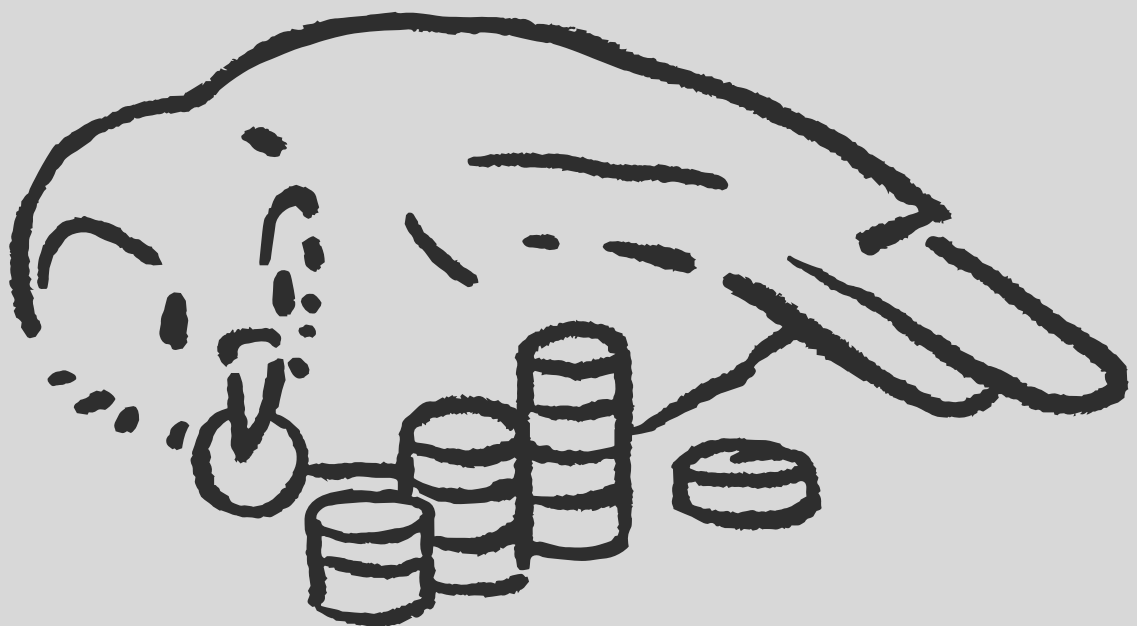




Mastering Business Finance

Everything You Need to Know Before You Apply for
Business Lending





Finance Does Not Have to Be the Hard Part

For many buyers, finding the right business is the exciting part. Figuring out how to fund it is where confidence starts to wobble.

Business lending is different from anything most Kiwis have dealt with before. If your only borrowing experience is a home loan, you are going to encounter some surprises. The good news is that none of it is as complicated as it first appears, and with the right preparation and the right advice, finance does not have to be the thing that stands between you and the business you want to buy.

This guide breaks down everything you need to understand about business lending, whether you are ready to buy, still exploring your options, or an existing business owner looking to grow through acquisition without tying up your cash.

Business Lending Is Not a Home Loan

Most New Zealanders have experience with home loans. You find a property, you put down a deposit, you lock in a rate, and you largely forget about it for the next few years. Business lending works very differently, and knowing those differences upfront will save you a lot of stress.

Interest Rates Home loan rates are published online and easy to compare. Business loan rates are not. Business lending is bespoke, meaning your rate is determined by the overall risk profile the bank assigns to you and the business you are buying. Different banks use different metrics, and rates vary significantly between them.

As a rough guide, business lending rates typically sit around 2% to 4% above current home loan rates, but this is not a fixed rule. We have seen business lending rates come in lower than home loan rates for the right borrower, and we have also seen rates exceed 20% where the risk profile was high. How you present your case and information to the bank has a real bearing on the rate you are offered, which is why having the right advisor in your corner matters.

Loan Terms Most home loans are structured over 25 to 30 years. Business loans are a different story, with terms typically ranging from 3 to 10 years depending on the bank, the type of business, and any relevant factors like the lease term or the useful life of any machinery or equipment being financed.

