BROPHY LAW

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Time to Renegotiate Initial Financing Terms?

For most entrepreneurs, meeting the primary objective of getting that initial financing is a great success. Most realize that they don't have a lot of negotiating leverage and at the outset don't expect favourable terms. However, as business goals are met or exceeded over the first two years or so, entrepreneurs should think seriously about improving the terms of their initial financing.

If you obtained your first financing from a Bank or other traditional lending institution, you have most likely had strict debt/equity ratios and default provisions, and if incorporated, the Bank in most instances has required your personal guarantee. Venture capital debt or equity partners usually manage to severely restrict your options to ensure that they control finding the next level of financing. They would likely want to either cash out or be partnered with the "new money".

The first step to improving the terms of your financing is to develop a new financing strategy based on having met initial business goals and a clear statement on why an investment in your business "now" would be a sound financial decision.

There is no real magic in the negotiation process. If you have the right product or service and the demand is strong, and if you can show that you have met your financial objectives in the early stages, you will be in a stronger position to negotiate. The good news about bank financing is that most loan agreements, unlike mortgages, do not carry a penalty for prepayment.

Once you have at least two years of solid financial statements and a well-developed business plan, start "shopping". Compare what you find in the market with the terms of your current financing. You then have a basis for renegotiating your current terms or taking your "business" elsewhere.

If your start-up financing is with equity partners, you may very well have a more permanent, long-term relationship which, while less demanding from a cash flow perspective, can be more restrictive and difficult to change. However, again, depending on the strength of your product or service in the market place, there may be competition to get in on the action.

Think strategically about refinancing your business. Your objective is not just to renegotiate a restrictive and burdensome first financing, but to secure the right level of financing to expand the business by acquisition, plant or system upgrades, or by investing further in research and development to enhance the business opportunity.

A clear vision is a sound basis for a good business plan with achievable, believable objectives. When you combine that with proof that you have met your stage-one objectives you can make a solid pitch for re-financing.

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