

# FINANCING GROWTH FOR FEDERAL GOVERNMENT CONTRACTORS

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Presented By

**PM** | **PILIERO**  
**MAZZA**



LIVE OAK BANK

# ABOUT PILIEROMAZZA ADVISORY SERVICES



*Small business contribute to our nation's innovative and economic success, we dedicate our practice to enable firms pursue growth opportunities in the public sector marketplace.*

## SERVICES

### Acquisition Strategy

- Identify target agencies and buying activities
- Leverage program set-asides; WOSB, SDVOSB, 8(a), HUBZone
- Prepare GSA Schedule

### Financing Strategy

- Identify and arrange financing alternatives
- Structure business for acquisition, such as sales and mergers
- Support rapid organic and inorganic growth

### Small Business Socio-Economic Contracting Programs

- Assess program eligibility across state and federal programs
- Business restructure strategy for eligibility alignment
- 8(a), HUBZone application and annual review

### Mentor-Protégé and Joint Venture

- Identify and screen partners
- Federal agency buying assessment
- Mentor-Protégé application review and assistance
- Joint-venture assessment and strategy development

# ABOUT US



- **Michael de Gennaro** is Partner at PiliroMazza, PPLC, and represents domestic and international companies in all stages of development, private equity firms and entrepreneurs. His practice focuses on mergers and acquisitions, finance transactions, and general corporate matters across a broad range of industries, including transportation, education, manufacturing, pharmaceuticals and financial services. He represents clients in all phases of their business life cycle from start-up to sale of the company. Mr. de Gennaro also has significant experience in project finance, consumer and commercial finance transactions, public-private partnerships (P3 transactions) and government contracts transactions, including bid preparation, due diligence and contract negotiation for transportation procurements.
- **John Shoraka** is the Managing Director of PiliroMazza Advisory Services, LLC, a consulting firm dedicated to advancing government contracting opportunities across small business, tribal organization, and government sectors. Shoraka is the outgoing Associate Administrator of Government Contracting and Business Development at the U.S. Small Business Administration (SBA). In this capacity, he was responsible for overseeing the federal government's small business procurement programs, an over \$500 billion marketplace. Previous roles include Regional Administrator for the SBA, vice president at business consulting firm The Aries Group, chairman of the Small Business Association for International Contractors, and adjunct faculty at Catholic University of America.
- **Patrick Kelley** serves as Vice President of Strategy and General Manager for the Government Contracting vertical at Live Oak Bank. He previously held the positions of Deputy Chief of Staff, Deputy Associate Administrator and Senior Advisor for the U.S. Small Business Administration (SBA) where he oversaw the agency's \$100 billion loan portfolio and the small business government contractor set aside programs. Prior to joining the SBA, Patrick worked at the U.S. Department of Commerce providing guidance to the Under Secretary of the United States Patent and Trademark Office.
- **Eric Rabinovich** joined Live Oak Bank with 10 years of diverse Finance and Operations experience spanning the public and private sectors. Most recently he worked as a Contract Specialist with the U.S. Food and Drug Administration where he solicited, negotiated, awarded, and administered a wide range of service and product contracts dedicated to protect the nation's public health. Prior to that, Eric was a Senior Associate with the consultancy PricewaterhouseCoopers in their Public Sector Practice.

# FINANCING AND LEGAL ISSUES

## Retain effective counsel

- Retain your own counsel for the lender's underwriting processes
- Your counsel reviews all loan documents and act as your advocate
- Save on transaction expenses by keeping counsel involved at all times

## Know your lender

- Compare lenders to assure to receive economic and commercial terms that make sense for you
- Complete your due diligence to compare lender offers

