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# DAY 5
# FUNDING METHODS

Understanding some essential funding methods will allow you to do everything you want and reach your financial goal.

## Asset finance

You borrow money against the assets in the business that you are buying.

### Assets you can use include:

- Fixed assets – things that are purchased for long-term use
- Items with serial numbers
- Items with a resale value
- Items that are substantial and robust

**These things have a value in the balance sheet and you can borrow against them.**

### Assets you can't use include:

- Second-hand computers
- Desks and chairs
- Intellectual property
- Intangibles (like brand)

**These things might have a value in the balance sheet but you can't borrow against them.**

Some assets are more financeable than others.
If you don't need all the asset finance raised to buy the business, you can use it in other ways, including for a deal fee.
A deal fee is your payment for putting in all the work needed to buy the business.

## Invoice discounting

You get an advance against the business-to-business debtors.

**The difference between factoring and invoice discounting:**

**Factoring:** the factoring company raises the invoices; the customer pays the factoring company; if they don't pay, the factoring company chases payment.

**Invoice discounting:** you raise the invoices, the customer pays you; if they don't pay, you chase payment.

**You must have a good quality debtor book:**

- DEBT — Debtors need to be good quality; blue-chip companies are ideal
- Customers must be paying within credit terms
- You can't finance bad debts

## Cash flow financing

You borrow against future strong cash flows.
Recurring revenue is preferred.

**Recurring revenue is money you know is coming in, from:**

- Memberships
- SUB — Subscriptions
- Contracts

If you have a ten-year contract, you know that revenue is coming in for the next ten years.
You could potentially borrow three times the profit of the business.
The lender will do extensive due diligence.

## CBILS/Loans

CBILS was a UK government scheme implemented during Covid.
Some people took out a loan and didn't use it, and have that money in the bank.

You can use that loan money to buy the business, then you pay off the loan.


## Vendor financing

You agree to buy the business on a deferred basis, up to 100%.

### With this type of deal:

- The seller is extremely motivated
- There is nothing to finance

Typically, this is for smaller deals. The seller gets what they want: not immediately, but over time.

## Leverage your existing business

If you've already got a profitable business you can borrow against it to buy a second business.

After you've made your first acquisition, you borrow against that to make the second, and so on. You leverage something you have to buy something you want.

## Don't use your own cash

Never use your own money to buy the business. If that's the only way to buy that business, look for another business to buy.

You want to be able to take cash out of the business every month; you don't want to put cash into the business.