

KEEPING THINGS LIQUID

The BRW Investec Fast Club's first roundtable for 2010 discussed smart ways to find finance.

Chaired by Sean Aylmer

● **BRW: How did you finance your company's start-up and growth?**

Kordahi: I just basically started out of home in a home office, hit the phones and started prospecting for business.

Hartley: I started four-and-a-half years ago with \$20,000 that I redrew from my home loan. From there we've grown the business on retained earnings.

Ng: The company started 10 years ago. Back then it started with a few thousand dollars in the bank. We tried to grow it organically and did it via retained earnings.

Lord: Aussie Farmers Direct started about four-and-a-half years ago just out of shareholder funding through three principals who are still part of the business. We effectively outsourced the capital side in the form of franchising.

BRW: How are the individual franchisees coming up with the money?

Lord: There still is a little bit of a hurdle around banks' willingness with small capital investments of about \$110,000 to \$120,000. So we have internalised some of the funding to the right individuals. We have spent the time to say, 'Well, you are the right person so we will get behind you and we will actually finance you'.

BRW: Do you make money from funding the franchisee?

Lord: We add a small premium on top, but it's not our game. We make a heck of a lot more out of having a super franchisee who is particularly committed, because they have actually been funded by the holding company.

BRW: What other positive or negative experiences have you had with banks?

Kordahi: We went to the banks and set up an invoice finance facility which allowed us to upload invoices as soon as we deliver goods and the bank would loan us 85 per cent of that invoice

amount. So we shortened (the payment) period by a good two to three months.

At that stage I was looking at expanding the business into Europe and the United States so I needed a bit more capital up front. It was only a little bit more expensive than your standard loan.

Hartley: Sometimes I have to go for a bank guarantee. Let's say I need to send out an invoice for \$400,000. But the builder will only let me invoice \$100,000 because the work hasn't actually been installed on site – the builders may be a month behind.

Yet I have already bought the material out of China, had it fabricated and delivered it to the site. Yet I can't get paid for it. So I set up a bank guarantee in favour of the builder and the builder's client and then they will let me issue the invoice and then they will pay me.

Another thing we do is provide a letter of credit for companies where we are importing out of America. If I want to buy \$150,000 of glass, I cannot just order that glass and they send it to me and I pay on 30-day terms.

I have to set up a letter of credit where I set up a term deposit with my bank. The bank issues a letter of credit to the glass company in America which says that Empire will always have this money so then that money could be tied up for three or four months out of my cash flow.

BRW: Are the banks treating you better now than 12 months ago?

Lord: About 12 months ago we went out to seek some funding for our business for some acquisitions and for a little bit of internal development. After a couple of banks knocked us back, one of the big four provided us with a letter of offer.

The terms on it were incredibly onerous and it was drawing down the whole amount for the whole period of the loan at about 6 [percentage points] above base. It was very, very expensive.

Just recently we have gone back to the same bank. They have provided us



MATTHEW HARTLEY

Founder of Empire Glass and Aluminium, number 17 on Fast 100 (2009)
Glass and aluminium for premium residential (\$10 million plus) and commercial properties
Annual revenue: \$5.2 million



GARY NG

Founder of E-Web Marketing, Number 43 on Fast 100 (2009)
Search engine optimisation and marketing
Annual revenue: \$2.9 million

**BRAEDEN LORD**

Founder of Aussie Farmers Direct, number one on Fast 100 (2009)
Retailers (home delivery) of Australian produced food and dairy products.
Starting capital: Start-up funding through three shareholders
Annual revenue: \$65 million

**DANNY KORDAHI**

Founder of DK Blue, number 55 on Fast Starters (2007)
Corporate uniforms and promotional merchandise
Annual revenue: \$3.7 million

with a term sheet which is a heck of a lot different to just 12 months ago. It's only a little over 2 [percentage points] above base and it's a lot more flexible. So it's a lot more favourable for our business to now take it on.

To be honest, we have less of the need right now, but we are doing it for the sake of developing a track record with this bank. We know that in another 12 to 18 months we will probably be going back to them with a very serious need because of some acquisition and some integration opportunities that we can foresee.

BRW: Would you give away equity to finance your business?

Kordahi: We do give away a bit of equity with the employees. Our key staff are on incentives and on profit sharing and things like that. But we are very picky in terms of who we give that to.

Hartley: Debt finance is generally cheaper, but in growing my own business there are three or four key men who have never left our business. We have very minimal staff turnover. So I have thought about potentially selling them a 5 per cent share each, in the knowledge that it will then motivate them to want to grow the business bigger and better.

BRW: Do you own or lease the property that houses your business?

Hartley (who personally owns the buildings and leases them to Empire): The business may go on to great things. However, if the business was to flatline or go backwards, at least I would still have the properties in my name so I would have a bit of a portfolio.

Lord: As we have started to get bigger, leasing bigger premises and paying higher rents on the bigger premises,

we've been wondering if it is prudent for us to acquire some bricks and mortar. We have decided no.

One reason is because our business is growing so rapidly that we are not confident enough that if we buy 3700 square metres of space, we won't want 7000 square more in two or three years.

Secondly, we would get a far greater return if we just spent the same amount of money growing additional rounds inside our business. We are better off growing our customer base and having more of a stretch into the suburbs of Sydney through more vans being on the ground and more customers being delivered to than a couple of million bucks on a property.

BRW: Anyone tried venture capitalists or angel investors?

Kordahi: Venture capitalists wanted all this information. You had to spend a lot of time trying to prepare it for that level and I just thought, you know, I will make do with what I have got and I will just keep chipping away at it and so I didn't end up going down that path.

Ng: There is not a lot of transparency about the channels to go through to get angel funding. What would the angel investor want and what is the size of the company they would want to invest in? There is a lot more public awareness on what venture capital is but ... they tend to go for bigger-sized businesses and are not suitable for a start-up.

BRW: Have you used any government agencies?

Kordahi: We have used Austrade internationally. They charge nothing other than a percentage of what your return is. That has been fantastic for us with the overseas market. **BRW**

What is Fast Club? An exclusive networking group for founders and CEOs of private businesses.

What are some of the benefits? Eight networking events a year, exclusive research allowing you to benchmark your business, participation in roundtables (subject to the editor's discretion).

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Contact: saylmer@brw.fairfax.com.au or jmarlin@brw.fairfax.com.au for a membership kit, or phone Jacqui Marlin on 02 9282 3591.