

# Hiring an Intermediary is a Capital Idea!

Every business needs help at some time, and the need for financing usually trumps all other situations. Although conventional wisdom has business owners or their CFOs going out to “fight the good fight” on their own, often a financial intermediary is a key player in the process.

Financial intermediaries operate with varied titles and may hold different licenses as financial consultants, investment bankers or even mortgage brokers. Whatever the title, the best known role the financial intermediary plays is identifying the most appropriate sources of financing – both the institution and the right contact person.

But that’s just the tip of the iceberg. Financial intermediaries also assist with financial analysis, suggest the company’s most appropriate capital structure and financing, structure partner buyouts, develop succession plans and produce budget forecasts.

These are all critical roles. Here’s an example: A business owner was selling his \$30 million company to his son. Senior debt is cheapest, so finding the right bank was important. However, there was a limited amount of equity, so the owner needed another layer of financing – mezzanine financing. The Catch 22 aspect was that if the owner took on too much debt, the bank would still need to be paid back even if the company wasn’t profitable. Equity financing, although more patient, would expect a significant return. This owner didn’t know who could provide which type of financing, or if it would be at a fair price, and consulted a financial intermediary. The same holds true for business owners who plan to buy a competitor. They seldom know what their expectations should be, or whether debt, equity or a combination best suits their needs.

## When it’s time to contact the intermediary

There are three common events that trigger a call to a financial intermediary:

- A change in the business: Usually a change for the better, this may include a planned acquisition or purchase of a building. An example is that of an individual who wanted to acquire “his” division of his employer’s company – a division he had run for years. Even though this was not a large transaction, it was a complex one. Typically, smaller banks may be most appropriate for smaller deals, but the complexity of this situation made the use of a larger bank a better decision – with the financial intermediary shepherding the deal and directing the client to the proper lender.
- A change in the current financial relationship: When there is turnover in management of the current funding source, the business owner may lose confidence in the source’s knowledge of (or interest in) the business. This lack of confidence may be heightened by poor client service, increased requests for documentation or delays in response. An example of a change in the business that created a change in the financial relationship is that of a \$40 million business whose financial situation changed



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from a cash flow-supported basis to an asset-based one. Although the CEO and CFO knew all the right bankers, they no longer fit banking criteria and needed a different type of lender. Their financial intermediary was able to identify the right contacts and explain the market realities of asset-based lending.

- A change in the economy: Using the energy or real estate sectors as examples, business owners can be buffeted by major swings in the economy or drastic changes in market forces, any of which can affect their financial well-being.

### Finding the right intermediary

As is so often the case, working an existing (or previous) business network and asking for referrals from trusted business acquaintances may be the best way to identify a financial intermediary. Following that with due diligence about the intermediary's previous engagements and successes, supplemented by a more "gut level" feeling about the ability to develop a relationship of trust, should result in a good selection.

Although some financial intermediaries prefer to be paid on a consulting basis, it is more common to set a retainer and then pay on the basis of successful accomplishment of the deal. It is not uncommon for the intermediary to expect an exclusive listing, similar to that of a real estate agent.

### It's still a relationship business

The best client/intermediary relationships are based on a high level of trust that reflects the credibility of both parties. Clients should expect their intermediary to demonstrate integrity, creativity, proven problem solving skills and a passion for their clients and what they are doing for them.

All told, the financial intermediary wears a lot of hats – some of them surprising. The best of the breed are counselors, business consultants and advocates for the client company. So set another place at the Thanksgiving table, because the right intermediary will almost feel like a member of the family!

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