

International Sales
Finance Solutions

Global Transaction Services

Cash Management Trade Services and Finance Securities Services Fund Services

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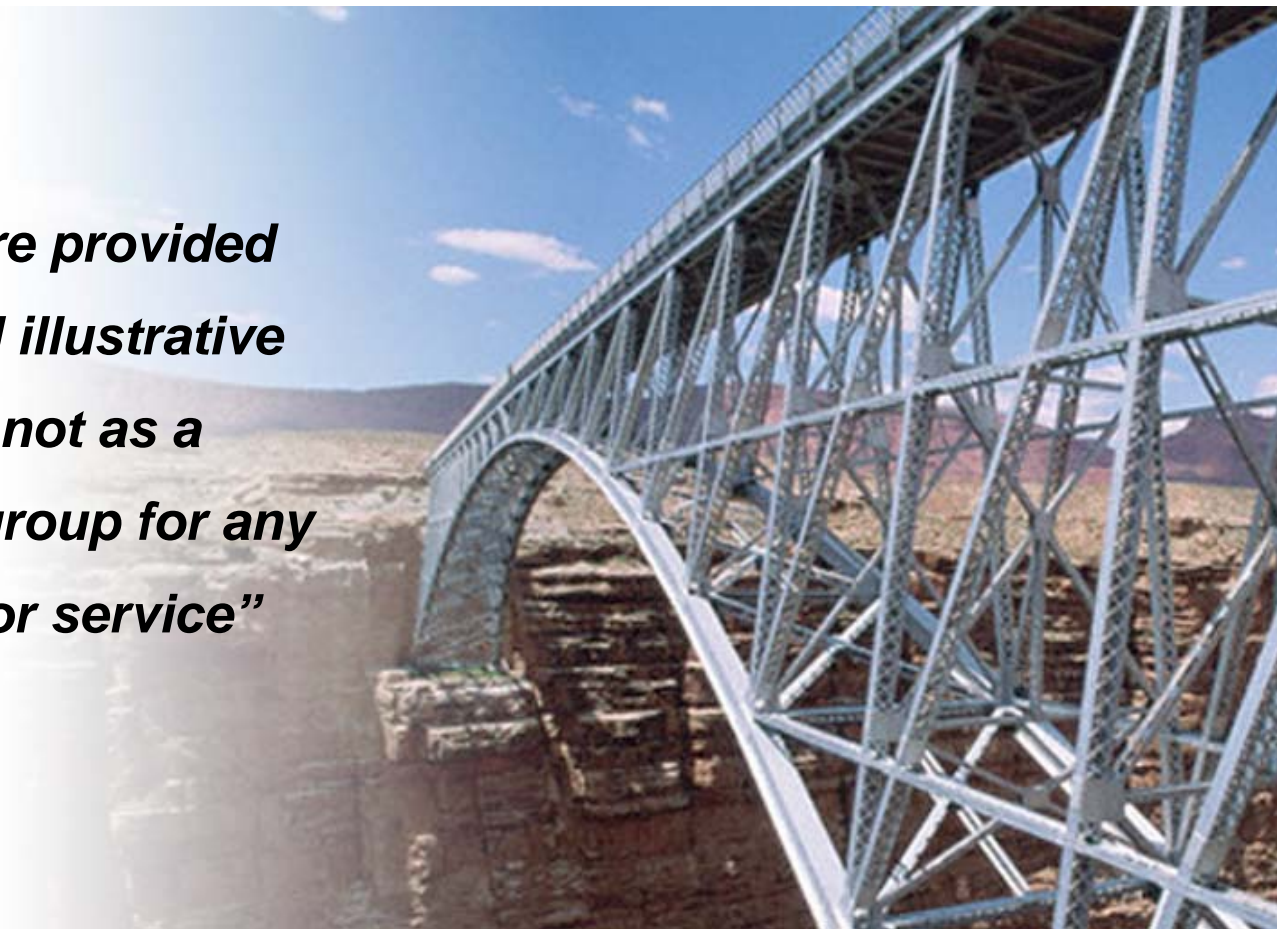
“Financing Tools to Support Extended Term Sales”

