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Intermediate Term Debt: Critical to Your Success!

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Using Credit to Improve Your Cash Position

Why do real estate investors tend to lever up their property holdings to the highest extent possible? Simply put, they understand that $100k of their own cash is better put to use across the acquisition of four $100k income-producing properties than just one. Similarly in general business, cash flow remains a critical component of successful growth and prosperity. Being stretched thin with working capital can result in troubling stagnation and loss of market share. But using credit to improve your cash position to take advantage of future opportunities is where companies grow and profit. While there remains a negative stigma about leverage - and indeed from a creditor's perspective it remains an important component of credit quality review – not all debt is "bad." As a matter of fact, **appropriate use of debt instruments can actually set up your business for sustainable growth and success**. Equipment leasing just happens to be one common way to implement this strategic cash flow positioning for sustained growth and profitability. With the remarkable growth in the equipment leasing and financing industry over the past several years, it would seem that intermediate term debt is no longer being overlooked as a critical component to business success.

While a real estate investor typically takes on long-term financing, with even *longer* term amortization schedules, a general business will likely have a variety of term credits, ranging from very short term (credit cards, revolving lines of credit, etc.) to long-term (building mortgages, etc.). Somewhere in the middle is where equipment finance/leasing falls – the aforementioned "intermediate term" financing instruments. Long-term debt can often provide stability and long-term cost efficiencies. Alternately, responsible use of short-term credit can provide necessary working capital needed to conduct regular business, inherently providing the "float" needed as raw goods are converted to collected invoices or as services are converted from signed engagement letters to collected monies on completed services. **It is the intermediate-term financing that carries with it a tremendous opportunity to balance short-term capital needs with sustainable growth over the next 3-5 years**.

When considering equipment leasing, a business should evaluate the earnings potential of their existing cash reserves. Are there growth opportunities on the horizon? If so, there is a good chance that growth opportunities will translate to new contracts with corresponding input costs to fund. Perhaps, the new business may even require new equipment. But, those growth opportunities undoubtedly represent areas of profit. Essentially, what needs to be compared is the net profit margin of that next business opportunity – to the cost of financing. **If your cash can produce a higher yield to your business through deployment into true "growth" than what is represented by the cost**

of financing, then you should be considering equipment leasing/finance to lever up new or existing equipment.

The advantage of intermediate term financing such as equipment leasing is that it presents longer repayment terms than traditional short-term credits, but doesn't handicap your business for the long-term, where there could become a real and significant leverage problem. That type of problem, where you have multiple credits pile up over a long period of time, gives creditors pause, and can truly have a negative impact on your company's viability by hindering your access to credit. However, intermediate term financing is rolled over with much more frequency, and can better keep up the pace of your company's growth and success. And *that*, ultimately, is the universal goal in business – to grow, to prosper, and to create a stable environment of earnings potential for ownership and employees alike.