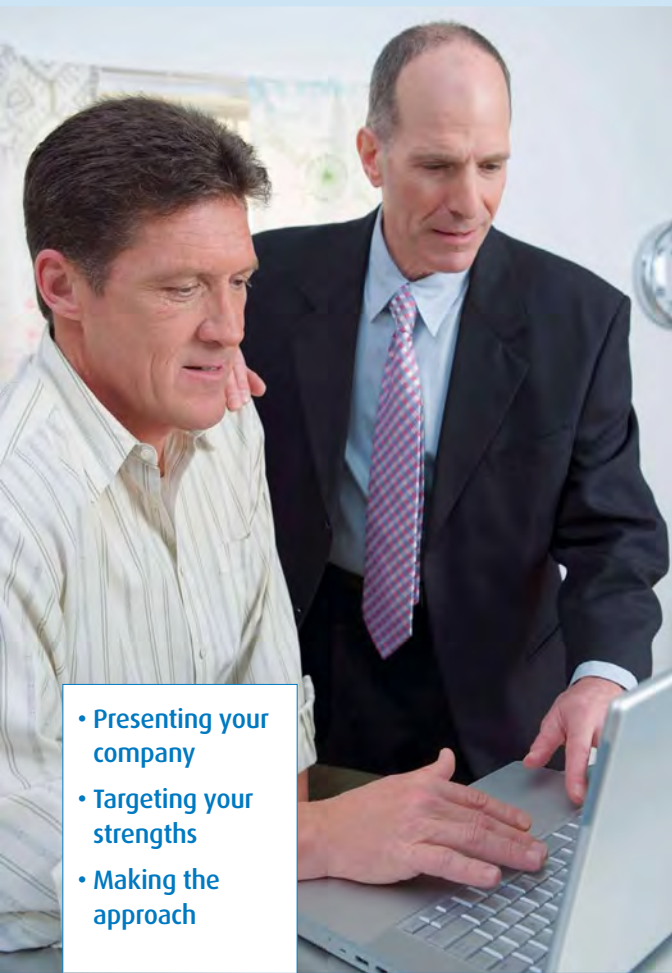


Creating a financial proposal

BUSINESS COACH SERIES



- Presenting your company
- Targeting your strengths
- Making the approach

Seeking serious money

The situation

When your company requires a significant infusion of capital — through debt financing or the sale of equity — the people providing the money will ask to see something in writing — a financial proposal.

The solution

At BMO Bank of Montreal®, we are committed to helping Canadian businesses develop and succeed. The purpose of this Business Coach is to help you prepare a financial proposal that places you and your company in the best light possible as you seek to attract debt or equity capital.

A financial proposal contains the details on how you intend to achieve your business plan:

- the amount of money you need
- how that money will be used
- what returns can be expected
- what security will be provided

Apart from being essential to raising capital, the preparation of a financial proposal can be extremely beneficial to the operation of your business. As a fundamental management tool, your proposal:

- forces you to write down facts clearly and objectively
- helps you to identify and clearly define products, markets and suppliers
- provides you with a guideline against which to measure results
- conveys a lasting impression of you and your company, and allows others to assess your chances of success

It should be noted that your financial proposal will be based on your business plan, which is basically a written summary of:

- what your business is
- where you intend to take it
- how you plan to get there

It may be useful if you also have *Developing Your Business Plan*, a companion booklet from the Business Coach Series available online from our resource page at bmo.com/business-resources

STEP 1 Outline of the proposal

Whether you're seeking money from a bank, a venture capital firm, a government program or any other source, you will be expected to provide a document that contains most or all of the following:

- **Cover page:** company name, address, telephone number, email and internet address, and key contacts
- **Table of contents:** referenced by page numbers
- **Summary:** one page
- **Industry overview:** overview of your business highlighting key dates and facts
- **Management structure:** background, qualifications and responsibilities
- **The product/service**
- **The market:** production/supply, financial performance — past and future
- **Financing outline:** emphasizing application of funds
- **Basic information:** bank, accountants, lawyers, incorporation, board of directors, shareholders
- **Appendices:** including detailed management biographies, product literature, valuations of assets, financial statements (preferably audited), detailed projections — profit and loss, cash flow, major contracts

STEP 2 Making a strong first impression

The one-page summary following the table of contents can make or break your proposal. It is designed to arouse the reader's interest.

