



Building Cash Cows™  
Improving Quality of Life™

## The ABA Insider™

Insights for improving profits, cash-flow, and quality of life

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### **Making the Most of Financial Leverage**

**By: Robert C. Benson**

Leverage of any kind is a double-edged sword - it can work for you or against you. Financial leverage (debt) is no different. Determining the best debt design for your business is critical in order to maximize profits/cash-flow, provide liquidity, and manage risk. The major reasons for debt problems are excessive optimism, over leverage, inadequate financial projections, and improper structuring of short-term and long-term debt.

Industry leaders always have a low debt-to-equity ratio! The higher the ratio, the higher your risk. It is very important to structure your long-term and short-term debt to be appropriate for the long-term and short-term needs of the company. The key is to use equity for acquisitions, long-term debt for long-term expansion, and short-term debt for seasonal needs. Violating this rule invites trouble. Good business performance is directly linked to good business planning integrated with good debt structuring.

Financial leverage can be your friend or your adversary. Follow these five steps in order to make it your friend:

1. Carefully define reality by preparing an annual business plan.
2. Maintain a sound debt-to-equity ratio.
3. Prepare a reliable financial forecast, including profits, cash-flow, and capital requirements.
4. Carefully design your long-term and short-term debt structure.
5. Maintain fiscal self-control in implementing your plan.

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