are optimal and that you understand your obligations and alternatives.

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## The process

Our approach to conducting a **Funding Facilities Review** for a client is as follows:

**Investigation** We commence each engagement by understanding what facilities are in place, what short or long term funding is required, what security is available and which assets are encumbered.

**Analysis** Following this investigation, we look to understand the business from a banker's perspective and find the alternatives for funding and security that might be appropriate. Each type of funding is considered in terms of cost, flexibility, function, security and ultimately, suitability.

**Compliance** Critical to this process is an understanding of the ability of the business to meet its current and future covenants (rules which govern your facilities), particularly in regard to growth plans and sensitivity to business downturns.

**Security** Asset Protection is the backbone of the Fordham philosophy. As such, it is important to ensure that any security offered is limited where possible. It can further be protected if structured so that the bank is less likely to call upon a guarantee.

**Value** Our preference is to help our clients maintain their existing banking relationship wherever possible. By understanding each other better, the banker invariably takes a longer term view and the client is structured to understand the rules, pay fewer fees and potentially, avoid a crisis.

## Front cover

**Michael Sutherland**

Director, Fordham Business Advisors