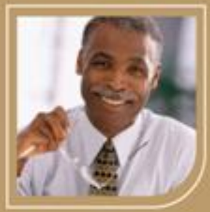
FirstCaribbean International Bank

Corporate Investment Banking



Commonwealth Caribbean Regional Conference

"Investing in Youth"
Exploring Strategies for Sustainable Employment

Financing and Financial Mechanisms

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Outline:

- Background to Collaboration with Caribbean Youth Business Trust
- Classification of Small Businesses by Lenders
- Financing Needs & Sources
- Lending Decisions – reasons for declines by Lenders
- The Business Plan
- Empowerment
- Investing Options

Background to Collaboration with Caribbean Youth Business Trust

- FirstCaribbean International Bank and Youth Business International signed their first MOU in 2008.

- Youth Business International and FirstCaribbean International Bank ("FirstCaribbean" or "The Bank") remain committed to the fostering of an entrepreneurial spirit among young people in the region as a means of combating youth poverty and unemployment.

- FirstCaribbean and Youth Business International, under the administrative body of the Caribbean Group of Youth Business Programmes (CGYBP) are desirous of continuing to develop their collaborative framework which will entail the provision of funding by FirstCaribbean to start-up business.

- Funds are provided through the FirstCaribbean Corporate Social Responsibility budget to the youth business programmes in 8 countries around the region, which in turn provide assistance and lends according to their criteria to the young entrepreneurs.

Classification: How are we (new small businesses) categorized/managed by Banks?

- Fact: Start up small businesses are typically placed in the Small / Medium Enterprise ("SME") client category.
- Fact: SMEs are a major part of the global economy and the effective financing of such businesses contributes significantly to economic growth and performance.
- True: SME financing thrives where the financial sector is relatively developed, open and competitive, and SMEs have access to active bank, stock market, private equity capital products and suppliers (both foreign and domestic).
- False: We can never get there in T&T !!
- Truth: Bankers who serve SME clients have the largest number of client relationships assigned to them, sometimes as much as 150 clients per employee! Naturally, the 80/20 rule then applies i.e. these Bankers spend 80% of their time on 20% of the clients!
- Dare: How do I get into the "Top 20%"?

Lenders approach to SME Finance:

There are a number of distinctive recurring approaches to SME finance:

Collateral based lending offered by traditional banks and finance companies is usually made up of a combination of asset-based finance, contribution based finance, and factoring based finance, using reliable debtors or contracts. Attempts have been made to broaden the Collateral based approach by bringing in third party collateral/guarantees to enhance the credit-worthiness of weaker borrowers i.e. the "Meso-finance" sector. Unfortunately, to the extent that the schemes concerned run counter to basic free market principles, they tend to be unsustainable.

Information based lending usually incorporates financial statement lending, credit scoring, and relationship (or "name") lending.

Viability based financing (based on sustainable cash flows) is especially suitable for SMEs, in particular, ICT companies given our heavy reliance on contractual arrangements and limited net realisable, unencumbered assets. A common aim or feature of the viability based approach is the provision of appropriate finance that is tailored to the cash flows of the SME. It is this approach that we will focus on as the future of SME borrowing.

Needs: What are our typical financing needs?
Sources: What are the funding sources available?

SMALL NEEDS	MID-SIZED NEEDS	LARGE CAPITAL NEEDS	EXCEPTIONAL NEEDS
• Internal Funds • **Overdrafts**	• Internal Funds • **Overdrafts & ST Loans** • Leasing & Hire Purchase arrangements	• Internal Funds • **LT Loans** • LT Leases & Hire Purchase arrangements • **Trade Finance** • **Asset Based Finance** • Venture Capital • Private Equity	• Internal Funds • **LT Loans** • LT Leases & Hire Purchase arrangements • **Trade Finance** • **Asset Based Finance** • Venture Capital • Private Equity • **Stock market equity** • **Corporate Bonds**

Non-traditional sources include Building Societies (less onerous credit criteria and collateral requirements, but lower volumes), Public-sector funding (grants, sponsorships, etc.), Soft-Loans (Social Lending), Family & Friends, etc.

What are best uses for selected funding sources:

Internal Funds	This is most common source of business finance and at least partially used in most funding needs
Overdrafts	Overdrafts & ST credit facilities are the main source of funding for working capital needs
Term Loans	Commonly used for asset purchasing, business development and investment purposes. TL & ODs often overlap in use.
Leasing & HP	Typically used to acquire capital equipment, with 30% of all business plant and machinery acquired using this method, rising to 60% for SMEs in the UK. A variant on this method is the sale and lease-back of owned equipment, thus freeing up cash.
Asset Based Finance	Factoring and Invoice Discounting must factor into the funding sources used by small businesses given our dependence on MT/LT contracts and receivables.
Trade Finance	Most often used for x-border business, options go from very simple (e.g. performance bonds) to the very complex (e.g. financing extended build large equipment purchases).
Corporate Bonds	Big asset investments, M&A activity (where there is debt capacity and strong, predictable cash flows) and balance sheet re-structuring. Funding w/out diluting existing equity arrangements.
Stock Market	Best for funding more risky investments or acquisitions, with less predictable cashflows or for companies who are already debt-heavy with a need to de-leverage.
Non-Traditional	For anything, anytime, whenever you can get it ! Lower interest rates, if any, are common in non-traditional funding.