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Agenda

- **Extended Term Sales**
 - Need to provide credit terms creates a tension between sales & finance, and buyer and seller
 - Potential Consequences
- **What is International Sales Finance?**
 - International Sales Finance Defined
 - Means to bridge gap and provide win win situation for all constituencies
- **How to Structure a International Sales Finance Transaction**
 - Information needed to develop most optimal structure
 - Documentation
 - Mechanics
- **Case Studies**

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Extended Term Sales Creates a Tension
Between Finance & Sales, Supplier
and Buyer

Tension in Providing Extended Credit Terms to Buyers

Suppliers and Buyers could have competing objectives:

- Supplier wants to maximize sales & margin, optimize cash conversion cycle, have strongest balance sheet possible and mitigate political, commercial, transfer risk

- Buyer wants to “stretch the trade” push and use its “purchasing leverage” to induce seller to carry the financing costs of extended terms; buyer may not have access to extra USD liquidity, if so it may highly costly, or buyer may be constrained by its quarterly or annual budgetary allocations from central treasury

Finance’s Goal: Hit its financial metrics:

- Generate higher profit margin
- Increase positive operating cash flow
- Improving operating metrics: shorten DSO, & stretch DPO
- Mitigate risk
- Manage liquidity, live within loan covenants
- Keep sales from over promising, limit buyer credit terms, protect margin

Sales’ Goal: Make Customer Happy

- Make the sale, win the high margin deals
- Find new ways to maintain a competitive & differentiating edge, protect existing business from competitive encroachment
- A collaborative relationship with finance & credit, ability to provide creative financial solutions for buyers that lead to new, high margin sales wins

Reactive response to extended sales terms...

- **Many companies think about selling a receivable only after it has been created, without actively evaluating the market appetite for the risk, the liquidation costs of the risk, and the documentary structure required to maximize the liquidity for that risk**
- **This could lead to less than optimal outcomes . . .**

Potential Consequences

- **Worst case-Seller may have to turn away business or**
- **Seller may have to reactively or defensively grant terms to win business and in so doing may negatively impact company financial & operating metrics**
 - the balance sheet gets bloated with under leveraged A/R, increased DSO, lengthening cash conversion cycle, increased country, credit and transfer risk
 - less sales wins, wins of lower margin, declining market share, competition encroachment

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There are Solutions that Can Provide a More Optimal Outcome!

International Sales Finance . . .

- **Transactional based trade financing structures whereby seller can pro-actively grant credit terms to buyers without keeping receivable on their balance sheet. Utilizing negotiable instruments, such as bills of exchange (drafts) or promissory notes, seller can sell these to funding institution for cash, without recourse**

