Refinancing Business Debt: How To Navigate Distressed Business Finances

Description

Refinancing business debt can be one of the most daunting challenges you face as a business owner. At Newpoint Advisors Corporation, we specialize in assisting distressed companies through these critical situations, including managing debt. Our Capital Solutions Group is dedicated to guiding you through this complex process, ensuring you make informed financial decisions tailored to your business and your situation. In this comprehensive guide, we'll walk you through the essentials of refinancing business debt and how Newpoint can help you achieve better cash flow.

Key Takeaways About Refinancing Distressed Business Debt:

- Refinancing can provide timely improvement to your cash flow..
- Refinancing is a good option for many businesses, but not your only debt management option.
- You must consider the loan mechanism plus its impact on your cash flow as it changes over time.
- Good options and bad options abound! It is hard to determine which is safe for you without an experienced guide.

The Benefits of Refinancing Business Debt in Distress

Refinancing for business debt often involves replacing an existing loan with a new one, typically with better terms and conditions. The primary goals of refinancing are to reduce, extend, or alter the repayment period, consolidate multiple debts, or free up cash flow. Following are more of the key benefits of refinancing business debt:

1. **Improved Cash Flow:** By extending the repayment period, or altering when payments are made (in a month or a year) payments are manageable, improving your cash flow.
2. **Debt Consolidation:** By combining multiple debts into a single loan simplifies management. This can also lead to better terms and control over future needs as they change.
3. **Access to Additional Capital:** Refinancing can free up collateral to provide extra funds for business growth or it can be used for operational needs.

This acts as a huge benefit to the many businesses that are facing problems with debt. In fact 74% of employer firms have outstanding debt. Newpoint clients are businesses with revenue between $5MM and $50MM and have a senior lender (with $1MM to $25MM in debt) whose debt has become burdensome for some reason.

When to Consider Refinancing

It's crucial to recognize when your business is facing financial burdens and might benefit from refinancing. You're not alone here, according to the SBCS Employers Report, 30% of businesses apply for a loan to refinance or pay down debt. (1) Distress or concern over cash flow is a key driver in those refinancings. However, many of those refinancings do not materialize or land businesses in more trouble due to pressure to act, not knowing the breadth of options available, and taking on expedient, but poorly fitting debt. Here are some common scenarios where refinancing can be advantageous:

- **High-Interest Debt:** If your current loans have high interest rates, refinancing can help you secure lower rates.
- **Cash Flow Issues:** When cash flow is tight, refinancing can extend repayment terms, or alter the timing, reducing monthly payments or untimely payments around distress or seasonality.
- **Upcoming Large Expenses:** If you need capital for expansion, new projects, or large purchases or to improve equipment that has aged out, refinancing can make the necessary funds easier to achieve.
- **Debt Management:** Changing the type of loan you have to better fit your circumstances can improve financial stability and buy time to make changes to a business.

The Refinancing Process with Newpoint

At Newpoint, we manage the entire business debt refinancing process for our clients. Our experienced Capital Solutions Group ensures a timely, smooth, and efficient experience and has the track record to prove it. Here's what we do.

Step 1: Initial Consultation and Assessment

Our process begins with a thorough assessment of your financial situation. We analyze your current debt structure, cash flow, and overall financial health. During this initial consultation, we aim to understand your business goals and challenges to propose the most suitable capital solution.

Step 2: Exploring Business Debt Refinancing Options

Newpoint is constantly in the marketplace of capital solutions for smaller cash-flow-challenged businesses. As a result, we are able to take your unique circumstances to a broad market. Before we even sign you up as a client, we have likely "discussed" on a no-name basis your opportunity with a number of solution sets. Based on the assessment and our direct market feedback, our Capital Solutions Group will present a range of potential refinancing options tailored to your needs. However, timing is important to the process for any company experiencing cash flow-related issues. Our solutions take between three weeks and three months to implement which is very quick. If you are ever provided with a faster solution, recognize the costs are often devastating to cash flow-constrained companies

and are not recommended. These may include:

- Business Lines of Credit
- Inventory Financing
- Purchase Order Financing
- Equipment Leasing
- Accounts Receivables Factoring
- Asset-based Loans for working capital.
- Cash Flow Loans
- Unitranche Debt Financing
- Subordinated / Mezzanine Financing
- Equity Financing
- Real Estate / M&E Term Loans
- Sale / Leasebacks
- Bridge Loans
- DIP Loans
- USDA Loans
- M&A Transactions
- Litigation Financing
- Intellectual Property Financing
- Chapter 11 Exit Financing
- Receiver Certificates
- SBA Loans 7(A) and 504

Step 3: Preparing the Deal “Teaser”

Once signed up as a client, to attract potential lenders or investors, we prepare a deal “teaser”. This is a concise, but timely document highlighting your business’s strengths, financial health, and refinancing needs. This teaser is designed to generate interest and initiate discussions with potential financial sources.

