



Banking your business!





Biography

- Retired 2014 as EVP/COO SFB Bank (32 years w/various banks)
- Retired as CEO of Vital Plastics 9-1-23 (9 years in manufacturing)

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Experiences

Several Economic Cycles

- Deposit Institution and Monetary Deregulation Act 1980
- Agriculture Crisis 1982-1988
- Savings and Loan Crisis 1986-1995
- Economic Recession early 2000's (post Y2K)
- Housing Meltdown in 2008

Results

- 1500 Commercial Banks failed in the 1980s
- 1200 Savings and Loans failed in the 1980s
- Enormous consolidation of the industry
- More regulations and documentation



Experiences

Hired by SFB Bank (under regulatory direction) to lead them out of a “Cease and Desist”

- completed in 30 months

Financed a large variety of businesses and manufacturers over the 32 years.

I always carried a portfolio

I financed Vital Plastics prior to retirement and joining as a partner in 2016

I AM NOT AN ATTORNEY AND THIS IS NOT LEGAL ADVICE!



Our Story

- Original owners being exited by their bank in 2005- leverage, internal conflict, concentrations, excess distributions
- I financed the company through a solution no one else thought of
- Set forth rigorous covenants, collateral and structure and ground rules
- Both sides communicated clearly
- Turned the corner quickly and the owners saw the value in what we did
- Weathered multiple markets like 2008
- I joined the company in 2014 and bought in as a partner in 2016
- Developed a management team and strategy to prepare for sale
- Financially strong and grew (continued to struggle with diversification)
- 2020 Covid 19 delayed the plan for sale
- Sold in July 2023.



Banking Basics (how do they select, who and how)

All driven by risk management - Accept it, mitigate it, avoid it

Bank Decision Tree

Industry Risk	Environmental, regulatory, governmental, legal ex. PFAS, firearms, medical		
Business Risk	Risks specific to that business for success ex. Contracts, labor union		
5C's	Capacity	=	cash flow (short term, earnings is LT)
	Capital	=	Net worth/equity
	Collateral	=	Last resort in Collection
	Conditions	=	Purpose
	Character	=	History
Structure	Term, Amortization, Rate, Collateral, Guarantees, covenants etc. Structure should be driven by risk management and the decision tree		
Monitoring	Reports required, frequency etc.		

You may be a large company or small, but fundamentals are really all the same.

How should you select a bank (not a one-way street)

Consider legal lending limits

- today/your future plans

Who are the decision makers

- You want to deal with them
- If you can't, you want them familiar with your business
 - invite them for tour
 - host performance updates
 - over communicate vs hide bad news

Bank Reputation

- Earnings
- History with others

Expertise in your industry

- People, is it a team?
- Staff longevity/turnover
- Responsiveness



How should you select a bank (not a one-way street)

Ancillary services

- Cash Management
- Positive Pay
- Retirement Plans/brokerage

You want a relationship that is good for both

- do not focus on price only
- example of ½% on 1mm

Request For Proposal

- Formal or informal (do same for CPA , insurance and other professional services etc)



Topics worth considering

Once the bank is selected, now what

- Split bank relationships: Advantages and disadvantages- try no more than 2
- Let the relationship unfold and set benchmarks for potential changes
- Organize your data and information
 - Multiple years, understand it so you can answer questions
 - Do projections, how have you performed to prior projections
- Don't be guarded with information, educate your banker
 - Offer information, be timely, good and bad news
 - Banks hate surprises, If bad news- have a plan, seek their advice
- Engage accountant but with caution - accountants often focus on tax savings only
- Best time to chose a bank is when you don't need them
- Negotiate:
 - Some things you can
 - Some things you cant
 - Set your guideposts and be clear
 - Make sure you can/will walk if outside guide posts
 - Make sure the bank sets their guide posts clearly upfront
- Do you consider these things when you extend credit vis AP?
 - Credit application for new clients
 - Annual review



What can /should you negotiate

Rate

- Relationship price
- More services has value to them as you are more “sticky”
- Use FS quality to neg. Compiled, Reviewed, Audit

Fees

- Junk fees, doc prep, search fees, legal fees, deposit charges, credit card, merchant fees

Prepayment penalties

- Avoid (hard with long rate locks)
- Not perpetual, maybe stop after a certain time
- Exclude situations like a sale





What can /should you negotiate

Limits on borrowing with others

- What if you need something and they won't lend it
- If you do put a limit try / transaction rather than annual aggregate

Covenants

- Affirmative- Thou shall.....
- Negative- Thou shall not.....





