ADVANCED FINANCE, MODULE 3

Financing growth

A laser, a second room, a second location: each one is a bet made with money that has to come from somewhere. After this module you can compute whether a device earns back, choose between leasing and buying, know what a lender looks at, and run the second location as a model rather than a hope.

Advanced track. Assumes Finance 7 (contribution per hour), Finance 9 (cash) and Advanced 2 (the forecast). Nothing here is investment or lending advice; your CPA and your banker are the authorities on your facts.

Does the device earn back?

The salesperson's spreadsheet uses revenue. Yours uses contribution: what the clinic keeps per treatment after product, consumables, the provider's share and card fees (Finance 7), times treatments a month you can actually book, against the monthly cost of owning it.

Harbor Aesthetics, a $90,000 device, illustrative	Monthly
Treatments a month, realistically, in month six (not the brochure)	40
Contribution per treatment (price $350, consumable $25, provider $70, card $10)	$245
Contribution a month	**$9,800**
Loan or lease payment ($90,000 over 60 months at 9%)	($1,870)
Service plan after warranty	($600)
Marketing to fill 40 treatments (at $150 a new patient, half new)	($3,000)
Provider hours it consumes, if they would otherwise be booked with injectables (opportunity cost)	($2,400)
Net contribution a month	**$1,930**

Read it like this. At 40 treatments the device adds about $1,900 a month and pays back in roughly four years, not the eighteen months on the brochure. At 25 treatments it loses money. The question is never "is the device good"; it is "can I book 40 a month, and would those hours have earned more doing something else." Run the low case first.

Lease or buy

	Lease	Buy (cash or loan)
Cash today	Little; first and last payment	All of it, or a down payment
Monthly cost	Higher over the term; you pay for the option to return it	Lower over the term; you own it at the end
Technology risk	Return it when the next generation ships	You own the old one
On the books	Most equipment leases now sit on the balance sheet as a liability either way; ask your CPA	Asset and loan (Finance 2)
Tax	Deductible payments	Depreciation, and possibly accelerated in the year of purchase; your CPA decides
At sale	A buyer inherits the lease, and reads the terms	A buyer values the equipment at market, which is less than you paid

A working rule: lease devices whose technology turns over every few years; buy the ones that last (chairs, lights, the build out). Never let the financing decide whether the device earns back; run the table above first, then choose how to pay for it.

What a lender looks at

- **Closed, accrual books for two to three years** (Finance 4). A lender's first request is the last three years of financials and the interim year to date. Open months and cash basis books slow everything down.
- **Debt service coverage.** Operating cash flow (roughly EBITDA, Advanced 4) divided by annual loan payments. Most lenders want 1.25x or better after the new loan.
- **Personal credit and a personal guarantee.** Expect both for a business this size.
- **The plan.** For a location, the market analysis, the opening budget and the ramp (Operations 10). Lenders fund models, not enthusiasm.
- **SBA loans** can offer longer terms and lower down payments for equipment and expansion; the process takes longer and the paperwork is real. Ask early.

The second location, as a model

Operations 10 has the opening budget. The financing question is the ramp: the months of losses funded in cash before the site covers its own costs. Build it in the forecast (Advanced 2) as its own column set: month by month revenue from the driver budget (Advanced 1) at 30, 50, 70, 90 percent of the first location's run rate, against the full cost base from day one. The sum of the negative months is the working capital line. If that sum plus the build out exceeds what you can fund with runway intact at the first location, the answer is "not yet," and the model tells you what has to change: a landlord contribution, leased equipment, a smaller footprint, or a year of retention work at the first site.

Debt that is fine, and debt that is not

Equipment that earns back, a build out with a long lease, a line of credit for timing: fine. Merchant cash advances (a lump today repaid from daily card deposits at an effective rate that can exceed 50 percent a year), and any loan taken to cover payroll rather than to buy something that produces: not fine. If you are considering the second kind, that is a call to make before signing, not after.

> **Where Benchmark comes in.** Every device, hire and location decision in the plan is run through the tables above and the forecast before you commit. Opening a location is a service we quote, with the lender package (financials, the model, the plan) prepared from books that are already closed. Reviewing a financing offer before you sign it is a question that is included.

Try it yourself

- [ ] Take the last device proposal you received. Rebuild the payback with contribution, not revenue, at half the brochure's volume.
- [ ] Compute your debt service coverage: last twelve months' EBITDA divided by twelve months of loan and lease payments.
- [ ] List every financing agreement you have with its rate and term. Circle any you cannot state the effective rate of.

Check yourself: Advanced 3

A device payback should be computed on

Revenue per treatment

Contribution per treatment, at a volume you can actually book

The brochure's numbers

And subtract the marketing to fill it and the hours it takes from other work.

Lease rather than buy when

Cash is tight, always

The technology turns over every few years

Never

Lease what dates; buy what lasts. Decide whether it earns back first.

Debt service coverage of 1.25x means

- Debt is 125% of revenue
- Operating cash flow covers loan payments 1.25 times over
- The loan is 25% paid

What most lenders want after the new loan.

The working capital line for a second location is

- Two months of rent
- The sum of the negative months in the ramp, funded in cash
- Zero if the first location is profitable

Build the ramp in the forecast; the losses are the cost that closes clinics.

A merchant cash advance to cover payroll is

- A normal working capital tool
- Debt that does not produce anything, at an effective rate that can exceed 50% a year
- Cheaper than a bank line

A call to make before signing, not after.

Pick an answer for each question.

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See the sprint and pricing | Text Nate

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