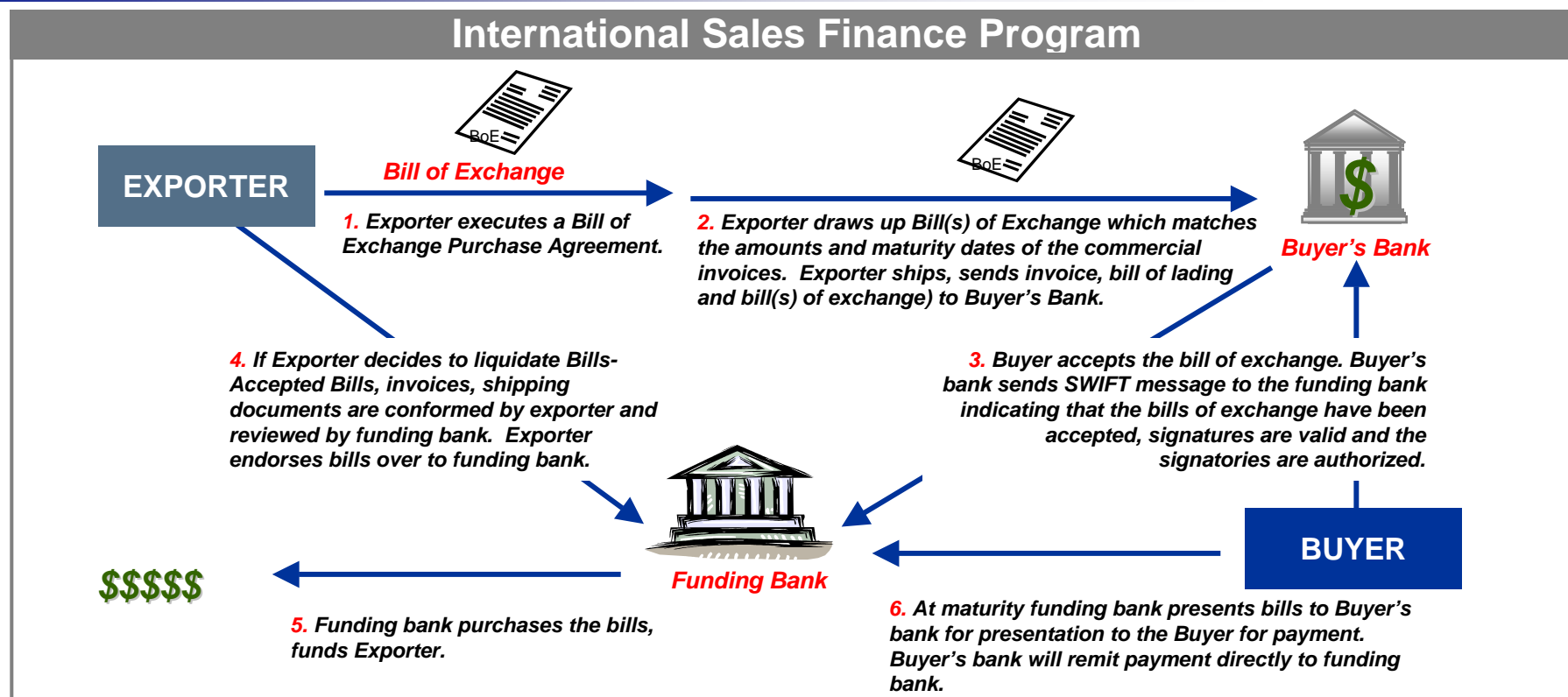


Bill of Exchange: increases the options to obtain liquidity on the underlying cash flows of an extended term sale

Standard globally recognized negotiable, transferable instrument used in international sales finance. If properly formed, executed, endorsed and accepted by Account Debtor **it decouples the commercial transaction from the financial obligation for a purchaser of the instrument.**

Per A/A para 10 para 1000 en el título de trámite: For Acceptance:	Location of Exporter/Seller USA, on _____ (Date) USD \$7,000,000.00
	Place and date of issue _____ Amount in figures _____
	At/On _____ Draft Maturity Date _____ for value received, pay <i>against this sole bill of exchange</i>
	to the order of _____ Exporter Inc. _____ the sum
	of U.S. Dollars Seven Million Only
	effective payment to be made in <u>U.S. Dollars</u> , without deduction for and free of any taxes, impost, levies or duties present or future of any nature.
	This bill of exchange is payable a <u>Banco del Pacifico, Peru</u>
	Drawn on: _____ For and behalf of: _____ Drawer: Exporter Inc.
	Compania Industrial _____ Name/Title: _____ 2203 Hamburg _____ Signature: _____ Lima, Peru 23467 _____ Date: _____

International Sales Finance: Mechanics



Which sectors, size deals and tenors are applicable to sales finance?

- Applicable to all industry segments where credit terms need to be offered: software, telecommunication, medical equipment, agricultural products, capital equipment
- Private sector and public sector buyers, pre-emerging, emerging and developed markets
- Once bill of exchange facility set up, individual transactions can be \$500K and above
- Payment terms from 90 days up to 1 year (up 3 years on exception basis)
- Can be denominated in USD and foreign currency

International Sales Finance Benefits: Optimal Solution for all Constituencies

- Sales expansion tool to increase competitiveness by providing a unique tailor made financing solution
- Buyer gets a cost effective source of USD financing and sales terms that gear to the specific economics of its purchase
- Seller can maximize margins and imbed all financing costs into the “cash” price or help buyer “buy” down costs
- Seller can unlock idle untapped liquidity on its balance sheet and optimize its operating and financial metrics
- 100% financing (minus discount interest and fees)
- True sale off balance sheet characteristics-revenue recognition advantages
- As global economic conditions change and in-country liquidity diminishes, can be a steady supply of capital into the financial supply chain to keep trade flowing
- Simple, standard documentation and straightforward mechanics

Q&A

Questions?

