

# Other People's Money: Financing Your Venture



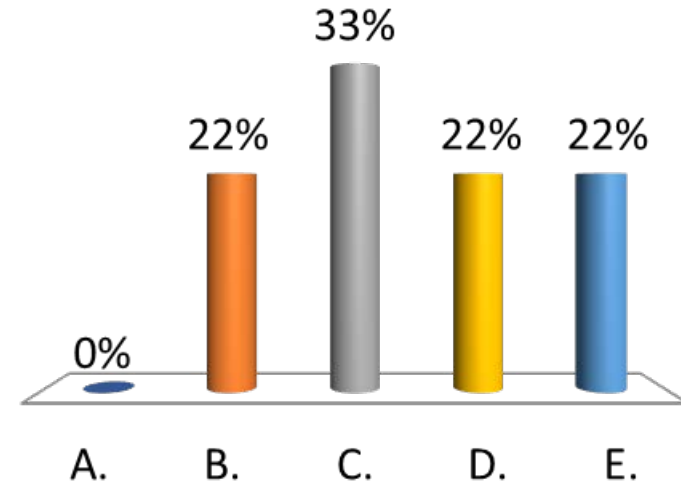
**Steve Katz**

**Founder and Managing Member**

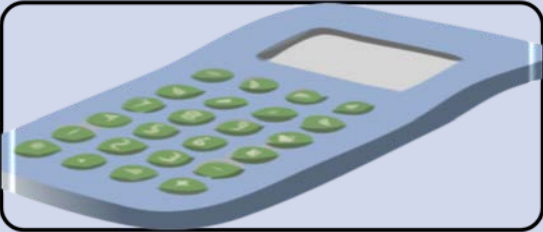
**PM Pediatrics**

# What is your interest in this topic?

- A. I currently own a PUC company
- B. I'm in the planning stages of opening a PUC
- C. I'm not actively planning anything but I've been thinking about it
- D. I was just curious about how this works
- E. I heard there would be ice cream



# Agenda



How much  
do you  
need?



Sources of  
capital



What tools  
do you  
need?

# How Much Do You Need?



**UNDER CONSTRUCTION**

Before  
Opening



After  
Opening

# Before Opening

## The Big Ones

- Build out
- Furniture, fixtures, equipment, and opening supplies



## Don't Forget

- Architect and filing fees
- Software and training
- Attorneys
- Deposits (e.g., security, utilities)



# After Opening

## Ramp up losses

- Projected Revenues minus Expenses

## Major expenses

- Personnel – salary, payroll taxes, benefits, malpractice
- Rent and related

## Other expenses

- Marketing
- Supplies
- Billing and Collections
- Fees – credit card, payroll service
- Accounts receivable

# Make Sure To Have Contingency Funds

## Expect the unexpected

Permit or construction delays causing you to pay rent before you open

Extra construction costs, either by choice or unavoidable

Capital or operating costs you didn't think of or budget enough for

Slower ramp up (and larger losses) than expected

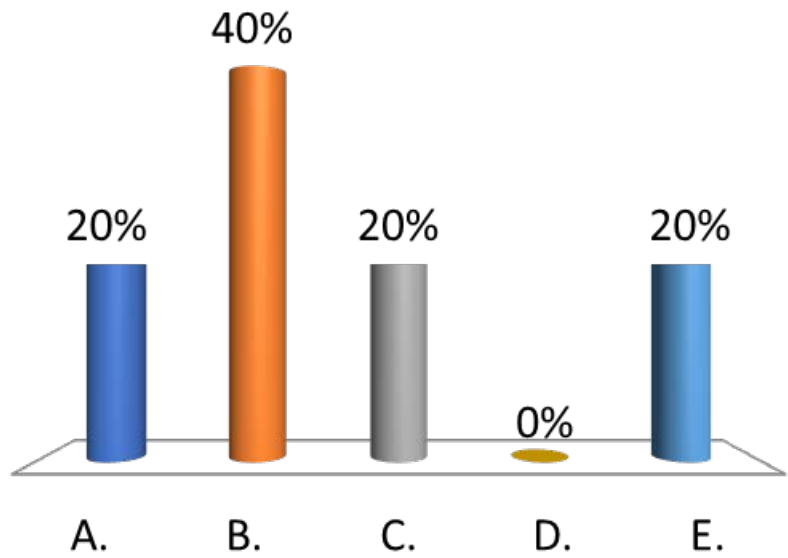
Takes longer to get paid by insurance companies

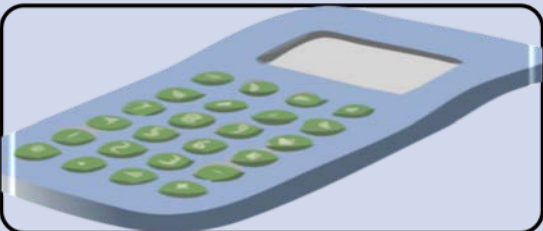


Whatever your calculated needs are, add 50%

If your pre-opening expenses are \$500K, your expected expenses before reaching breakeven are \$800K, and your expected revenue before reaching breakeven is \$300K, how much capital should you try to get?