It should stand on its own in presenting your company succinctly. It can be modified depending

on who will receive the proposal and for what purpose. The summary should state briefly:

- what the company is and does
- its history
- where its future lies
- what the company needs to get there (i.e., the amount and sources of money)

Keep it simple and honest, and you're halfway there. Look at these examples:

Example 1

The ABC Co. is a British Columbia firm (30 employees) that manufactures auto parts such as brake discs, drums and linings in one owned plant. Sales are to Original Equipment Manufacturers (OEMs). Volume peaked three years ago at \$4 million (pre-tax profits \$200,000) and there have been two subsequent loss years (year-end September 30). Book value of the company is \$750,000, and approximately \$300,000 is required in a combination of debt/equity to replenish working capital.

Example 2

Federally incorporated, the XYZ Company was started by Bob Brown in August 1989. The company is a distributor of imported (mainly Asian) home electronics that are sold to specialty stores. Volume last year was \$1.8 million, up from \$1.2 million the previous year. The company has been offered several new lines if it will expand into the Prairie Provinces. Additional working capital of \$200,000 is required for the expansion; the owner is prepared to give up equity, if necessary. The Market is stable with returns on investment in the high 20% range.

STEP 3 Creating a Detailed Proposal

With the outline of your proposal established, you can create a comprehensive document by providing the following information:

- **Background.** Provide an overall picture of the company and how it got to where it is:
 - when it was founded and by whom
 - how was it developed: dates (or years) of key milestones; major events
 - how it arrived at its present position
- **Management.** Provide an overview of the key management personnel:
 - names, titles, ages, experience, education
 - responsibilities and contribution of each
 - an organization chart, if available
- **The product/service.** Include:
 - description (put brochures, literature in Appendix)
 - applications and uses
 - uniqueness/patents
 - customers
 - pricing
- **The market.** Describe:
 - development and growth
 - size and your share
 - the competition
 - different channels of distribution
- **Production/supply.** Outline:
 - your facilities: size, location(s), special features, ownership; length and terms of leases, equipment, present and potential capacity, overhead costs and allocation
 - costing: direct costing, how it's controlled (mechanical/computerized), reporting

- employees: numbers, unionized, part-time/full-time, hourly wage rates
- inventories: levels, reordering systems, control
- major suppliers and average annual orders
- purchasing: under whose control, how it's checked and responsibility for follow through
- **Financial performance.** As an example, use the Summary Profit and Loss that follows to establish past performance and project future performance. Detailed cash flow budgets, profit and loss, balance sheets and assumptions can be included in the Appendix. This section should include:
 - sales, cost of goods, gross profit, selling costs, administration and pre-tax profit that should be shown back five years and forward five years, if possible
 - percentage of sales (useful to you and the reader)
 - comments on performance, including reference to balance sheet: return on investment (high/low), working capital (high/low) and other critical elements
 - a high and low estimate for the future

- your cash requirement, based on a worst-case scenario
- if possible, have an accountant prepare or at least review financial performance statements
- cash flow forecast: at least Cash In/Cash Out; Closing/Open Balance for three years (by month for the first year)
- an explanation and list of all your major assumptions (can be part of the financial details given in the Appendix)
- **Financing outline.** This is a brief section outlining why the funds are needed. For example, you might list:
 - \$ 50,000 to reduce payables
 - \$ 65,000 to increase working capital
 - \$ 85,000 to purchase assets (detailed elsewhere)
 - \$ 50,000 to increase bank line to allow for bid and performance bonds on government contracts

\$250,000 TOTAL

- If you are seeking debt financing, suggest a repayment period.

Summary Profit and Loss (Year End Dec. 31) \$000's

	Actual								Projected								
	Year -2		Year -1		Last Year		This Year		Year +1		Year +2		Year +3		Year +4		
Sales	\$	800	%	875	%	980	%	940	%	990	%	1,200	%	1,300	%	1,600	%
Cost of goods	\$	560	70.0	656	75.0	706	72.0	714	76.0	713	72.0	852	71.0	910	70.0	1,120	70.0
Gross profit	\$	240	30.0	219	25.0	274	28.0	226	24.0	277	28.0	348	29.0	390	30.0	480	30.0
Selling	\$	100	12.5	127	14.5	108	11.0	120	12.8	110	11.1	120	10.0	140	10.8	150	9.4
Overhead	\$	120	15.0	160	18.3	170	17.3	180	19.1	160	16.2	180	15.0	190	14.6	200	12.5
Pre-tax profit	\$	20	2.5	(68)		(4)		(74)		7	0.7	48	4.0	60	4.6	130	8.1

Tips

Assistance in the preparation of much of the financial data is available from the BMO Bank of Montreal Business Coach Series. Ask for *Planning your Cash Flow and Developing your Business Plan*, available online from our resource page at bmo.com/business-resources

• **Basic data.** Include:

