HEALTH LAW

Overview of Urgent Care Financing

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You've researched the industry, have a site picked out, and have a name reserved. Now comes the million dollar question. Wait, that *is* the question: Where do I get a million dollars to start an urgent care? Do you really need a million? My noncommittal "attorney answer" is: "possibly." I have had friends lose a lot more than that before being forced to close the doors.

That said, you can certainly do it for a lot less money if you are staffing the clinic yourself, don't over-build, and lease only the really necessary equipment. However, beware: lack of capital is the root cause of many small business failures. In addition, inadequate capitalization can be used by an attorney as a justification to "pierce the corporate veil" and attack your personal assets.

Where do you look for capital to start an urgent care center? The first place is in the mirror. How much do you have to invest in the business? Look into your savings, stocks, bonds, cash-value life insurance, and real estate assets. If you cannot put in some of your own money, you will have a difficult time convincing other investors/creditors to contribute their money. Fortunately, even if you are turned down by one lender, others, because of differences in lending policies, may finance the same or a similar proposal.

Key Questions

Before you start your capital-raising process, be prepared to answer the following questions:

- How much capital do I need? (Be conservative.)
- What are my uses of capital? (Be exact. Your salary is probably not a compelling use of funds to an outside investor.)
- How much of my own money can I afford to put into the venture? (Be conservative.)
- Am I willing to personally guarantee the debt? (For traditional bank financing, you will probably have to guarantee the amount or have sufficient capital pledged against the debt facility.)
- What information do I need to convince someone to invest in the business? (Business plan, pro forma financials, etc.)

Succinctly, your ability to finance the venture will depend upon:

- How much of your own capital you are putting into the venture
- How well thought-out your plan is (competition, financing, marketing, etc.)
- Your track record and banking history if you plan on using traditional bank debt

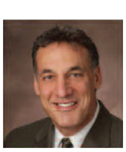
The Five C's of Credit

If you are going the traditional bank route, banks still lend based on the "five C's of Credit":

Character: To a lender, this is their way to determine whether you have the integrity to live up to your word and will make every effort to pay off the debt as opposed to attempting to simply walk away. You need to be up front (with yourself and with the lender) about your strengths, weaknesses, and plans to fill any gaps.

Capacity: If your venture fails, do you have the capacity to pay off the loan? Here is where it helps to be a provider. Despite market vagrancies, medical providers are always needed and we can typically find work that pays enough to pay down a note over time. Be prepared to answer tough questions about your capacity to handle debt payback if the venture tanks.

Collateral: Not only do banks want to know you have the financial capacity or available cash flow to pay off debt, they also want you to pledge assets that more than cover the



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amount of the note. Typical sources of collateral are equity in a home, cash-value life insurance, and stocks or other liquid securities. Before agreeing to something, think of the worst-case scenario. If the business fails, can you stomach losing your kids college funds? (The world needs ditch diggers, too, Danny.)

Conditions: Other than educating the lender, you have little control over broad economic indicators. If you tried borrowing money or raising capital after the fall of Lehman Brothers, you and many pre-IPO companies postponed or were unable to complete their rounds of financing as investors looked for shelter.

Capital: This is the put-up-or-shut-up aspect of credit. A lender will want to see that you have "skin in the game" as opposed to being able to simply walk away if it blows up. A lender will not be willing to put up 70%-80% of the capital needs of a new business. New businesses fail at an alarming rate and lenders cannot afford (particularly in the "new normal") that level of risk.

Types and Sources of Capital

There are a variety of types of capital as well as sources of capital. Different financing needs require different sources of capital. For example, if you are building your own center, you will use construction financing, which can ultimately roll into a term loan for the property and building. For your equipment, you may secure a capital lease. If you have short-term cash needs in a business that is generating cash, you may want to factor in your receivables (ie, sell them off at a discount). To cover initial start-up losses, you may want to negotiate a line of credit that is partially secured by third-party-payer receivables and a personal guarantee and equity in your home, which ultimately converts to a term loan without a prepayment penalty.

If you do not have the capacity to secure the necessary debt financing, you will need to sell equity in the future business. If a business owner takes on equity by selling shares or an ownership interest in a corporation, the capital is not repaid (unless it is a convertible debt instrument), but the investor now has an ownership interest in the company and may (depending on the way the agreements are drafted) have the right to siphon off profits.

As you enter into this endeavor, it is important to have at least a basic understanding of sources of capital and how to go about obtaining financing. Consultants who are knowledgeable in the urgent care space and your accountant should be able to guide you to the best source of capital for your financing needs.

In my next column, we will take a deeper dive into the various sources of debt and equity capital as well their pros and cons. ■