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How to Structure a Deal to Meet these Objectives?

Step 1: Crafting Proposal to Maximize the Contract Financing Options

Successful sales financing must meet the objectives of the exporter, desires of the prospective obligor and the return requirements of the funding institution.

Information required for funding institution to evaluate the opportunity and provide indicative pricing

- **What is the product being sold?**
- **Name and address of buyer?**
- **Where will the billing and collecting be taking place?**
- **What is the financing period requested by buyer?**
- **Has a cash price been disclosed to buyer, if so what is it?**
- **Does buyer have specific interest rate it is willing to pay?**
- **Where are you in the sales process? When will contract be signed?**
- **When will delivery take place, will there be multiple shipments?**

Step 2: What are the Variables that Determine Pricing?

**Credit standing of
Foreign Buyer**

**Commitment
Period Required**

Country



Pricing

Tenor of Sales

Additional Credit Enhancement

- Trade credit insurance
- Bank aval (local bank guaranty)

Step 3: What documentation is required?

- **Bill of Exchange/Promissory Note Purchase Agreement**
- **Original Bill of Exchange/Promissory Note duly endorsed to funding bank**
- **Conformed copies of Shipping Documents**
- **Conformed copy of Sales Contract or PO**
- **Conformed copy of Commercial Invoice**
- **SWIFT Message from Buyer's Bank indicating signatures on Bill Of Exchange are valid and binds the signatories in their intended capacities**

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How to Get Funded?

Process to Get Funded

- **Execute a Bill of Exchange/Prom Note Purchase Agreement**
- **Get your banker in early to the discussions when the deal is in the negotiation stage**
- **With detail on the prospective opportunity, banker should be able to provide indication of interest on capacity, maximum terms available and pricing**
- **In emerging markets or when dealing with buyers where capacity is limited, obtaining a commitment may be advised**

Process to Get Funded

- **Finance provides pricing info to sales team to maximize negotiation power with buyer and help win the deal**
- **Ship and provide documentation to funding bank as mechanics slide indicated earlier**
- **If documentation is acceptable to funding bank, Bill of Exchange/Promissory Note is purchased. This is when interest rate is actually determined. Seller should receive discounted proceeds within 2 business days**
 - Face value of the Instrument – (discount interest-draw fee-stamp duties, if applicable to that country – 10 days of grace interest)

Q&A

Questions?

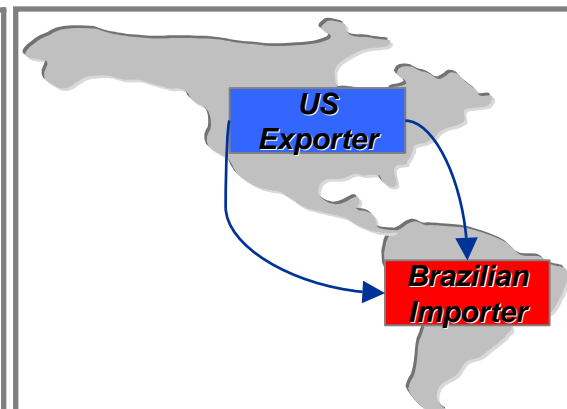
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Case Studies

A Case Study: Brazil Telecom Equipment Sale

Situation:

- US telecom manufacturer selling to Brazil for telecom build out. Terms of sale are at 90, 120, 180 and 270 days after shipment
- Brazil importer needs these terms to match cash flows of its equipment deployment schedule, does not want to tie up its bank line of credit. Foreign competitors offering terms
- Exporter Objective: Mitigate Brazilian risk, decrease high concentration, liquidity-A/R excluded on line of credit, revenue recognition
- Solution: A \$20 million Bill of Exchange (BOE) purchase facility



