



Investing in Your Company's Growth

A long-term financing partner can help grow your business

Today's marketplace is more competitive than ever. Commodity cost inflation, higher energy and packaging prices, higher labour costs, intense competition among branded and private label players, consolidation of the food retailing and manufacturing landscape, and unfavourable exchange rates for exporters are only a handful of factors now affecting Canadian food and beverage companies.

Current market conditions have put pressure on the profits of some businesses, which could make it tempting to hold off on investments to fund growth and replace aging assets. Weaker operating results disrupt the basic productivity loop for food companies in which sales (and gross profit dollar) gains can be reinvested into product innovation, brand building, system improvements and production capacity to drive future top-line growth. However, delaying investments in response to difficult conditions could have even more serious consequences down the road.

In other words, you have to spend money to make money. In an intensely competitive environment, investing in new equipment and facilities is critical to long-term success. New food production lines often offer significantly lower unit costs than older equipment due to increased automation, higher line speeds, greater energy efficiency and lower maintenance costs. Given the consolidation that has occurred in both the retail and manufacturing sectors, food companies' customers are taking a hard look at their own supply chain and are placing even greater demands on their suppliers to lower their procurement costs. For these reasons, operating a highly labour-intensive company or running inefficient equipment will probably not assist with company growth.

Simultaneously, while your customers want their suppliers to have a high-quality, low-cost production position, they also want to simplify their supply chains by reducing the number of supply partners. In essence, the large food retailers and food manufacturers want suppliers that can grow with them. This could require investing in new production facilities in order to stay ahead in the game.

The decision to finance assets over the long-term will involve various considerations such as optimal leverage, the serviceability of new debt and tax and accounting implications. A long-term financing partner can help you evaluate these factors and customize the optimal solution to fit your

needs. Following are a few key issues to consider when speaking with potential financing partners:

- **Long-term debt requires a specialist** – Long-term financiers understand the assets you purchase, are comfortable with them and can offer innovative products and services suited to your company's needs. Finding a partner to complement your operating lender is also a good way to mitigate debt concentration risk.
- **Turnkey financings** – If you're considering building a new facility in order to grow with your customers, a good term debt lending partner should be able to offer a "turnkey" financing solution and serve as an integrated "one stop shop" for both your real estate and equipment financing needs. In addition to providing the convenience of working with a single source, you can often obtain longer lease terms on your equipment (meaning lower cash payments in the early stages of facility ramp-up) when it is cross-collateralized to the real estate.
- **Loan-to-value ratios** – Most short-term focused lenders only finance up to 85 per cent on equipment and up to 70 per cent on real estate, while some long-term debt specialists will finance up to 100 per cent of equipment costs and 90 per cent on real estate. A higher loan-to-value ratio means you spend less of your own money on the project and save your operating cash for day-to-day expenses.
- **Industry specialization** – The food industry has unique operating characteristics, cyclicity and seasonality traits, as well as specialized equipment needs. In addition, there are many different types of financing available that can be structured in a variety of ways. Working with a lender who has a long-term view and deep industry knowledge, and who has partnered with food companies throughout the cycle, is critical to developing financing solutions customized to meet your needs.

Current market conditions have shone the light on companies' inefficiencies. Along with a clear strategy, aligning with the right long-term debt specialist can allow for expansion and provide a much needed competitive edge.

Mathew Davis is an account manager with GE Capital Solutions. Contact him at mathew.davis@ge.com