What are unlikely to negotiate

Hard coded language

- Example may be the state that disputes are resolved
- Be cautious
 - ex. Your business is in Indiana and your lender is in Chicago. Will you have access to counsel to defend you and can you do this cost effectively?

Personal Guarantees

- If you are able, the offset will be more covenants



Things to watch out for

Slow to respond or ask questions

- Quick yes
- Slower but yes
- Quick no
- Slow no

Cross guarantees

Cross collateralization

Covenants

- Understand the purpose behind them, what risk are they trying to address?
- Go through examples with the bank in worst case scenario



Concepts

The best structure of transaction includes

- Plan with exit in mind
- Cash is King, match asset classes to amortizations

Strategic Plan

Management succession (multi-level)

Balance the use of your professional team- Banker, Attorney, Ins. Agent, Accountant

Let the relationship unfold and set benchmarks for potential changes



Concepts

Display “Confidence not Arrogance”

Structure, covenants etc. are ok but try to avoid

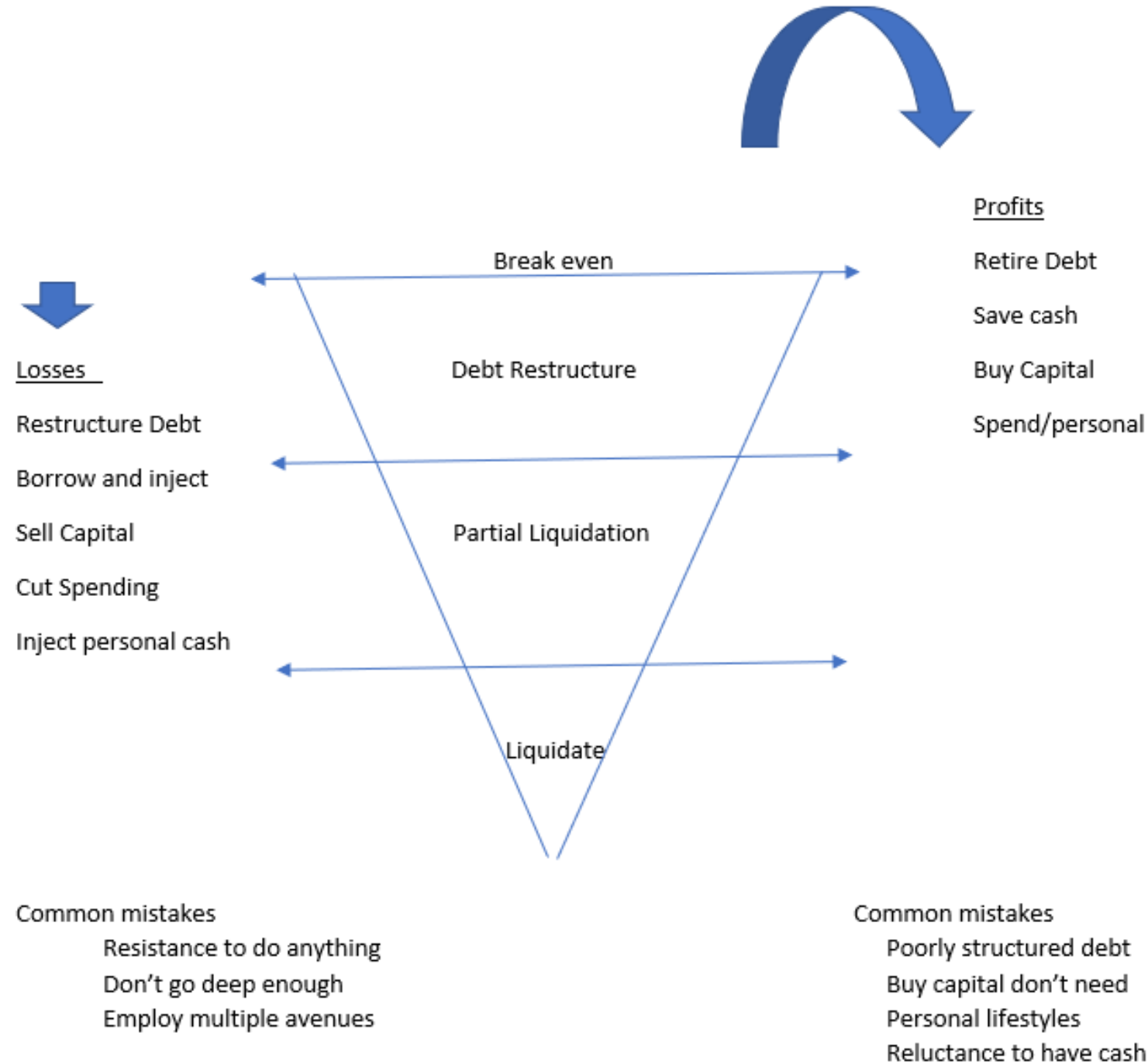
- Locking you into those you know you can make
- Don’t allow you to run your business in normal or slightly adverse conditions.