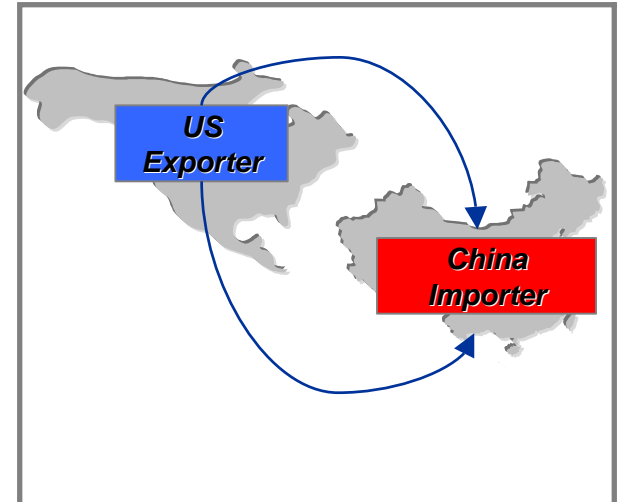
Transaction Process:

- Exporter profiled the opportunity early with banker to determine appetite for account debtor, documentation requirements, and pricing for sales to incorporate into bid
- Exporter signed BOE purchase agreement. Credit capacity tight for Buyer, exporter decided to lock in commitment to cover the 3 month shipping schedule
- Exporter shipped, issued series of BOEs which matched the invoice maturity dates. Brazilian importer accepted BOEs, its Brazilian bank acknowledged signatures valid and signatories were authorized via SWIFT message to funding bank
- BOEs sent to exporter along with Brazil import license and Brazil import certificate. Exporter assembled documentation package, original bill which was endorsed to funding bank, conformed copies of invoices, bills of lading. Exporter could liquidate all BOEs or hold until liquidity was needed
- Funding bank reviewed the documentation, purchased all BOEs, funded exporter discounted proceeds (face value of the BOEs minus discount interest, draw fee, and 10 days of grace). Brazilian importer's bank and importer notified that BOEs were purchased by funding bank and with instructions to remit payment to funding bank at maturity
- At maturity, funding bank presented BOEs to Brazilian importers bank for payment. Importer's bank remitted payment at maturity, trade finance facility was settled

A Case Study: Capital Equipment Sales to China

Situation:

- US medical equipment company has one year contract to sell to Chinese buyer. Shipments will be monthly, with sales terms of 360 days after shipment, in USD
- Chinese importer needed a cost effective source of USD financing to bridge the trade cycle gap between when it receives the product and until time equipment is deployed and generating revenue
- Exporter Objective: Mitigate China risk, could not get the financial information to assess the credit worthiness of Chinese buyer. Liquidity & revenue recognition on the sales
- Solution: A \$30 million Bill of Exchange purchase facility



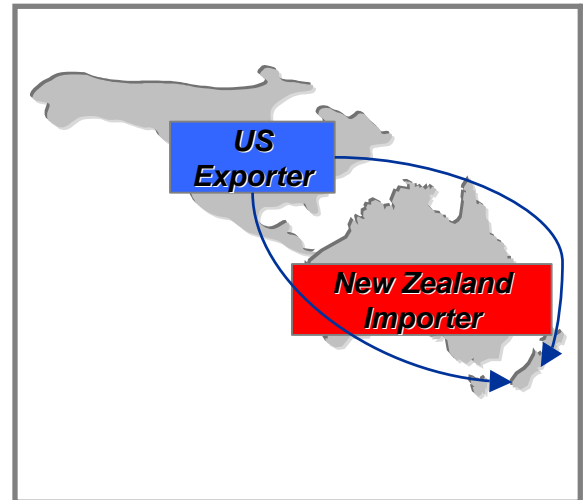
Transaction Process:

- Exporter ships, issues Bill of Exchange (BOE) which matches the invoice maturity dates. Chinese importer accepts BOE, its local bank acknowledges signatures valid and signatories were authorized via SWIFT message to funding bank, and provides its aval or “guaranty” to the BOE
- Exporter executes BOE purchase agreement. Accepted BOE sent to exporter. US exporter endorses BOE over to funding bank, with conformed copies of invoices, bills of lading, and commercial contract
- Funding bank reviews the documentation, funds exporter discounted proceeds (face value of the BOE minus discount interest, draw fee, and 10 days of grace). Chinese importer’s bank is notified that BOE was purchased by funding bank with instructions to remit payment to funding bank at maturity
- At maturity, funding bank presents BOEs to Chinese importer’s bank for payment. Importer’s bank remits payment at maturity, trade finance facility is settled