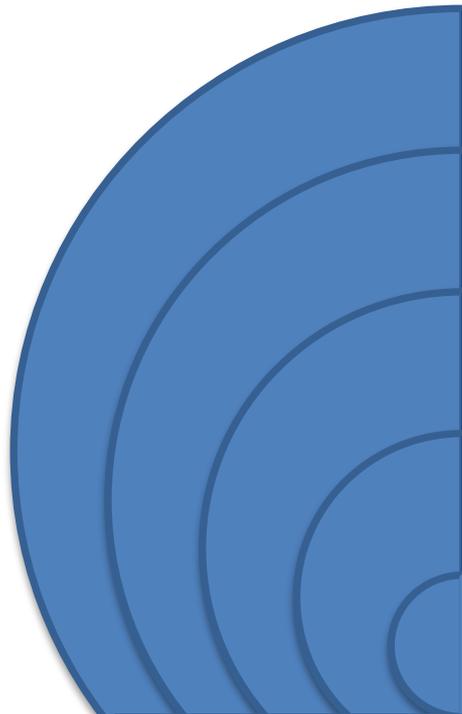
## Use an LOI

- Always negotiate a letter of intent, effective way of avoiding unnecessary deal expenses before they are incurred
- Sets out major deal terms that both sides must agree to before proceeding to sign definitive documentation

## Know yourself

- Take all steps to know yourself in order to avoid any deal-killing surprises
- Such details can often be dealt with easily during the LOI stage

# UNIQUE ISSUES IN GOVERNMENT CONTRACTING TRANSACTIONS

A decorative graphic on the left side of the table, consisting of several concentric, semi-circular blue shapes that curve inward from the left edge.

Will you be able to assume and perform on seller's contracts	<ul style="list-style-type: none"><li>• Is seller small business</li><li>• Is seller an 8(a), HUBZone, SDVO, or WOSB</li></ul>
Will you still be small after acquisition	<ul style="list-style-type: none"><li>• Regulations require recertification of size upon acquisition and merger</li></ul>
Will your new acquisition structure require additional approval or waivers	<ul style="list-style-type: none"><li>• Certain acquisition structures require novation of contracts and approval of waivers by SBA and federal agencies</li></ul>
Will you be able to assume and perform on seller's GSA Schedules	
Will you be able to retain security clearances	

# GOVERNMENT CONTRACTING FINANCING PRODUCTS



**Federal small business contractors need lending products tailored to their unique business challenges.**

## Optimize Cash Flow

- Unfavorable debt instruments thinning cash flow
- Unable to draw a meaningful salary (owner/officers)
- Volatile cash flow due to nature of billing and reimbursement cycles

Working Capital / Refinance

## Leverage Anticipated Monthly Invoices

- Awarded multiple contracts in a short period
- Inadequate capital to fund related contract expenses
- Convert assets to cash

Contract Line Of Credit / Refinance

## Finance Inorganic Growth

- Winning awards is labor-intensive, costly and inefficient
- Unable to win new contracts
- Sunsetting of certifications (e.g. 8(a)) limits new growth prospects

Mergers & Acquisitions

Core Deposits

# MARKETPLACE LENDING OPTIONS



	SBA Lender	Non-bank Factoring	Alternative Financing
<b>Business Term Loans</b>	✓		✓
<b>Loan Amount</b>	Up to \$5MM	Invoice-dependent	\$5,000-\$500,000
<b>Lines of Credit</b>	✓	Factoring	✓
<b>Line of Credit Amount</b>	Contract-dependent	N/A	\$2,000 - \$300,000
<b>Average APR</b>	<b>SBA:</b> 6.5% - 8.5% (plus fees) <b>Conventional:</b> 6.5% - 9%	20+%	8%-108%
<b>Terms</b>	1-10 Years	1 – 2 Months (Factoring Period)	1 month – 5 years
<b>Approval Time</b>	24-72 Hours	Varies	1-7 Days
<b>Earliest Receipt of Financing</b>	10 – 30 Days	1 – 5 Days	1 – 5 Days
<b>Minimum Credit Score</b>	Varies (650+ preferred)	N/A	500 Term Loan/600 Line of Credit
<b>Years in Business Min</b>	1 Year	1 Year	1-2+ Years
<b>Minimum Income Requirement</b>	Contract-dependent	Varies	\$75,000/Year
<b>Personal Guarantee Required</b>	✓		✓