Read what you are signing, all of it. Get drafts in advance to review

Communicate often, invite them to your company, share good and bad news. Focus on quality financial reporting that you understand and use!

If you change banks, be sure to get complete releases of personal guarantees

Funnel



Bigger the losses/ the faster it slides

Covenants- examples and why

Affirmative Covenants	Asset Quality	Cash Flow	Control Growth	Net Woth	Full Disclosure	Management Quality	Bus. Continue
Current Ratio		x					
Sales/Assets	x		x				
DTNW		x	x				
Inventory DOH	x	x					
Casualty Ins	x	x		x			x
Life Ins	x	x		x		x	x
Liens/Other creditor	x	x					
Financial Reporting					x		
Accounting Quality					x		
Inspections	x				x	x	
Contingent Liabilities	x	x		x	x		x
Negative Covenants	Asset Quality	Cash Flow	Control Growth	Net Woth	Full Disclosure	Management Quality	Bus. Continue
Other loans/creditors		x	x	x			
Sale of Assets	x	x		x			x
Cap Ex	x	x	x				
Mergers/sale		x	x	x		x	x
Change of Management	x	x	x	x	x	x	x
Distributions		x		x			
Officer Salaries		x		x			



Over arching language in security agreements and guarantees- use caution and understand

("Lender") to _____
each of the undersigned ("Debtor," whether one or more) grants Lender a security interest in property, wherever located, checked in Section 2 ("Collateral")
secure all debts, obligations and liabilities to Lender arising out of credit previously granted, credit contemporaneously granted and credit granted in the future
Lender to any Debtor, or any Borrower, to any of them and another, or to another guaranteed or endorsed by any of them ("Obligations").

2 DESCRIPTION OF COLLATERAL



VITAL PLASTICS INC.
680 VANDEBERG DRIVE
BALDWIN, WI 54002

sfb
SECURITY FINANCIAL BANK
79-327/918

DATE
5/31/2022

Hundred Ninety Two and 00/100

[Signature]

Ken Leatherwood
OR USAA Mobile Deposit Only.
Acct # 1780001732

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
RESERVED FOR FINANCIAL INSTITUTION USE • NP

USA 48
7439
>>314

designate authorization
as follows:
☐ 1 - Member's
☐ 2 - Non-Member's
☐ 3 - Other
☐ 4 - Other
☐ 5 - Other
☐ 6 - Other
☐ 7 - Other
☐ 8 - Other
☐ 9 - Other
☐ 0 - Other

Security Features
Federal Reserve Note or equivalent, self-storage unit,
or other value represented by physical.

GOVERNMENT



Thank you!

