

NEED A TOW, INC.

As a relatively new loan officer for your bank, you are finding it difficult to solicit new accounts, handle existing relationships, keep the file documented, spread and analyze statements, etc. All of these challenges are culminated when a potential new loan request is presented to you by a local towing service. You have been soliciting this firm for the past six months and as a result of your knowledge of the towing industry, you have been given this opportunity. Since the company is not an existing customer, you realize there are a lot of factors which will impact the company's decision. Obviously, fast turn around is imperative.

Need A Tow, Inc. is a small towing service located in North Charleston, SC. Mack Billings, the sole owner, started the business 8 years ago with 1 tow truck and a leased office facility. His wife, Becky, provides administrative and accounting services for the company at an annual salary of \$42,000. Approximately, 4 years ago, Need A Tow purchased its facility from the landlord. Currently, Need A Tow owns 3 tow trucks. The revenues are split between consumer (70%) and law enforcement (30%) towing. Need A Tow is currently part of a 3 company rotation for law enforcement towing in North Charleston. See the attached financial statements for 3 years of history on Need A Tow, Inc. Also, see the attached personal financial statement of Mack Billings.

Mack Billings has asked you to finance the acquisition of Fred's Friendly Tow Service in Mt. Pleasant, SC. The purchase price is \$750,000 and includes the following.

\$450,000 Real Estate
\$200,000 Vehicles (3) & Equipment
\$100,000 Goodwill
\$750,000

Mr. Billings has requested a \$600,000 loan. The current owner of Fred's Friendly Tow Service has indicated that he has no interest in holding a note as part of the sale.

Fred's Friendly Tow Service indicates a 60/40 split in consumer and law enforcement towing revenues. The company is currently on a 2 company rotation with local law enforcement. Political pressures, however, are likely to increase the rotation to 3 companies. See the attached financial statements for 3 years of history on Fred's Friendly Tow Service. Mr. Billings has indicated that wages will be reduced by between \$60,000 and \$80,000 due to the elimination of Fred's salary and the consolidation of the companies' operations.

The acquisition provides Mr. Billings with a location in the largest community in the Charleston Area and with a truck capable of towing boats and motor homes. Mack believes the additional towing from this truck will partially offset the lost revenue by Mt. Pleasant law enforcement converting to a 3 company rotation for towing.

Your challenge, working with others in your team, is to analyze the request, reach a decision and make a proposal on Friday morning. **At a minimum, your presentation should include the following:**

- 1) Summary of the loan request
- 2) Recommendation for loan(s) structure
- 3) Financial analysis with an emphasis on preparing a consolidated balance sheet and income statement, including making an adjustment for the change in Mt. Pleasant law enforcement rotation
- 4) Recommendation for loan covenants
- 5) Listing of strengths and weaknesses (risks) associated with this financing. Strengths and weaknesses should be both financial and non-financial.

If you choose not to make the loan, you must be prepared to defend your decision in light of the Bank's current focus on small business lending.

Mack & Becky Billings

Current Financial Condition

Assets

Cash	312,000
IRA	178,000
Stocks/Investments	
- Fidelity	325,000
- Need A Tow, Inc.	750,000
Real Estate	
- Residence	450,000
Personal Assets	
- Automobiles	47,000
- Household Furnishings	100,000
- Note Receivable Need A Tow, Inc.	20,000
Total Assets	2,182,000

Liabilities

Unsecured Loans	12,000
Automobile Loans	31,000
Home Equity Line	27,000
1 st Mortgage Loan	200,000
Total Liabilities	270,000

Net Worth	1,412,000
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Annual Income

Salary – Mack	70,000	Need a Tow
Salary – Becky	42,000	Need a Tow
Distributions	<u>35,000</u>	Need a Tow
Total	147,000	

NEED A TOW, INC

BALANCE SHEET

	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2024</u>
ASSETS			
Cash	\$ 15,227	\$ 18,321	\$ 19,239
Accounts Receivable	\$ 6,987	\$ 8,226	\$ 7,137
Total Current Assets	\$ 22,214	\$ 26,547	\$ 26,376
Land	\$ 22,000	\$ 22,000	\$ 22,000
Buildings & Improvements	\$ 230,000	\$ 230,000	\$ 230,000
Machinery & Equipment	\$ 172,139	\$ 237,962	\$ 254,792
Accumulated Depreciation	\$ (64,207)	\$ (100,872)	\$ (146,108)
Total Net Fixed Assets	\$ 359,932	\$ 389,090	\$ 360,684
TOTAL ASSETS	\$ 382,146	\$ 415,637	\$ 387,060
LIABILITIES			
Accrued Expenses	\$ 4,261	\$ 5,137	\$ 5,936
Current Portion Long Term Debt	\$ 29,689	\$ 39,987	\$ 45,742
Total Current Liabilities	\$ 33,950	\$ 45,124	\$ 51,678
Long Term Debt, net of current portion	\$ 255,237	\$ 266,212	\$ 220,285
Due to Shareholder	\$ 40,000	\$ 30,000	\$ 20,000
TOTAL LIABILITIES	\$ 329,187	\$ 341,336	\$ 291,963
OWNER'S EQUITY			
Common Stock	\$ 1,000	\$ 1,000	\$ 1,000
Retained Earnings	\$ 10,822	\$ 51,959	\$ 73,301
Net Income	\$ 56,137	\$ 46,342	\$ 45,796
Distributions	\$ (15,000)	\$ (25,000)	\$ (25,000)
TOTAL OWNER'S EQUITY	\$ 52,959	\$ 74,301	\$ 95,097
TOTAL LIABILITIES & OWNER'S EQUITY	\$ 382,146	\$ 415,637	\$ 387,060

