Credit Facility Case Study

Overview of Client Business Model

The Client is a privately-held technology company headquartered in San Francisco, CA. The company was founded in 1998 and provides a suite of technology-based solutions and consulting services including business process management, software development, and server/desktop virtualization. The Client primarily serves the legal, financial, and biopharmaceutical industries. One of the company's core strengths is its ability to continue developing and executing new solutions for existing clients. The Client's level of ongoing business with existing clients speaks volumes to its exceptionally high quality standards and committed sense of customer care.

The Problem

While continuing to operate as a self-funding and profitable company, The Client's aggregate revenues had leveled off at approximately $2MM over the prior three years of operation. The Founder and Chief Executive Officer realized that the company's ability to grow was hindered by constraints on capital even though the Client was continually uncovering plenty of opportunities for incremental revenue growth with both existing and prospective customers.

In fact, at one point more recently, the Client was turning down some new business opportunities due to a lack of fresh growth capital to fund the additional resource requirements associated with these incremental opportunities.

The Solution

After being a client of PCG for outsourced accounting services since early-2013 and subsequently learning about PCG's CFO and Advisory services, the company engaged Dave Aguero of PCG to source a comprehensive credit facility that would fuel the Client's growth opportunities and objectives. Once engaged, Dave tapped directly into his long-term relationships in the debt capital markets to quickly identify interested potential lenders to the Client given the company's business model, industry operating profile, and growth objectives.

Dave qualified three suitable lenders over a period of approximately two weeks, directed the organization and exchange of the company's relevant financial and operating information, and subsequently guided the lender candidates through the due-diligence information along with the coordination of face-to-face meetings with the Chief Executive Officer and senior management of the Client. In addition to Dave's coordination of the overall marketing process, Dave prepared two years of financial projections that validated the company's growth plans and ability to adequately service proposed incremental debt.

As a result of this capital markets process initiated and directed by PCG, two of the three lender candidates pre-screened the proposed financing transaction and were able to provide proposals for comprehensive credit facilities that would meet the Client's capital requirements to fund growth objectives.

Subsequently, the Chief Executive Officer collaborated with Dave and his advisory guidance to select Bank of San Francisco as the lender with the most competitive credit facility solution between the two candidates. Bank of San Francisco provided a comprehensive credit facility in the amount $855K that included a $150K revolving credit line secured by the company's accounts receivable, a $110K term note secured by a guarantee from the U.S. Small Business Administration (SBA) to refinance existing term loans, and a $595K capital expenditure line to fund purchases of equipment and the hiring of additional consultants to capture new business opportunities.

Value Added

- PCG was successful in delivering a very competitive credit facility to the Client, in terms of facility pricing and term length, given Dave's deep relationships in the debt capital markets developed over 30 + years as both a commercial banker and a CFO for several privately-held companies.
- Interest rate pricing of Prime + 2% for all three components of credit facility, and a 10-year amortization term for both SBA guaranteed term loans including an 18-month drawdown period for the capital expenditure line component, with no prepayment penalties on any portion of separate loans under facility.
- Capital raised under the facility should be more than adequate to meet the company's growth goals over the next 3+ years with the ability to expand the facility if profitability and operating objectives are met. Bank of San Francisco's appetite for credit exposure to the company is greater than the existing amount of the credit facility so the partnership has room to grow beyond current growth plans and is poised for a long-term relationship.
- Except for hourly CFO consulting services provided in the preparation of financial projections, compensation to PCG for the sourcing and closing of the financing transaction was based on a predetermined fee for the amount of capital raised and only payable upon a successful closing of the transaction.
- A significant portion of the time-burden associated with the transaction was removed from the existing workload of senior management.
- By developing financial projections as part of the capital raising process, PCG was able to provide the Client with a road map to monitor and measure progress against planned growth objectives, where no projections had been developed before as part of any planning process undertaken by the company.
- This successful financing transaction supports the idea that you don't have to pay for a full-time CFO to get sophisticated CFO and Advisory services.