THE MONTH END

EPISODE 23

SHOW NOTES

SPEAKER BIO

Grant Christoper is the president, co-founder and partner of Bridge Financing Group, a private credit company that primarily focuses on early-stage, high growth companies in the Consumer Packaged Goods industry. Grant loves helping brands succeed which is why he's also been an active investor in the CPG space for close to 15 years.

TAKEAWAYS

Getting into CPG equipment financing:

I kind of fell into the equipment financing business. I was an equity investor in the space for close to 12-13 years, kind of a family industry. My brother is a serial entrepreneur in the space, so he created a couple of brands within CPG. We had been investing on the equity side, and one of the companies that we were invested in was growing and needed capital to expand their production facility. We were fortunate enough to be involved on the inside of this business. After seeing some of the term sheets come across the table, we looked at each other and thought to ourselves, "you know, I think there is an opportunity here to have an equipment financing and leasing business that's focused on early stage, hybrid CPG companies."

TAKEAWAYS (Cont'd)

When a CPG company should start thinking about financing equipment:

We work with brands that do all of their manufacturing in house and also work with brands that use a co-packer. There are plenty of times where they're using a co-packer but that co-packer just isn't willing to purchase a specific piece of equipment for that brand. We work with a handful of companies where they may use 10 pieces of equipment at a co-packer facility, but may own (or in this case) lease another two, three, four pieces, but they're using the co-mans labor across the board. So it kind of varies. I've had this question come up in the past of "when should we?" Or "why should we go and manufacture 100% in house or use what comes in?" I think it just kind of varies and depends on the company.

One point I want to make is you've got to have the expertise to be able to manufacture in house. It just kind of depends on the strengths of the management team, the CEO, and entrepreneur.

How financing works:

We really structure everything as an equipment lease, where we own the equipment. We lease it to the brand on average anywhere between two to four years, and there is a buyout at the end.

That's one way we differentiate ourselves from a lot of other leasing companies out there. That buyout is predetermined, and is typically at a higher amount. We structure these as operating leases, just given the buyout can be anywhere from 25 to 50%. At the end of the term, they have the option to exercise that buyout, or they can extend the lease. Then at the end of the extension, there's another buyout option, or they can revert to a month-to-month arrangement, or return the equipment.

TAKEAWAYS (Cont'd)

What is needed for the request list/ to get started:

We're going to look for historical financials, P&L, balance sheet, cash flow statement, and forecast, as well as the type of equipment, cap table, and the list of investors. We typically work with brands that are institutionally backed by some venture capital or private equity firm. That's not saying that's a prerequisite, but that's typically the type of companies that we work with. Outside of that, it's just your Certificate of Formation, nothing really out of the ordinary. I would say probably one diligence item that we do request, that you may not get from another equipment finance company or lender, is the velocity reports. That's a big deal to us. We like to see how the products are moving on the shelf.

Metrics that clients should be focusing on:

It's a mix. I would say that 90% of the businesses that we work with are unprofitable. That's pretty much why we started this business. We saw a trend of companies that weren't profitable yet. They're growing top line, they're trying to capture as much market share as they can, so they're burning money on a monthly basis. They weren't bankable from a traditional banking standpoint, because they didn't check every box - post '08-'09 - that you have to check in order to go get a loan from your Wells Fargos or your Bank of Americas.

We like to see visibility towards profitability - we don't want to invest in a brand, or lease equipment to a company that is just going to be burning money in perpetuity.

I think we all agree, that's not really viable these days. We look at the investor, the cap table, how much money in equity they've raised in the past, top line growth, margins. We like to see some strong margins. The velocity reports are something that we dig into as well.

TAKEAWAYS (Cont'd)

On competitive rates:

One way that we get really competitive is we've got a strong advance rate. We can go up to a 95% advance rate on on the equipment. As an example, if it's a million dollars worth of equipment, we can potentially go up to $950,000. Our rates are typically in the low to mid teens. While we're not going to be as cheap as your traditional lenders from a bank, we have zero covenants or non-recourse, which means we don't ask for personal guarantees. That, and our strong advance are reasons we do win opportunities over banks.

On lessons learned:

We pride ourselves on our reputation. I think we're very borrower friendly. We work with brands all the time, we understand the challenges that they face, as an early stage kind of high growth company.