- bank (name, branch, address, phone number, key contact)
- legal advisers (name of firm, address, phone number, key contact[s])
- date, place, nature of incorporation/sole proprietorship/partnership, and so on
- authorized and issued stock
- directors of company, addresses, other affiliations
- major shareholders; number of shares
- stock options, if any

• **Appendices.** Use Appendices for the detailed material that would clutter the main presentation. If your material is too bulky for the proposal, then provide a separate binder. Appropriate material for an Appendix could include:

- detailed management biographies
- product literature
- letters of reference, commendations
- patents, legal descriptions, major contracts, other legal documents

- recent valuations (particularly if you are looking for a term loan or mortgage)
- detailed description of buildings, equipment, and so on
- market research, engineering, or other studies (referred to in outline only in the Proposal)
- detailed profit and loss and cash flow projections
- recent accountant's/auditor's financial reports
- other materials relevant to your presentation

STEP 4 Targeting your strengths

Your financing proposal should be simply written and to the point. While it should emphasize your strengths and the upside, it's important to recognize the risks and the downside. This allows you to demonstrate that you understand the risks and know how to cope with them. In this section, we'll look at the factors that you should emphasize, keeping in mind that each source of capital has different criteria. Modify the emphasis of your proposal accordingly for:

• **Bankers**

- security, particularly receivables and inventory
- cash flow to cover repayment and interest
- past performance
- credit checks and reputation
- collateral available/personal guarantees

• **Term lenders**

- long-term/fixed assets
- cash flow to cover repayment and interest
- recent valuations

- insurance policies
- past performance
- **Venture capital firms**
 - management — experience and credibility
 - sufficient growth to provide required returns
 - availability of equity
 - your own financial commitment
 - liquidity: In three to five years, how do they:
 - get out
 - go public
 - sell to another company

• **Mortgage lenders**

- fixed assets and recent valuations
- saleability and condition of fixed assets
- terms and conditions of leases, including other tenants
- ability to meet interest and capital repayments



STEP 5 Making the approach

With a good proposal in hand, it's time to reach out to the people who finance businesses.

Here are a few tips:

- Start early. It can take up to six months to arrange the financing you need.
- Start with the people you know and who know you. If your banker, lawyer, insurance agent, accountant, friends or business associates cannot help, then...
- Ask for referrals and introductions. One introduction is worth many cold calls.
- Research sources before you make appointments. Get names of other clients, other typical businesses they finance, types of relationships they maintain, how they treat their customers (especially when a customer is in trouble).
- Don't restrict yourself to one person. Get to know everyone who will influence the decision.
- Go to those people who know your industry, even those financing your competition. Stay clear of newcomers or the uninitiated.
- Arrange an appointment by phone and outline why you want to come in.
- Send your confidential proposal, or at least the one-page summary, prior to the meeting.
- At the meeting, outline your request briefly and then summarize key points (no more than five) from the proposal.
- Be selective and targeted about shopping around. If you must, let it be discreetly known that you will be talking to others and test the reaction.
- Be sensible in using your accountant and lawyer. One of them can accompany you to provide help or clarification. However, make sure you answer the questions asked by the lender or investor. You are the one they are going to rely on to run the business.
- Talk "deal" or "relationship" early, but do not be too forceful about the type of loan or equity. Let it evolve, but stand firm on the main issues such as control and minimum amount needed.
- Listen carefully to all comments. If you hear the same reactions from several sources, consider changing your plan or approach.
- Set specified time limits for the first meeting. Have another appointment to go to after about 90 minutes. That's plenty of time; any longer and you run the risk of repeating yourself and showing your weak points.
- If you are turned down, learn why. Ask for reasons. Can you change your proposal? Who else could you see? What would he or she do differently in your place? The person may think you need more money than you've requested, which may be right.
- Always offer to follow up with more information. Respond to requests for information quickly.
- All businesses have risks. It's important to identify them and determine how you plan to overcome them. Don't forget the source is looking for them as well. You'll raise yourself in your source's estimation if you identify and deal with potential problems yourself.

Tips

Sources of capital can say "NO" quickly. It takes them longer to say "YES."



At BMO Bank of Montreal, we are committed to helping Canadian businesses develop and succeed. To this end, we've created a Business Coach Series that provides information and knowledge that can optimize the value of your company's financial resources. The booklets that make up the Series focus on essential areas of financial management allowing you to focus on operating your business more effectively.

For more information on how BMO Bank of Montreal can help your business:

- talk to your Commercial Account Manager
- call us directly at **1-877-262-5907** or
- log on to **bmo.com/business-resources**

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