Shorter terms mean higher principal repayments, which can feel daunting. But here is the upside: when you buy a business, you are acquiring an income-producing asset from day one. A well-purchased business will generate the cash flow to service those repayments while still putting money in your pocket.

Conditions Home lending is largely set and forget. Business lending is not. If you are borrowing more than roughly \$250,000 to \$500,000, your lender will typically attach ongoing conditions to the loan, such as regular reporting on your financial performance. This catches some borrowers off guard, but in practice it tends to work in your favour. It keeps you on top of your numbers and running a tighter operation.

Deposits For a home loan, you are generally looking at a deposit of between 10% and 30%. For a business purchase, expect to need between 30% and 50%. That said, your deposit does not have to come from cash savings alone. Property equity, other business interests, and in some cases equipment that can be financed separately can all contribute to your deposit position.

What Lenders Are Actually Looking At: The Five Cs

When a bank assesses your application to buy a business, they are working through what is known as the five Cs of lending. Understanding these gives you a clear picture of what you need to demonstrate.

Character

Lenders want to see that you have relevant experience and the mindset to run a business successfully. Industry experience helps, but what really counts is being able to tell a compelling story about why you are the right person to own and grow this business. A well-prepared business plan goes a long way here.

Capacity

The business you are buying will do much of the heavy lifting when it comes to demonstrating your ability to repay. But having additional income sources outside of the business, whether from a working partner, a rental property, or another business interest, strengthens your position significantly.

Collateral

Security is not always required, but offering property or other assets as collateral can improve your rate and extend your loan term. If you have assets to put forward, it is worth discussing with your advisor how best to use them.

Capital

You will need skin in the game. For most business purchases, that means a deposit of 30% to 50%. This signals to the lender that you are financially committed to the outcome and reduces their exposure.

Conditions

Banks look at the broader economic environment when assessing any application. Business ownership comes with exposure to economic cycles, and lenders want to see that you understand the risks and have thought about how you would manage them in both good times and more challenging ones properly.

Selling at the right time is not about timing the market perfectly. It is about not letting the right moment pass you by.



The Role of Vendor Finance

Vendor finance comes up in less than 5% of business transactions, but when it does, it can be the difference between a deal happening and a deal falling over.

Vendor finance simply means that the seller agrees to carry some portion of the purchase price themselves, rather than requiring the buyer to fund everything at settlement. It can take several forms:

Bridging a Price Gap Sometimes a buyer and seller are close but not quite aligned on price. Rather than walking away, vendor finance can split the difference. The seller effectively carries part of the debt, which transfers some of the risk from the buyer to the vendor and can unlock a deal that would otherwise stall.

Managing a Growth Story If a business is being sold during a growth phase, there can be disagreement about what that future growth is worth. An earnout structure allows the vendor to receive a higher price if the growth continues as expected, while protecting the buyer if it does not. Both parties share in the upside and the risk.

Enabling the Right Buyer Sometimes the perfect person to own a business simply does not have all the capital required at the time of purchase. Vendor finance can bridge that gap, allowing the right buyer to get across the line when bank lending alone is not quite enough.

