



The Importance of Keeping Your House in Order

Michael K. Menerey, Partner, CFO Edge, LLC

When seeking to borrow money, raise equity capital, make an acquisition or enter into a joint venture, owners of small and mid-sized businesses often face unexpected hurdles due to the fact that they haven't kept their business and financial house in order.

I have encountered a number of situations like this in recent months. In each case, this lack of preparation led to a business opportunity being delayed or missed out on entirely — including significant growth opportunities. Making the effort now to get and keep your business and financial house in order can pay big dividends later when unexpected opportunities arise and you are in a good position to take advantage of them.

Is Your House In Order?

The simple fact is that lenders, investors, potential acquirers and even regulatory agencies will all want to see a “house in order” when contemplating any kind of transaction with your business. This includes not just your business finances and systems — which should be clean, up-to-date and thoroughly documented — but also your personal finances, including your personal credit history and credit score.

Lenders will want to see that you have maintained your personal credit in a responsible manner. Most business loans made to small and medium-sized businesses require personal financial guarantees from the controlling shareholders/management. If these guarantees are questionable because of poor personal credit histories or scores, it's very difficult to obtain business financing. If an Internet search of key executives turns up any legal issues or similar problems, this can also be problematic.

Here are six key questions to ask that can help you get your business house in order:

- 1. How sound are your internal controls and processes?** Potential transaction partners will want to see timely, accrual-based financial statements that are GAAP-compliant and preferably reviewed or audited by a CPA firm. They will also want to see internal management reports that are informative and contribute to improving the business. In addition, they will want to know that you have had these items in place for awhile and didn't just recently implemented them.
- 2. Are your forecasting abilities and cash flow management practices solid?** The more detailed your projection model — with clearly identified assumptions and cash flow forecasts included — the better. This is especially true if you can demonstrate that you have met or exceeded prior forecasts in the past.
- 3. How do you handle debt?** If you have existing debt or have recently retired debt, you should be prepared to demonstrate to potential transaction partners that you have been in compliance with all debt covenants and that all payments have been made on a timely basis.
- 4. Do you have a strong management team?** When it comes to running a business, potential transaction partners usually don't like to see a “lone wolf.” Your chances of a successful transaction are exponentially

better if you can demonstrate a strong management team with whom you share business management responsibilities — rather than a structure in which all of the core knowledge and customer relationships reside with the owner.

5. Are your record retention and storage processes in order? If your records are electronically maintained to facilitate populating a data room, this is usually an advantage compared to strictly maintaining paper files and records that must be scanned. Keeping these files current with copies of all signed contracts, extensions, renewals or amendments is vital.

The same goes for an audit, whether it's a financial audit conducted by a CPA firm or an income tax or regulatory audit. You need to be able to easily provide all requested documentation. This is especially important for any company doing business in the healthcare world or with government grants and programs. The level of reporting and periodic audits encountered in these industries can be overwhelming if records aren't kept up-to-date and current.

6. How strong is your Information Technology department? This is important regardless of whether your IT is done in-house or outsourced. In addition to managing all of the issues discussed above, your IT department also must ensure the security of your company's and your customers' (and if in healthcare, your patients') information. IT procedures and routines, including record retention policies and emergency disaster recovery processes, must be thoroughly documented.

An outsourced CFO services provider can help you get your house in order by performing an “annual physical” on your business to help determine where you are with your housekeeping. This exercise will identify the areas of your business that are most in need of correction and help you make improvements, or introduce you to other professionals with a specialty in a specific area who can help. This will enable you to present your company in the best possible light to potential transaction partners such as lenders, investors and potential acquirers.

Concluding Thoughts

Business owners often face unexpected hurdles when seeking to borrow money, raise equity capital or make an acquisition due to the fact that they haven't kept their business and financial house in order. Potential transaction partners will want to see a “house in order” when contemplating any kind of transaction with your business. This includes not just your business finances and systems, but also your personal finances. An outsourced CFO services provider can help you get your house in order by performing an “annual physical” on your business to help determine if you need to improve your housekeeping.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.

This publication has been prepared for general information on matters of interest only, and does not constitute professional advice on facts and circumstances specific to any person or entity. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication. The information contained in this material was not intended or written to be used, and cannot be used, for purposes of avoiding penalties or sanctions imposed by any government or other regulatory body. CFO Edge, LLC, its members, employees and agents shall not be responsible for any loss sustained by any person or entity who relies on this publication.