NEED A TOW, INC

INCOME STATEMENT

	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2024</u>
REVENUES	<u>\$ 541,852</u>	<u>\$ 564,997</u>	<u>\$ 596,167</u>
OPERATING EXPENSES			
Salaries & Wages	\$ 262,369	\$ 272,679	\$ 283,149
Officer Compensation	\$ 60,000	\$ 65,000	\$ 70,000
Other Operating Expenses	\$ 116,339	\$ 124,847	\$ 135,709
Depreciation	<u>\$ 31,213</u>	<u>\$ 36,761</u>	<u>\$ 45,264</u>
Total Operating Expenses	<u>\$ 469,921</u>	<u>\$ 499,287</u>	<u>\$ 534,122</u>
Net Operating Profit	<u>\$ 71,931</u>	<u>\$ 65,710</u>	<u>\$ 62,045</u>
OTHER INCOME/(EXPENSES)			
Interest Expense	\$ (15,794)	\$ (19,368)	\$ (16,249)
Total Other Income/(Expenses)	<u>\$ (15,794)</u>	<u>\$ (19,368)</u>	<u>\$ (16,249)</u>
NET PROFIT	<u><u>\$ 56,137</u></u>	<u><u>\$ 46,342</u></u>	<u><u>\$ 45,796</u></u>

Fred's Friendly Towing Service, Inc.

BALANCE SHEET

	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2024</u>
ASSETS			
Cash	\$ 11,867	\$ 4,344	\$ 21,801
Accounts Receivable	\$ 5,289	\$ 7,296	\$ 6,987
Total Current Assets	\$ 17,156	\$ 11,640	\$ 28,788
Land	\$ 35,000	\$ 35,000	\$ 35,000
Buildings & Improvements	\$ 300,000	\$ 300,000	\$ 300,000
Machinery & Equipment	\$ 171,697	\$ 244,342	\$ 270,194
Accumulated Depreciation	\$ (145,622)	\$ (185,227)	\$ (235,312)
Total Net Fixed Assets	\$ 361,075	\$ 394,115	\$ 369,882
TOTAL ASSETS	\$ 378,231	\$ 405,755	\$ 398,670
LIABILITIES			
Accrued Expenses	\$ 2,936	\$ 5,721	\$ 8,328
Current Portion Long Term Debt	\$ 30,295	\$ 41,302	\$ 46,192
Total Current Liabilities	\$ 33,231	\$ 47,023	\$ 54,520
Long Term Debt, net of current portion	\$ 299,753	\$ 308,622	\$ 297,743
TOTAL LIABILITIES	\$ 332,984	\$ 355,645	\$ 352,263
OWNER'S EQUITY			
Common Stock	\$ 1,000	\$ 1,000	\$ 1,000
Retained Earnings	\$ 39,125	\$ 44,247	\$ 49,110
Net Income	\$ 30,122	\$ 34,863	\$ 36,297
Distributions	\$ (25,000)	\$ (30,000)	\$ (40,000)
TOTAL OWNER'S EQUITY	\$ 45,247	\$ 50,110	\$ 46,407
TOTAL LIABILITIES & OWNER'S EQUITY	\$ 378,231	\$ 405,755	\$ 398,670

Fred's Friendly Towing Service, Inc.

INCOME STATEMENT

	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2024</u>
REVENUES	<u>\$ 397,356</u>	<u>\$ 438,647</u>	<u>\$ 498,994</u>
OPERATING EXPENSES			
Salaries & Wages	\$ 184,294	\$ 194,247	\$ 228,765
Officer Compensation	\$ 50,000	\$ 55,000	\$ 60,000
Other Operating Expenses	\$ 89,529	\$ 91,587	\$ 105,782
Depreciation	<u>\$ 24,687</u>	<u>\$ 39,823</u>	<u>\$ 49,781</u>
Total Operating Expenses	<u>\$ 348,510</u>	<u>\$ 380,657</u>	<u>\$ 444,328</u>
Net Operating Profit	<u>\$ 48,846</u>	<u>\$ 57,990</u>	<u>\$ 54,666</u>
OTHER INCOME/(EXPENSES)			
Interest Expense	\$ (18,724)	\$ (23,127)	\$ (18,369)
Total Other Income/(Expenses)	<u>\$ (18,724)</u>	<u>\$ (23,127)</u>	<u>\$ (18,369)</u>
NET PROFIT	<u><u>\$ 30,122</u></u>	<u><u>\$ 34,863</u></u>	<u><u>\$ 36,297</u></u>