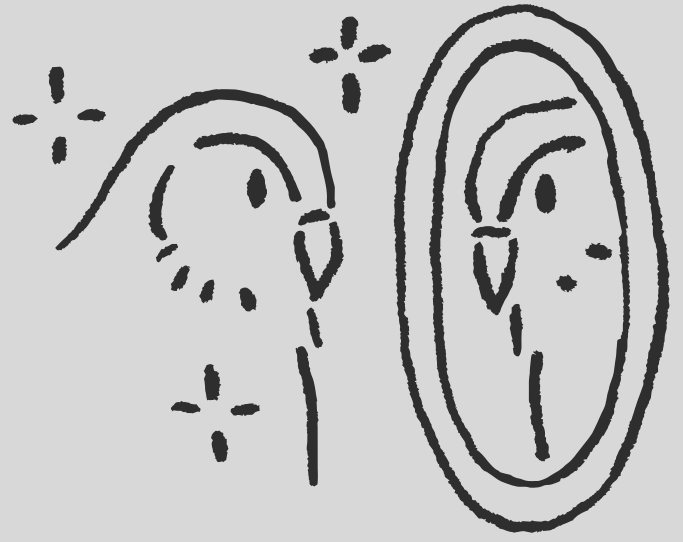
What Gets Applications Declined

Preparation for sale The single biggest reason business finance applications get declined is experience, or more specifically, the inability to demonstrate it effectively. Banks are not going to lend significant sums to someone who cannot show they are capable of running the business they are trying to buy.

This is not always a fair reflection of the buyer's actual capability. Often, the issue is poor presentation. Information that is incomplete, unclear, or does not address the bank's specific concerns can sink an otherwise viable application. A good advisor knows what banks want to see and how to frame your experience, your plan, and your financials in a way that gives your application the best possible chance.

The lesson: never underestimate how important it is to present your application well. The numbers might stack up, but if the story around them is not compelling, the bank will find reasons to say no.

is not glamorous, but it is the work that creates value. Here is what it covers:

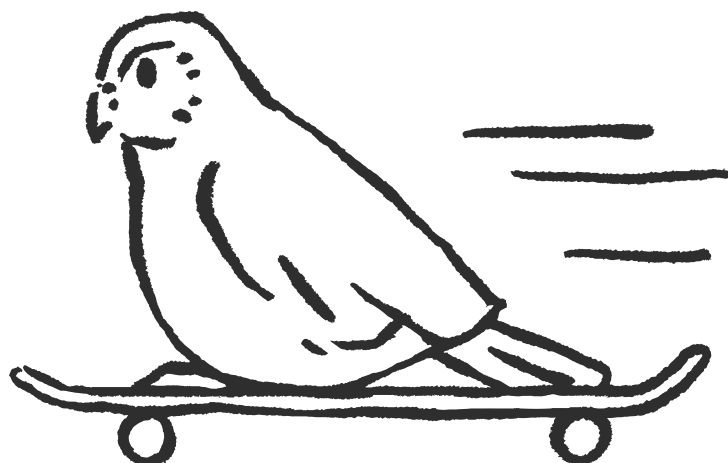


Your Personal Financial Position Matters More Than You Think

Your personal statement of position, meaning your assets and liabilities outside of the business purchase, plays a huge role in what you can borrow, at what rate, and on what terms.

A strong personal financial position does three things. It allows you to consider larger, higher-value businesses. It reduces the risk profile the bank assigns to you, which flows through to better rates and more favourable terms. And it can enable deals that simply would not be possible without it.

On the flip side, high personal debt, poor account conduct, or a thin asset base will limit your options. This is not a reason to despair, it is a reason to get advice early so you understand where you stand and what, if anything, needs to change before you are ready to move.



What to Do Right Now

If you are thinking about buying a business in the next 12 months, the most valuable thing you can do today is have a conversation with a specialist advisor who understands business lending.

Not your personal banker. Not the mortgage broker who helped you buy your home. A specialist in business finance who deals with these transactions regularly and knows how to position your application for the best possible outcome.

A short conversation with the right person will tell you two things quickly: how much you can borrow right now, and if that number needs to be higher, what steps will get you there.

In the meantime, a few things that will keep your position strong regardless of when you plan to buy: keep your account conduct clean, avoid taking on new personal debt, and resist the urge to increase your liabilities in the lead-up to a purchase. You want to walk into your finance application looking as low-risk as possible.

The business you want is out there. Getting your finance sorted early means you are ready to move when the right opportunity comes along.



Ready to Understand Your Borrowing Power?

The team at Kakapo Business Sales works closely with specialist business finance advisors who can give you a clear picture of where you stand and what you can realistically achieve.

Whether you are ready to buy now or still planning your next move, a conversation costs nothing and could change everything.

Get in touch with the team at Kakapo Business Sales

P 0800 494 449
E support@kakupobusiness.co.nz
W www.kakupobusiness.co.nz

