Managing Cash Flow in Emerging Growth Companies

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Objectives

- Background of the importance of cash flow management for emerging growth companies
- Provide some basic techniques that may be used to improve cash flows

Overview

- Common misconceptions

  - Venture financing & private equity
  - Belief that net income and profitability will guarantee cash flows

Overview

- Cash flow forecasting
  - One of the most important components of the business plan
  - Required component of any business plan
- When should a company begin to actively manage cash flow?

Overview

- Cash flow management can impact the company’s value
  - Motivation of business managers
  - A company’s ability to generate solid and predictable cash flows increases the value
  - Potential acquirers look for strong cash flows

Methods - Customers

- Credit Policies
  - Develop routine practices
  - Quality of customers (credit checks, credit limits)
  - Offer early pay discounts & accept credit card payments
  - Assess finance charges
  - Follow up with overdue receivables

It takes constant vigilance and diligence!!

Methods - Vendors

- Relationships with key suppliers
  - Be “significant” to your vendor
  - Favorable payment terms
  - Supplier agreements (price, terms, lead times, minimum reorders)
  - Communicate

Methods - Financing

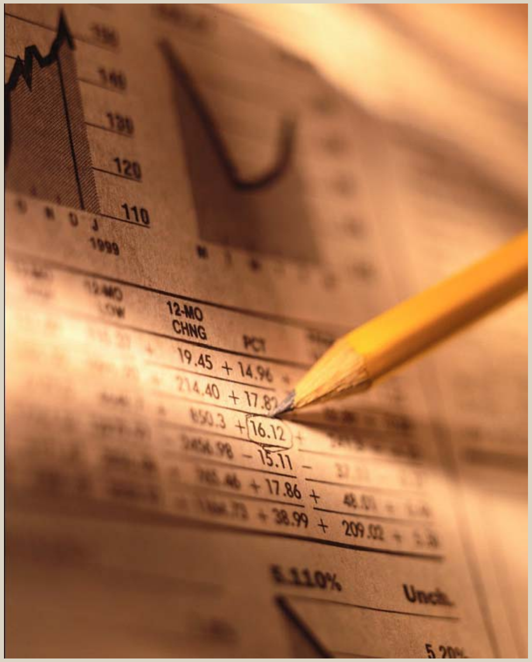
- Sources
  - Bank relationship
  - Leases (Capital & Operating)
  - Personal loan

- Finance long-term assets with long-term debt

- Disadvantages
  - Bank covenants, personal guarantees, other restrictions, etc.

Summary

- Managing the Balance Sheet
  - Receivables
  - Inventories
  - Property and equipment
  - Leases
  - Debt (short and long term)



Conclusion – Keys to Success

- Communicate
- Be realistic in forecasting
- Start early