Lending Decisions: What are we doing wrong? Why do we get turned down by Banks?

<u>Fact:</u> There is no evidence of any significant structural barriers to the supply of bank or private equity finance to suitable SME applicants on mutually satisfactory terms and conditions.

However, the main obstacles to funding here appear to be on the demand rather than the supply side of the business finance market – mainly in the form of lack of satisfactory business plans, accounting and other information; inadequate assets for use as security; and insufficiently high levels of profitability, gearing, liquidity, stability, and other business-financial performance criteria on the part of funding applicants. Simply put, the collateral based and information based approaches would be out of reach for all but a very few SMEs.

<u>Action:</u> Thus, we must broaden the **<u>viability based approach</u>**. Since this approach is concerned with the business itself, the aim has to be to provide better general business development assistance to reduce risk and increase returns. This will likely often entail detailed review and assistance with preparing your business plan.

Business Plan: Is this the missing link?

A **business plan** is a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

What goes in a business plan? This is an excellent question. And, it is one that many new and potential small business owners should ask, but oftentimes don't ask. The body of the business plan can be divided into four distinct sections: 1) the description of the business, 2) the marketing plan, 3) the financial management plan and 4) the management plan. Addenda to the business plan should include the executive summary, supporting documents and financial projections.

A Business Plan Outline must include:

1) Cover Sheet;

2) Statement of Purpose.

Business Plan: Is this the missing link?

Table of Contents

I. The Business
A. Description of Business
B. Marketing
C. Competition
D. Pricing & Sales
E. Advertising and Public Relations
F. Management
G. Financial Management

III. Supporting Documents
Tax returns of principals for last three years
Personal financial statement (all banks have these forms)
In the case of a franchised business, a copy of franchise contract and all supporting documents provided by the franchisor
Copy of proposed lease or purchase agreement for building space
Copy of licenses and other legal documents
Copy of resumes of all principals
Copies of letters of intent from suppliers

II. Financial Data
A. Loan applications
B. Capital equipment and supply list
C. Balance sheet
D. Breakeven analysis
E. Pro-forma income projections (Profit & Loss Statements)
Three-year summary
Detail by month, first year
Detail by quarters, second and third years
Assumptions upon which projections were based
F. Pro-forma cash flow

IV.
Appendix 1: Marketing
Appendix 2: Financial Statements
Appendix 3: Information Resources

www.smallbusinessnotes.com/planning/sbabusplan.html

Empowerment: What can you do to attract more funding and get into the “Top 20%”?

Knowing that Lenders are looking for quality assets and are concerned about the growth of Non-Performing Loans:

1. Have a sound business plan that adequately addresses the risks and credit concerns of your business. You know your business best.

2. Communicate proactively with your financial services providers. Ask that stamping of collateral be done to the value of the loan (including margin) so that subsequent lenders can be ranked pari passu (equal first charge).

3. Provide up to date financials and realistic cash flow projections – don’t cut corners on good reporting. Invest in having your financials audited asap.

4. Pro-actively ask about Lenders’ risk appetite to the small business sector and explore ways to lower the risk level assessed (e.g. via use of the debt capital markets, ABF, etc.) for your business. You can thereby create additional capacity if you need quick access to bank capital. You don’t want to wait until you are in “crisis” stage to try to raise capital e.g. via a Corporate Bond .

Empowerment: What can you do to attract more funding and get into the "Top 20%"?

5. Share your proposed "Form of Contract" with your Lender prior to signing, so that you can incorporate the Lender's comments into the final document. This will ensure that the Lender has an appropriate assignable, legally enforceable security / collateral instrument for use in factoring or invoice discounting.

6. Seek out a Strategic Advisor and Learn, Learn, Learn! Do not limit yourself to one funding source, but educate yourself and understand the best use and nature of all funding sources available to you and carefully select the ones best suited to your realities. You can therefore reduce the "implied funding risk" in your business (i.e. the risk that cash would not be there when you need it) and thereby strengthen your company's ability to pursue more ambitious business opportunities!

7. Be Disciplined, for example, "Stress Test" your cash flow projections. Be able to answer the following questions: 1) Can I pay my bills if I lose my largest contract? and 2) How many small contracts must I land to replace my most profitable contract, and do I have the resource capacity to deliver? Armed with these answers, you can proactively seek out appropriate business that "de-risks" your business and attract greater Lender interest.

Empowerment: What can you do to attract more funding and get into the "Top 20%?

8. Manage fixed costs closely, including financing costs. Fixed costs are costs that cannot be avoided, even when the business is not generating income. Most companies that fail are locked in to high, inflexible overheads.

9. Careful Balance Sheet management:

   - Match long-term asset investments with long-term liabilities and short-term assets with short-term liabilities.
   - Turn receivables into cash (better collections, factoring)
   - Match currency exposures of loans and assets
   - Consolidate debt to extend tenor and reduce monthly debt servicing

Investing: I got my funding and my company is generating surplus funds…now what?

1. Take advantage of lower equipment costs to invest in new equipment so as to better position the business for period of economic recovery

2. Buy out smaller companies that have strategic value (e.g. an innovative product or market access where your products can be placed) and can be acquired at an attractive cost

3. Hire talented employees whose current employers are restructuring or at risk of shutting down

4. Launch new products that are more suited to current market realities

THANK YOU AND GOOD LUCK !

QUESTIONS?