In 2020, we worked with a couple of companies that ran into liquidity issues, where we just deferred their payments for several months, until they were able to get the liquidity and equity that they needed to continue operations. So we feel like, again, we kind of pride ourselves on our reputation. I think if you went and talked to any of the CEOs or founders that we currently work with, they would say that, and I hope they would, that we try to strive to be a good partner for them.

On the flip side there's been scenarios where, unfortunately, a brand has gone out of business, but we've worked with those companies to get those assets, and then replace them or release them or sell them to another company.

I like to think of ourselves as good partners, always keeping the the line of communication open and trying to solve problems together.

TAKEAWAYS (Cont'd)

On surviving COVID:

I would say generally, most companies, if they did to survive through COVID came out stronger. There's probably a lot of fat to be trimmed, and they did that. If they were able to survive through COVID, they came out stronger, with better margins, able to produce more, with less headcount. Obviously there are challenges right now within the supply chain, raw materials, shipping, etc. I feel like we've hit our peak a little bit on that, and things are starting to get a little bit better, for the most part. Not saying that's 100% across the board, but most companies that we've talked to said, "yeah, I think we've kind of hit our peak on supply chain issues and raw material cost increases".

Types of leases offered:

We can offer two types of leases. One of them them is a sale leaseback. If you have existing assets that you've already purchased in there at your facility or at a co-man's facility, we can buy those assets from you. That will provide you some some capital and then lease them back to you. We can also do what we like to call an interim funding, or a drawdown-type lease where you're ordering a new piece of equipment that may have a 12 month lead time and we're able to make those payments, whether it's a down payment, a couple progress payments, we're able to make those. Once the equipment arrives, that's when the lease begins.

CPG BUSINESS DO'S AND DON'TS

CPG Business Do:

I think that if you are within CPG - and this goes to founders or management teams - I would be more of a learner and a listener than a knower. Those are the kind of people that we like to to work with. And that would be my piece of advice on doing more would be. Have more of a learner or listener type attitude, as opposed to just thinking that you know everything. There's a reason we've got two ears and one mouth, you know.

CPG BUSINESS DO’S AND DON’TS (Cont'd)

CPG Business Don't:

For brands, don't think you need to be in all 50 states. I would rather be partnered or on the equity side invested in a company that's deep and narrow within their market, as opposed to shallow and thin. I think COVID really hit that. A lot of brands did have to hunker down and just sell within their state or region, and you can have a great business doing that. There are brands that are just based in Texas, and have sold to strategics. So, just don't think that you have to be in every state, and you have to be in every Walmart or Kroger or Whole Foods. Just a word of advice is dominate the market that you're starting out in, then go from there.

NOTABLE SHOW QUOTES

Grant on manufacturing in house:
"One point I want to make is you’ve got to have the expertise to be able to manufacture in house. It just kind of depends on the strengths of the management team, the CEO, and entrepreneur."

Grant on requirements for brands:
"We stay as hands off as possible, as long as as you're making your payments, we don't want to get involved in your business. So as long as you're making the payments, we're happy."

Grant on being entrepreneurial :
“We're entrepreneurial at spirit."

Brad on the upside of working with Bridge Finance Group:
"With your industry experience as well as the high advanced rate, that means there's minimal cash out the door up front, which really helps a small business just succeed."

Grant on partnership:
“I like to like to think of ourselves as good partners, always keeping the line of communication open and trying to solve problems together."

Grant on leveraging his network:
"Even if you don't have equipment financing needs, I would still be open to chatting with you, with a company or brand on how we may be able to help within our own network. We've got a handful of value add partners that we have relationships with."

Brad on creating a relationship upfront:
"That's a great strategic, intangible benefit of working with you guys. It's just the industry experience and the knowledge and the relationships, the network of connections, you can leverage people. One thing I'll always say is, the old adage of when it's raining outside the banker isn't going to give you an umbrella, but when it's not raining is when you should be asking for an umbrella. So just to the folks, creating a relationship up front maybe not asking right away but getting your ducks in a row, getting your due diligence items, and talking to someone like a Grant or other you know, entities and businesses out there like Bridge just because it's it's good to know. Especially when you're getting close to that need of financing or better equity to ask because they have information. They know you and you've build a trustworthy relationship."

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