A Case Study: Multi-year Software Sale to New Zealand

Situation:

- US enterprise software company selling to New Zealand buyer for a number of years on one year terms. Buyer and seller had a positive commercial relationship exceeding three years and its technology was considered “mission critical”
- New Zealand buyer wanted to make a global deployment of the system which was 8 times what the annual spend was. Economics of the deal required three year terms with three annual payments
- Exporter Objective: Find a solution that could accommodate its buyer’s budgetary constraints to be able to win this contract, which at the same time allowed seller liquidity on this three year payment stream
- Solution: A \$26 million non recourse Promissory Note purchase facility



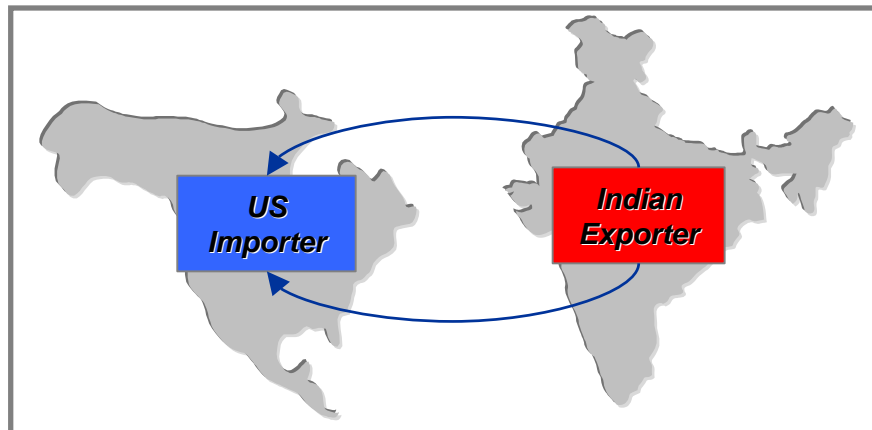
Transaction Process:

- Exporter issued a series of 3 promissory notes with maturity dates of year 1, 2, 3 respectively. Notes USD denominated, non-interest bearing and which signified unconditional payment obligations of the NZ buyer. They were assignable, not subject to dispute, setoff or counterclaim
- Additional documents were a Note Purchase Agreement (between seller and funding bank) and the Master License Agreement. Corporate authorizations and consents were received on the seller of the Notes and the Note debtors. Legal opinions were received attesting to the validity and enforceability of the transaction documents. At maturity, amounts due under the Notes would be paid directly to the funding bank
- Funding bank reviewed the documentation, funded seller discounted proceeds (face value of the Notes minus discount interest, draw fee, and 10 days of grace)
- At maturities, funding bank received funds from Note debtor and trade finance facility would be settled

A Case Study: Financing Indian Exports to USA

Situation:

- Indian technology exporter selling into the USA. US buyer required 120 day terms on each shipment
- US Buyer Objective: Optimize cash conversion cycle by increasing DPO and push the financing burden to the supplier
- Indian Supplier Objective: Leverage its 120 day USD denominated A/R for working capital purposes
- Solution: A \$50 million Bill of Exchange purchase (BOE) facility



Transaction Process:

- US funding bank provided \$50 million uncommitted facility to purchase BOEs accepted by US technology company “buyer” on a non-recourse basis
- Indian supplier presents “documents” to Indian supplier’s bank with instructions to forward directly to US importer’s bank in USA
 - Conformed Invoice
 - Conformed Copies of Bills of Lading
 - Original Bills of Exchange
- Indian supplier requests US funding bank to discount the BOEs at agreed rate after BOE has been accepted by US importer
- US importer accepts BOE, submits BOE and other documents to US funding bank
- US funding bank funds Indian exporter within 3 business days after documentation is deemed acceptable
- At maturity, BOE presented for payment to US importer’s bank, funds collected and trade facility settles

Sales Finance Benefit Summary

- **Be more competitive and win more deals and higher margin deals by providing terms**
- **Keep liquidity within financial supply chain if economic conditions change and local liquidity dries up**
- **Accelerate cash flow, convert extended-term sales into cash**
- **Eliminate commercial, political, and transfer risks**

Q&A

Questions?

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