- A. \$1.0 million
- B. \$1.3 million
- ✓ C. \$1.5 million
- D. \$1.6 million
- E. One hundred billion dollars!





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# Some Definitions

## Debt

- Straight debt
  - Coupon only
  - Amortizing
  - Line of credit
- Convertible debt
- Debt with an equity “kicker”

## Equity

- Straight equity
- Convertible preferred
- Participating preferred



# Sources of Capital- You

## Pro

- No obligations
- Complete control

## Con

- Bad for your bank account
- All eggs in one basket



# Sources of Capital- Friends and Family

## Pro

- “Friendly” money
- Little due diligence

## Con

- Usually not large amounts
- Often requires handholding
- Determining interest or giving up piece of company



*“As you may have gathered, we are family owned and operated”*

# Sources of Capital- Banks

## Pro

- Plenty of \$ available for the right opportunity
- Often special programs for physicians, plus SBA
- Can be easier to get at start-up (but may be harder later on)
- Lower interest rates than other debt, and flexible structures

## Con

- Firm obligation that can bankrupt the company
- Often comes with covenants that can restrict company's freedom
- Difficult to obtain for rapid growth
- Due diligence required
- Personal guarantees almost always required

# Sources of Capital- Other Finance Companies

## Pro

- Plenty of \$ available for the right opportunity
- Less strict criteria for getting \$ than banks
- Variety of types of loans – asset based, cash flow based
- Usually fewer and less onerous covenants than bank

## Con

- Firm obligation that can bankrupt the company
- Much higher interest rates than bank
- Due diligence required
- Personal guarantees typically required

# Sources of Capital- Landlord Contribution

## Pro

- Already negotiating
- Pay back through rent, don't necessarily feel it
- Can't bankrupt company

## Con

- Smaller amounts, and for specific purpose
- Location-by-location, and dependent on market conditions

# Sources of Capital- Equipment Leasing

## Pro

- Presence of collateral makes it easier to obtain
- Can cover other parts of build out besides equipment

## Con

- Smaller amounts, and for specific purpose
- Higher interest than bank debt

# Sources of Capital- Angel Investors

## Pro

- Plenty of \$ available for the right opportunity
- Smaller minimum investment than other professional investors
- Value added besides \$
- No interest payments, and can't bankrupt company

## Con

- Difficult to obtain
- Require very high rates of return (expensive)
- Need an exit strategy
- High level of due diligence

# Sources of Capital- VC/Private Equity

## Pro

- Plenty of \$ available for the right opportunity
- Can carry company through multiple rounds of financing
- High value added besides \$
- No interest payments, and can't bankrupt company

## Con

- Difficult to obtain, and very difficult at start up (outside of tech)
- Require very high rates of return (expensive)
- High minimum investment
- Need an exit strategy
- Highest level of due diligence

# Sources of Capital- Large Company Partner

## Pro

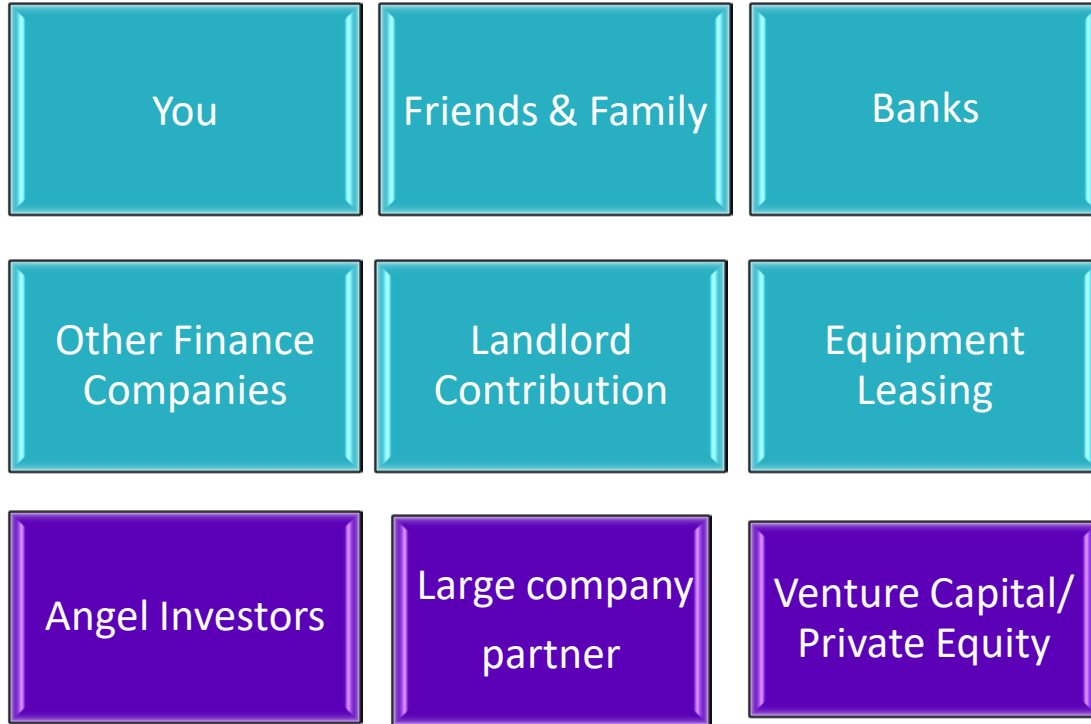
- Long term source of \$
- Potential access to other resources and expertise
- If co-branded, name recognition
- Can't bankrupt company