Step 4: Engaging with Lenders and Investors

Leveraging our extensive database of unique lenders and equity sources (built over decades of experience), we reach out to suitable capital solutions. Next, our team communicates with these groups. We present your case and negotiate the best terms and conditions for your capital needs.

Step 5: Setting Expectations

We manage all aspects of structuring the deal, from communicating and renegotiating current senior and subordinated loans to restructuring shareholder equity and obligations of unsecured creditors. Our goal is to set expectations for all stakeholders to create a balanced capital structure that supports your business’s long-term success. Further, our goal is to minimize the distractions of this rather labor-intensive step to allow you to focus on your business and perhaps other tasks dedicated to improving your cash flow. [NOTE: I think we could hyperlink this phrase about “other tasks” to CETS and Cash Flow Coach]

Step 6: Finalizing the Transaction

Once we have secured the best refinancing options, we expedite the final steps of the transaction. This process includes selecting a winning term sheet(s), finalizing agreements, and ensuring all parties are aligned. Throughout this phase, we keep you informed and involved, ensuring transparency and clarity. Many times the best solution will come in the form of multiple transactions based on different assets that make up your business as well as the cash flow. Also, there are many do's and don'ts associated with refinancing cash flow-challenged situations. Timing depends on knowing these pitfalls in advance to avoid them. Where these issues hide can be unique to each deal, but they exist and can kill or stall a deal making the situation far worse than it is. Newpoint's experience with these specific types of transactions helps minimize the issues.

Key Considerations in Refinancing Business Debt

Refinancing is a powerful tool, but it requires careful consideration and planning. Here are some key factors to keep in mind:

- **Cost of Refinancing:** Be aware of potential fees or costs associated with refinancing, such as prepayment penalties or application fees – they can be worse than what you already have and cannot afford. At Newpoint we know that you need clear information on your fee structure. Our analysis will clearly show you the cash flow implications of your capital solutions.
- **Impact on Liquidity:** A lower-cost loan or a longer-term loan does not always line up with the liquidity needs of your business. Often very expedient loans from the internet actually look like new money, but actually very quickly cut off the liquidity in your business, impacting your ability to make payroll.
- **Loan Terms:** Carefully review the terms and conditions of the new loan, including interest rates, repayment schedules, liquidity, flexibility around business emergencies, and any covenants. Your financial advisors can help you to understand your loan terms and how this impacts your business.

Why Choose Newpoint Advisors Corporation

Newpoint offers a unique value proposition for small to medium-sized businesses with cash flow challenges:

- **Fixed Rate and Fixed Timeline:** Our services are provided at a fixed rate and on a fixed timeline. This ensures predictability and transparency for your business that you don't get with the "big guys". In most instances, Newpoint puts 90% of its capital solution at risk, meaning if we cannot be successful, you don't pay.
- **Market Knowledge:** Newpoint's experienced team has decades of knowledge about what works and doesn't for you and who can provide the best solution relative to cost and cash flow. We have built tools that back up that knowledge and provide clarity to you about your choices.
- **Comprehensive Approach:** We manage the entire refinancing process, freeing up your management team to focus on running the business.
- **Expertise and Experience:** With a proven track record of debt recovery and job preservation, our team brings the expertise needed to navigate complex financial situations.

Conclusion

Refinancing business debt can be a game-changer for small to medium-sized businesses facing cash flow challenges. At Newpoint, we are committed to helping you explore all available options and secure the best financial solutions. Our proven process and dedicated team ensure that you achieve a successful outcome, setting your business on a path to long-term stability and growth.

If your business is struggling with debt, don’t wait until it’s too late. Contact Newpoint today to learn how we can assist you in refinancing your business debt and securing a brighter cash flow future.

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1. Federal Reserve: 2022 Report on Employer Firms / 2021 Small Business Credit Survey
2. United States Small Business Administration 7(a) & 504 Summary Report

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Date Created
2024/08/20