



# Strategic preparation for debt raising: Critical for mid-market businesses in Australia

In the dynamic and competitive landscape of the Australian mid-market business sector, the ability to access capital through debt is often a strategic imperative for growth, expansion, and increased market share. As the saying goes, proper preparation prevents poor performance. Particularly in the mid-market, we consider preparation with strategic foresight to be the most critical step on the road to a successful debt raise.

This article should be used as a checklist for businesses before approaching the market to ensure they can confidently navigate the debt financing process. Careful consideration of these key factors will contribute to a well-informed and strategic approach to securing the funds needed at a competitive rate.

| Key question                     | Consideration                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| What is the purpose of the debt? | Clearly define the purpose of raising debt. Is it for expansion, working capital, acquisitions, or another need? Understanding the purpose helps determine the type of debt and its terms.                                                                                                                                                                                                                      |
| How much debt is needed?         | Conduct a detailed analysis of the projected costs associated with the purpose of the debt, ensuring that the amount sought is realistic and aligned with the business's strategic goals.                                                                                                                                                                                                                       |
| What is the repayment capacity?  | Assess the business's ability to service the debt, both against its existing cashflows and after using the debt. Calculate debt service coverage ratios and evaluate how well the business can meet its interest and principal repayment obligations. Lenders are keen on businesses with a strong repayment capacity although options to capitalise interest can be explored through bridging finance options. |

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| Key question                                   | Consideration                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What is the current financial position?</b> | Conduct a comprehensive review of the business's financial statements, cash flow, and balance sheet. Lenders will scrutinise these documents, so presenting a clear and accurate picture of the company's financial health is crucial.                                                                                                                                      |
| <b>What is the optimal debt structure?</b>     | Determine the most suitable debt structure for the business. Consider factors such as interest rates, repayment terms, and whether fixed or variable-rate loans are preferable. Tailor the debt structure to the business's cash flow patterns.                                                                                                                             |
| <b>What are the associated risks?</b>          | Identify and assess potential risks associated with the debt raise and the underlying business. This includes market risks, operational risks, and any other factors that may impact the business's ability to meet its debt obligations. Develop strategies to mitigate these risks and be ready to demonstrate these are in place prior to engaging with the debt market. |
| <b>How will the debt be utilised?</b>          | Clearly articulate how the borrowed funds will be used. Lenders are interested in understanding the purpose of the capital and how it will contribute to the business's growth and success. Provide a detailed plan for fund utilisation.                                                                                                                                   |
| <b>What is the regulatory environment?</b>     | Understand the regulatory requirements and compliance standards associated with debt raising. Ensure that the business fully complies with all relevant laws and regulations, as this is crucial for gaining the trust of lenders.                                                                                                                                          |
| <b>What is the exit strategy?</b>              | Outline the business's exit strategy for repaying the debt. Whether it's through future cash flows, asset sales, or refinancing from private credit to commercial bank debt once the business has stabilised, having a well-defined exit strategy demonstrates the business's commitment to fulfilling its financial obligations.                                           |
| <b>How strong is the business case?</b>        | Revisit and review your business case to ensure it contains a detailed business plan, financial projections supported by reasonable assumptions that align with your strategic objectives, and a clear rationale for why the debt raise is necessary. In our experience, a strong business case enhances the likelihood of attracting lenders.                              |



| Item                                    | Description                                                                                                                                                                                            |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Business plan                        | <p>Comprehensive overview of business goals and strategies.</p> <p>Detailed financial projections.</p> <p>Clear articulation of how the debt will support the business objectives.</p>                 |
| 2. Financial statements                 | <p>Up-to-date income statements, balance sheets, and cash flow statements.</p> <p>Historical financial performance data.</p> <p>Audited financial statements if available.</p>                         |
| 3. Collateral                           | <p>Identification of assets available as collateral.</p> <p>Professional valuation of collateral assets.</p> <p>Clear understanding of the collateral's market value.</p>                              |
| 4. Legal documentation                  | <p>Updated and accurate incorporation documents.</p> <p>Contracts, agreements, and legal obligations clearly outlined.</p> <p>Compliance with regulatory requirements.</p>                             |
| 5. Use of funds                         | <p>Detailed breakdown of how the funds will be utilised.</p> <p>Clear alignment between fund use and business objectives.</p> <p>Transparent communication of the expected impact on the business.</p> |
| 6. Management team information          | <p>Detailed profiles of key management team members.</p> <p>Demonstrated experience and expertise.</p> <p>Outline of roles and responsibilities within the team.</p>                                   |
| 7. Industry and market analysis support | <p>Thorough analysis of industry trends and market conditions.</p> <p>Competitive landscape assessment.</p> <p>Identification of challenges and opportunities in the market.</p>                       |
| 8. Risk assessment                      | <p>Identification of potential risks and challenges.</p> <p>Strategies and plans for mitigating identified risks.</p> <p>Transparent communication of risk management approaches.</p>                  |
| 9. Exit strategy                        | <p>Well-defined exit strategy or repayment plan.</p> <p>Clear communication on how the debt will be repaid.</p> <p>Contingency plans for unforeseen circumstances.</p>                                 |
| 10. Financial ratios                    | <p>Calculating and presenting key financial ratios (e.g. debt-to-equity ratio).</p> <p>Analysis of financial metrics to demonstrate financial health.</p>                                              |
| 11. Relationships with lenders          | <p>Research and identification of potential lenders.</p> <p>Establishment of relationships with lenders or financial institutions.</p> <p>Understanding lender requirements and preferences.</p>       |
| 12. Documentation organisation          | <p>Well-organised and easily accessible documentation.</p> <p>Digital and hard copies of all relevant documents.</p> <p>Checklist ensuring all necessary documents are included.</p>                   |

## Raising debt: How to optimise your funding?

While the debt markets are undoubtedly challenging, there remains an opportunity to deliver borrower funding objectives if the right approach is taken. Successful debt raises share key characteristics - some learnings taken from recent processes include:

- ▶ **Preparation is key** – As a prospective borrower, you should prepare your business plan before approaching the market to ensure it stands up to lender scrutiny. You should also create a lender briefing pack that sells the credit story. As lender appetite becomes more polarised, it has never been more important to maximise traction with multiple lenders to de-risk your process and create competitive tension.
- ▶ **Know your lenders** – Lender behaviour is typically predicated on past experience, policy, and, for direct lenders, fund status - i.e. dry powder, the timing in their investment cycle, and portfolio exposure. Knowing these variables will enable you to approach suitable lenders at the right time.
- ▶ **Continue to ask the question** – If lenders buy into your credit story, they will be open to innovative solutions and should offer you some flexibility – so don't be afraid to articulate your funding objectives and push lenders to deliver them.
- ▶ **Get the right advice** – Expert advice on your side can be worth its weight in gold when dealing with something as important and delicate as fundraising. An impartial adviser can identify your business's strengths and weaknesses and help you identify the funders that will be the best fit for your business.

If you are looking to raise debt for your business, get in touch with our expert Debt Advisory team. We have specialists from across a full range of industries to ensure that you get bespoke support to achieve your goals.



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