# CASE STUDY 1: BUSINESS ACQUISITION



Traditional banks often don't understand unique nature of projections in this sector and typically won't provide financing

## Borrower Challenges

- Business identified with:
  - \$11M revenue
  - \$985K EBITDA
  - \$5.5M purchase price
- Purchase price based on projected revenues from new awards, rather than historical income
- Buyer has little liquidity to use as down-payment
- No collateral

## Product: Business Acquisition

- LOB finances purchase of business assets combined with a seller note
- LOB loan amount totals \$4.3M– to include additional working capital and soft costs
- Seller holds note for \$1.3M, on standby for 2 years, for added skin in the game
- Borrower injects \$50K
- Payments stretched over 10 years

## Outcomes

- Buyer able to acquire new business with little out of pocket--liquidity then helps fund growth-related OpEx
- Seller has incentive to help buyer succeed in transition
- Business grows with injection of new revenues from acquired contracts
- Assumption of relationships and past performance enhances ability to capture new work

# BORROWER PROFILE

## Considerations for potential borrowers include:

- Credit score(s)
- Cash flow minimums
- Growth Strategy
- Ownership/Management experience
- Personal equity/assets
- Personal debt service

## *Example (start-up enterprise):*

### NOI to Achieve 1.25 DSC (Post-OC)

	Minimum NOI of seller												
	\$171,489	\$214,324	\$257,159	\$299,994	\$342,829	\$385,664	\$428,499	\$471,333	\$514,168	\$557,003	\$856,847	\$1,199,526	\$1,713,544
<b>Live Oak Borrower NOI</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Purchase Price (\$MM)</b>	1	1.25	1.5	1.75	2	2.25	2.5	2.75	3	3.25	5	7	10
<b>Anticipated DSC</b>	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x
<b>Rate</b>	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
<b>Term (Months)</b>	120	120	120	120	120	120	120	120	120	120	120	120	120
<b>Required OC (\$000's)</b>	150	150	150	150	150	150	150	150	150	150	150	150	150
<b>Monthly Payment</b>	\$11,423	\$14,278	\$17,134	\$19,990	\$22,845	\$25,701	\$28,557	\$31,412	\$34,268	\$37,124	\$57,113	\$79,958	\$114,226

# CASE STUDY 2: WORKING CAPITAL/REFINANCE



Borrower with negative \$500K cash flow turned into positive \$270K

## Borrower Challenges

- 662 credit score
- \$36,200 monthly debt and \$575,000 total principle owed
- Revenue took a 66% (\$350k) hit in 2013 due to sequestration
- *Negative \$500,000 in cash flow after debt payments*

## Product: Working Capital / Refinance

- Pay off original debtors
- Provide additional permanent working capital
- Stretch payments over 10 years

## Outcomes

- New total monthly payments result in \$30k of monthly savings
- Paid off principle balances
- Allows to take a salary
- *Excess cash flow of \$270k annually*

# CASE STUDY 3: LINE OF CREDIT

Small Business contractor in growth mode faced with low liquidity

## Borrower Challenges

- Growth mode
- Credit score: 650
- Interest payments to alternative lenders and aggressive BD spending led to liquidity issues and inability to consistently pay/manage payroll

## Product: Line of Credit

- Provides affordable capital
- Borrowing base made up of 90 days of eligible receivables
- Low cost of origination
- Monthly pipeline discussion

## Outcomes

- Borrower now able to meet payroll, chase and capture new work and bring on necessary headcount to deliver on new awards
- Established line 4x anticipated monthly invoices

# CONTRACT MOBILIZATION

Small Business contractor gets new contract and needs financing to cover payroll

## Borrower Challenges

- Covering payroll and contract start up expenses
- Borrowers turn to alternative sources of capital at high interest rates to cover
- Borrowers also pull from their working capital to cover this time period

## Product: Contract Mobilization

- Provides gap financing at low rates to cover pay roll after the award of a contract
- 100% of direct salary and related expenses for first 4-6 pay periods on a new award
- Low cost of origination

## Outcomes

- Borrowers can go after work knowing they can cover payroll day one when they win an award

# CONTACTS



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