

A horizontal decorative bar consisting of a grey top section and a blue bottom section. The blue section features a pattern of light blue circles on the left side, with one white circle in the top row.

## What to Consider When Applying for Bank Funding

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## Introduction

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Applying for bank funding can be a daunting and confusing exercise! WHK have developed a checklist based on factors that a bank will consider when assessing whether to lend to a business.

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## 1. Opportunity to Borrow

		Y	N	N/A
1.	How much do you need?			
2.	What are the funds required for? i.e. increased: <ul style="list-style-type: none"> <li>▪ Working capital</li> <li>▪ Fixed assets</li> <li>▪ Commercial property</li> <li>▪ Change in shareholder funds</li> <li>▪ Funding of losses</li> </ul>			
3.	Is it core or seasonal funding?			
4.	If it's acquisition funding how much is goodwill? <ul style="list-style-type: none"> <li>▪ How robust is the due diligence?</li> </ul>			

## 2. Business Overview

		Y	N	N/A
1.	What is the nature of your business?			
2.	What is your business experience / background?			
3.	Is there any material, recent or proposed changes to business activities?			
4.	What is the ownership structure (family tree)			
5.	Where are you in the business lifecycle?			
6.	Is the distribution domestic and/or international?			
7.	Major customers and key supply contracts - including retention of title (PMSI) implications			
8.	What is your competitive advantage? What are the threats?			
9.	What is your Market share? Is it sustainable?			
10.	Licences / patents - are they required? When do they expire?			

### 3. Management Capability

		Y	N	N/A
1.	What is the experience and expertise of your management team? <ul style="list-style-type: none"> <li>▪ Are they open to accept and implement change?</li> </ul>			
2.	Is there a risk of losing key people?			
3.	Who are your independent advisors? Board of directors?			
4.	How effective is your strategic/business planning?			
5.	What is your strategy around succession planning?			
6.	How relevant and robust is your information management system?			

### 4. Industry Risks

		Y	N	N/A
1.	What are the industry risks?			
2.	How will those risks be mitigated?			
3.	How flexible/robust is the business model to implement change within the industry?			
4.	What are the competitive pressures and sustainability of demand relative to the economic environment? (present and forecast)			
5.	Barriers to entry - cost, technology?			
6.	Any impending regulatory changes - will they advantage or disadvantage?			

## 5. Business Risks

		Y	N	N/A
1.	Market share - a major or niche player?			
2.	Strength of brands			
3.	Customer concentration risk			
4.	Price maker or taker?			
5.	Is the production process complex and skilled?			
6.	Are contracts in place for supply of raw materials?			
7.	What is the product mix / lifecycle? i.e. fashion, perishables			
8.	How are financial risks managed? i.e. exchange, interest rates?			

## 6. Financial Analysis

PROFITABILITY / CASHFLOW		Y	N	N/A
1.	Review last 2-3 years trading performance and budgets to ascertain quality of revenue and cash flow: <ul style="list-style-type: none"> <li>▪ Sourced from core operations - strength of operational cashflow</li> <li>▪ Sustainable or subject to fluctuations?</li> </ul>			
2.	Has there been any change in key drivers? ie sales, gross margin, operating costs			
3.	What impact do the above changes have on the profitability and cashflow?			
4.	Are there any one off costs? (Are they truly one off?)			
5.	Did the company achieve its previous forecasts - why or why not?			
6.	How much of the earnings have been retained historically and budgeted?			
7.	Are there external influences requiring cashflow from the business?			

**BALANCE SHEET STRUCTURE**

	Y	N	N/A
1. Are there any material changes in key balance sheet items? i.e. debtors, stock, creditors.			
2. What is the reason for this? i.e. slow down in debtor collection, reduced stock turn, change in creditor terms.			
3. How much equity do the shareholders have in the business (net of intangibles)? <ul style="list-style-type: none"> <li>▪ Is it appropriate to the level of associated business risk?</li> </ul>			
4. Are there any off balance sheet items? i.e. operating leases, performance bonds/guarantees, warranties.			

## 7. Key Ratios



	Y	N	N/A
1. How do debtors, creditors, stock, days on hand compare to industry trends? <ul style="list-style-type: none"> <li>▪ Are there material variances to prior year's or budgets?</li> <li>▪ What's caused this?</li> <li>▪ What improvements can be made to release cash?</li> </ul>			
2. What is the leverage – Debt / EBITDA			
3. Effective equity % - (PUC+ reserves + retained profits – intangibles/total tangible assets). <ul style="list-style-type: none"> <li>▪ What is the shareholders' personal investment in the business?</li> </ul>			
4. Quasi Equity - (effective equity + shareholders loans - overdrawn current accounts).			
5. Interest cover – EBIT / interest costs. Can you comfortably service bank debt?			
6. What is the Gross/Net Profit margin percentage / trends?			

## 8. Repayment

FIRST WAY OUT		Y	N	N/A
1.	How robust is the debt servicing from operational cashflow.			
2.	What is the interest cover?			
3.	What is the ability to repay principal from operational cashflow?			
4.	If bank funding is for core growth, how much of the profits will be retained to assist with this growth <ul style="list-style-type: none"> <li>▪ What percentage is bank funding vs. shareholder funding?</li> </ul>			
5.	Are there sufficient funds to pay principal and interest costs after sensitising cashflow?			

SECOND WAY OUT		Y	N	N/A
1.	How will the lending be repaid in the event cashflow becomes insufficient to cover principal and interest payments? (For example: shareholders support, tangible security offered, liquidation of company assets)			

## 9. Security

		Y	N	N/A
1.	Are the year-end accounts audited?			
2.	Stock and debtors (PMSI), quality of stock debtors: <ul style="list-style-type: none"> <li>▪ concentration debtors</li> <li>▪ Stock obsolescence</li> </ul>			
3.	Commercial or personal property availability/value?			
4.	Quality of property valuations: <ul style="list-style-type: none"> <li>▪ Who are the valuers?</li> <li>▪ How old is the valuation?</li> <li>▪ Was it valued for mortgage purposes?</li> <li>▪ Is it addressed to the bank?</li> </ul>			

		Y	N	N/A
5.	Plant and machinery - highly technical, fixed or moveable, specialised nature?			
6.	Shareholder net worth <ul style="list-style-type: none"> <li>▪ What assets do the shareholders have?</li> <li>▪ Are they willing to provide support (personal guarantee) for the business?</li> </ul>			

## Conclusion



If you are considering bank funding and would like further information please contact Glen Gernhoefer (telephone: 09 300 5781, email: [glen.gernhoefer@whk.co.nz](mailto:glen.gernhoefer@whk.co.nz)).