Financial health and getting application ready

Find out everything you need to know about the importance of your business's financial health when applying for business finance. This includes:

- Important factors to consider like your business credit score and affordability
- Steps for getting your application ready
- Information on unsecured lending for pre-revenue businesses

Financial health and getting application ready

Whether you're looking to boost cash flow levels, expand your business or purchase new equipment, there are many reasons to apply for business finance.

But before you do so, it's crucial to consider the financial health of your business and ensure you're as prepared as possible to increase your chances of securing funding at the best possible rates.

The importance of financial health

In the same way that your household's financial health would be examined if you applied for any form of credit as a consumer, the financial health of your business will also be scrutinised before a lender will decide whether to offer you a business finance deal.

Primarily, lenders will be looking to see whether your business has healthy income and cash flow statements and a sound balance sheet. The healthier these are, the more likely you are to get accepted.

But financial health won't be solely based on these figures – lenders may also assess your business's leadership, production process, marketing and even customer service before deciding whether they are happy to provide funding.

What factors should I consider?

As part of the above, it's important to consider your business credit score as well as your affordability. Here's how...

1. What is my credit score and why does it matter?

A business credit score is similar to your personal one and is a measure of how creditworthy your business is. A number of factors affect your credit score, including how many times you've applied for credit in the past and whether you've filed your business accounts on time.

Every time your business applies for finance, lenders use your credit score to determine the level of financial risk involved and establish whether they are happy to let you borrow.

If your business has a high credit score, you'll be considered lower risk and your application is more likely to be accepted. You're also likely to be offered more favourable interest rates.

But if your credit score is low, you may find it harder to secure finance or end up paying considerably more in interest.

It's therefore good practice to check your credit score before making your application. If your business credit score is poor, there are ways to improve it, such as:

- Correcting mistakes on your report
- Paying bills and invoices on time
- Limiting credit applications – too many in a short space of time can suggest a business is struggling to secure financing and this will impact your credit score
- Keeping your credit utilisation low – this is how much of your available credit limit you use (around 25% is best)

2. What about my personal credit score?

If your business hasn't been operating for long, it won't have much of a credit history. As a result, lenders may choose to look at your personal credit score to gain a greater understanding of how reliable you are as a borrower. If your personal credit score is also low, you may find it harder to secure finance. Whatever stage you are at in your business, Swoop can match you to the right lending options, and your credit score won't be impacted when you carry out your search.

3. How can I calculate affordability?

Cash flow

As well as paying close attention to your business' profitability, you'll also need to assess whether your business is cash flow positive – which simply means your cash inflows exceed your cash outflows.

Calculating your business cash flow will tell you where your money is coming from and where it is going to, as well as the timing of your inflows and outflows of cash work together.

As a Swoop customer, you'll have access to tools which will enable you to create a cash flow forecast quickly and easily. Simply register here.

If your cash flow is negative, there are steps you can take to help manage the situation which you can read about in our guide.

EBITDA

EBITDA, or Earnings Before Interest, Tax, Depreciation, and Amortization, is particularly important if you want to use equity funding for your business as it's the main figure equity investors are interested in.

EBITDA will give investors an overview of your company's earnings or net income before interest, tax, depreciation and amortization are taken off, and thus an idea of how financially stable and profitable your business is.

Before you search for funding, it's worth optimising your EBITDA figure if you can by reducing travel costs, for example, or managing your inventories better. Read our blog on EBITDA for more information.

Getting your application ready

Once you've considered your business's financial health, checked your business credit score and calculated your affordability, you're *almost* ready to submit your finance application.

There's just one final step – working on your business plan and pitch deck.

What is a business plan?

A business plan can help to show lenders how serious you are about your business and its goals. You'll need to ensure it is well-presented and includes the following information:

- A one-to-four-page executive summary of what is included in the plan
- A business overview explaining what your business does and where it's located
- Financial projections, such as revenue, expenses, cash flow and profit
- Market analysis
- Management team and strategies, including all key players involved in the business

What should be in my pitch deck?

If you're looking to secure funding for a startup, a pitch deck is even more important than a business plan. A good pitch deck should:

- Be between 10 and 20 slides
- Have short and concise wording
- Focus on information that is most relevant to potential investors
- Have a modern, clean design with graphics, icons and images that align with your brand and messaging

Double and triple check your presentation for typos and factual mistakes – 50% of pitch decks reviewed have typos and 25% of financial models typically have errors.

Most importantly, don't forget to register with Swoop and upload your pitch deck for us to review. We can help match you with the best suited investors to help kickstart your business.

Unsecured lending for pre-revenue businesses

As mentioned earlier, if your business is relatively new, it won't have much of a credit history, nor will its financial health be in great shape, making it more challenging to secure funding.

The good news is that loan providers often have different lending criteria, and while some may reject your application, others might accept it. Comparing several quotes from several lenders can therefore increase your chances of finding unsecured lending for your business – you can do this easily with the Swoop comparison service.

If your credit score is particularly poor, you can also look for a bad credit business loan with a specialist company online – although some banks also offer options for those with poor credit. Make sure you check the lending criteria carefully and factor in the annual percentage rate (APR), length of term and fees to compare borrowing costs fully.

Alternatively, your business might qualify for a start-up loan which is specifically designed to help new businesses launch and grow.

If you have any questions about your lending options, the team of experts at Swoop will be happy to explain the best way for you to go about funding your small business. Simply register an account for free to review the funding options available to your business, or sign in to get started on the application process.