



StartUp
Mendocino

BUSINESS ACCELERATOR

2023

Accessing Capital





Let's Get Started ...

How are Things Going so Far?

How is your progress on the Financial Systems and Decisions?

Challenges in working through Financial Worksheets (Income Statement, Balance Sheet, Budget)?



What is Capital?

Capital is usually considered Liquid Assets or cash in hand that is available for spending, whether on day-to-day operations or long-term plans. Capital also can be considered any of the company's assets that have a monetary value, like equipment, inventory and real property.



Capital assets can be found on either the current or long-term portion of the balance sheet. These assets may include cash, cash equivalents, as well as tangible assets like manufacturing equipment, production facilities, and storage facilities.



Why Is Capital Important?

It takes money to make money.....

- Capital is used by companies to pay for the ongoing production of goods and services in order to create profit. Companies use their capital to invest in all kinds of things for the purpose of creating a return. By investing or reinvesting capital back into a business, an owner seeks to earn a higher return than the capital's costs.
- Working Capital is the cash you need to operate your day-to-day operations.
- Having too much or not enough Capital can present the same challenges. Too much capital can be a sign of not understanding how to grow your business and take risks, not enough and you will not have what you need to keep doing business. The leader's goal is to find the balance between what the business needs to maintain and grow.
- Net Profit is the result of investing capital into the business, charging a price for that product or service and as result making a profit off the original investment.



The P&L and Balance sheet will be the reporting tools to track capital losses or gains, as well as the capital structure. Capital structure will be defined between your assets, liabilities and equity. The mix defines the structure.



Will You Need Capital?

You will likely need to access additional capital at some point in your business's lifespan for a variety of reasons:

- Startup Costs
- Business Growth Expansion
- Equipment, Inventory, Improvements, Employees

Questions to Consider.....

- What do you need the money for?
- How much money do you need?
- How long will it take you to pay it back?
- What is the current financial shape of your business?
- How long have you been in business?
- How much collateral, if any, do you have to put up for the loan?
- How quickly do you need the money?
- Are you seeking debt or equity financing?





How do I Access Capital?

Sources of Capital Funding:

- Debt Capital (Loans):
 - Most common source of accessing capital is through borrowing and can be obtained in a variety of ways including; Family & Friends, Credit Card, Personal Savings, Banks or other Financial Institutions.
- Equity Capital (Ownership):
 - Less common is the distribution of ownership of the business in the form of shares/stock in the company to generate capital to accomplish financial needs.
- Working Capital (Self-Generated):
 - A company's working capital is its liquid capital assets available for fulfilling daily obligations. Working capital measures, a company's short-term liquidity. More specifically, it represents its ability to cover its debts, accounts payable, and other obligations that are due within one year. Note that working capital is defined as current assets minus its current liabilities. A company that has more liabilities than assets could soon run short of working capital.

Preparing for Debt Capital

Preparation is key to acquiring debt capital. Even if you don't anticipate needing capital in the near future, preparing ahead of time saves YOU time and effort later.

There are several criteria that are universal in evaluating you and your business's ability to take on Debt Capital.

Almost all lending institutions function on an analysis of the 5 C's of Credit to assess the risk of lending capital to any client or business.

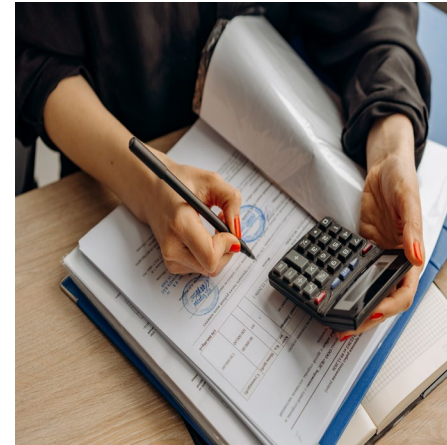
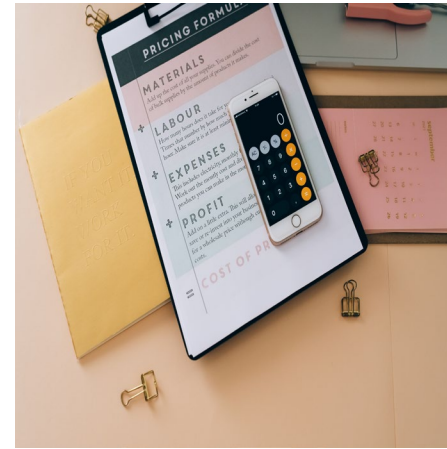
- ❖ Character: Credit history, including repaying debts on time
- ❖ Cash flow: Whether you have revenue to repay the loan
- ❖ Capital: How much of your own money you have invested in your business
- ❖ Collateral: Property or assets that can be pledged as security
- ❖ Conditions: Outside factors that could hit your business, such as industry



How Can I be Prepared?

Generally, you will need to be prepared to submit several documents for a lender in order to access capital for your business:

- **Business Plan**- You are the expert on your business, this is how you show it.
Include necessary permits/licenses that will need to be acquired.
- **Understand Credit History/Score**- Utilize free apps to monitor and improve your personal credit .
- **Project Budget**- as defined as possible as how you will use the capital.
- **Financial Reports**- if available, P&L's and Balance Sheets. If not available projections for the business income and expense.
- **Equity Investment**- Show what you have invested and that you are as invested in your business that a lender will be.
- **Tax Returns (3 years)**- business or personal depending on the age of the business.
- **Collateral**- What are you able to pledge to secure the capital requested.





Rules of Thumb

- **Friends & Family Capital:** If they have it is the cheapest and easiest place to borrow.
- **Credit Cards & Online lenders:** Fast turn around, quick access but high interest rates and unfavorable terms on paying back.
- **Traditional Bank Loans:** Are great **IF** you can get a reasonable interest rate, but banks are low tolerance to risk, typically no capital to start-ups .
- **Non-Profit/Alternative Lender:** Longer process, will do start ups, must be refused by a conventional bank, reasonable terms.
- **Equity Capital:** If utilized will dilute your ownership and control over your business.

NOTE: Always ask questions and don't take on any capital without having a full understanding of what you are committing to.

Next Steps

What would it take to.....

- Begin to Build a File ?
- Produce Financial Reports on a Monthly Basis?
- Sign up for Free Credit Monitoring?
- Establish a Business Bank Account?
- Begin Communications with a Business Banker ?



THANK YOU FOR BEING PART OF



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