## Con

- Can be expensive
- Need to find someone who shares your vision
- Who is really running the business, determining the strategy

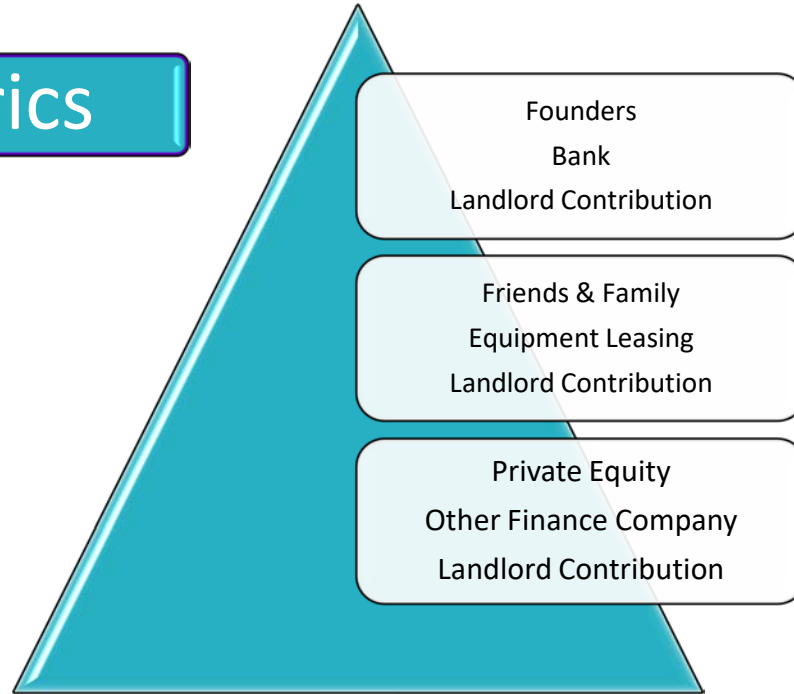


# Which Sources and When



# PM Pediatrics' Use of Capital

PM Pediatrics



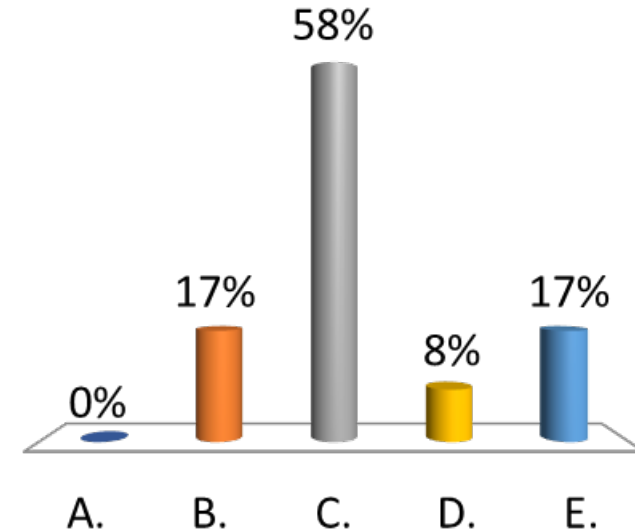
Site 1

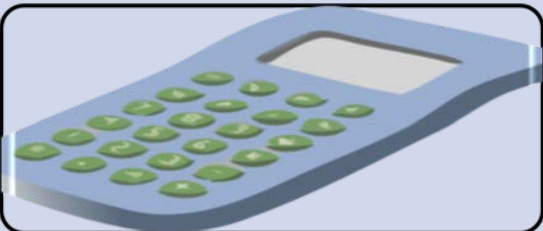
Sites 2-5

Sites 6-27

# What is the best set of funding sources for a newer company?

- A. Founder, venture capital, and landlord contributions
- B. Founder, equipment leasing, and private equity
- C. Bank, angel investors, and large company partner
- ✓ D. Friends and family, equipment leasing, and landlord contributions
- E. Vegas Baby!





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# Obtaining Capital Requires Work

## Information Needs

- Projections
- Business Plan/Executive Summary
  - Strategy
  - Operations
  - Management Team
- Investor Presentation

## Personal Characteristics

- Confidence
- Command of the information
- Persistence

A grid of financial spreadsheets, likely representing a business plan or financial model. The spreadsheets are arranged in a 2x4 grid. Each spreadsheet contains various financial data, including income statements, balance sheets, and cash flow statements. The data is presented in a structured format with columns for different financial metrics and rows for different time periods or categories. The spreadsheets are color-coded with blue, green, and red headers and footers.

# Minimize Capital Needs By Using Less Cash



# Questions?

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