FUNDING THE FUTURE

How to Finance Your Center's Next Big Upgrade

By Brandon Willey

Renovations and expansions are critical milestones for bowling entertainment centers (BECs) and location-based entertainment (LBE) venues, offering opportunities to attract new customers, improve the guest experience, and maintain competitiveness. However, these projects require significant capital, and securing funding can often present a challenge. I recently had the opportunity to sit down with Jerry Merola, managing partner of Amusement Entertainment Management, to gather key insights and strategic advice on navigating the financing options available to help operators fund renovations and expansions successfully.

Understanding Your Finance Options

Merola states, "Existing operators with a proven track record are well-positioned to secure capital, given their established financial history and collateralizable assets." He further emphasizes that "lenders and investors look favorably upon operators who can present consistent historical financials, clear collateral, and a solid business performance record." Merola outlined several financing avenues accessible to existing owners and operators.

Traditional Bank Loans: These loans are reliable and straightforward options but typically require extensive documentation, time, and collateral. Up to 15%- 20% of the total raised amount comes from equity. Operators should expect this process to take approximately six to eight months. Accurate, up-to-date financial records and personal financial statements are crucial for approval.

Government-Backed Programs: Programs such as the Small Business Administration's (SBA) 504 or 7(a) loan programs and the United States Department of Agriculture's (USDA) loan guarantees offer favorable terms. For example, the SBA 7(a) provides attractive interest rates and longer repayment terms, ideal for larger-scale expansions. However, Merola cautions, "These programs also require meticulous financial documentation and patience through an often lengthy application and approval process."

Private Investments: Increasingly popular, private investments can offer a quicker path to funding with potentially lower (or no) down payment requirements. Yet operators must carefully weigh this convenience against potentially higher interest rates and additional risk factors. "Private investors often focus heavily on the experience and credibility of the operator," Merola stresses, "investing primarily in individuals rather than just the business itself." Merola highlights that investors are typically interested in operators who demonstrate the capability to execute expansion plans successfully. Thus, operators must communicate their management expertise, industry knowledge, and strategic vision effectively.

Crowdfunding: Although a popular buzzword in financing, Merola suggests, "Crowdfunding is less suitable for major expansions and better tailored for product launches or smaller, targeted initiatives." BEC and LBE venues may find crowdfunding less effective, as this method typically does not provide sufficient scale or reliability for significant infrastructure investments. However, if you are developing a new product or attraction for the industry, this may serve as an ideal funding path.

Walking the Financing Path

Choosing the right type of financing involves balancing several factors: cost, control, timing, and complexity. Merola says traditional bank loans and government-backed programs are generally preferred for large-scale renovations due to their stability, clear terms, and competitive rates. He clarifies, "Operators should prepare to demonstrate financial discipline through documentation and patience."

Private debt or investments may fill the gap for quicker funding needs or where traditional financing falls short. However, Merola advises caution, noting the risks associated with private capital. He clarifies, "Investors frequently impose stringent performance criteria and could potentially assume greater control over the business operations or decision-making process if performance expectations are unmet."

If you are considering an expansion or renovation within the next 12-18 months, Merola suggests operators approach the funding process proactively, as delays and complexities are commonplace. Merola recommends operators start early, ideally six to eight months before funds will be required, to allow ample time for approvals and adjustments. He emphasizes the importance of keeping financial records current, ensuring collateral assets are free from liens, and preparing comprehensive personal financial statements to streamline the process significantly.

Many operators successfully leverage multiple financing sources, an approach Merola supports. He says, "Using private capital to establish an equity base, operators can then leverage this equity to secure additional funding through traditional banks or government-backed programs." Merola strongly recommends that operators utilize resources such as the SBA and USDA and collaborate with local community development corporations and economic development authorities. These entities offer valuable programs and tools designed to assist small businesses with capital needs and promote economic, wage, and job growth in local communities.

Finally, Merola advises operators to avoid rushing into financing agreements without thorough research. "Commercial lending is strategic, and operators should exercise patience and perseverance," he says. Exploring multiple lenders and understanding the nuances of each financing option will ensure operators secure the most advantageous funding solution to drive their center's growth successfully and stay ahead in a competitive market.

Brandon Willey, ICAE, is co-founder of the LBX Collective and Premier LBX Group, co-host of The LBX Daily Show, and CEO of Intelliplay. Brandon has an intense passion for the attractions industry and extensive knowledge of location-based entertainment. Brandon is the former chair of IAAPA's FEC Committee and now sits on the North American Manufacturers and Suppliers Committee. You can connect with him at LinkedIn.com/in/bwilley.