Exploring Exports:

Financing Your Export Sales

Presented by:
Scott K. Hibbard, Vice President
International Trade Finance

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Agenda

- Overview: Global Trade Trends
- Trade Cycle, Trade Risks, and Export Time Line
- Financing the Global Supply Chain
  Export Letter of Credit Financing
  Ex-Im Bank/SBA Export Financing
- Conclusion
Overview: Trade Trends

- Global trade continues to recover to pre-2008 levels with anticipated 2012 Michigan Export Trade growth of 7% (surpassing overall anticipated US export growth of 6%).

- Small businesses and Agriculture continue to be among the fastest growing segments of the export community.

- Canada & Mexico represent nearly 33% of US exports... and 64% of Michigan Exports!

- **Historic Annual Trade Growth Trends:**
  
<table>
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<th>1965-1999</th>
<th>Since 1999</th>
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<tbody>
<tr>
<td>Developed Nations to/fr Developed Nations</td>
<td>14%</td>
<td>6%</td>
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<tr>
<td>Developed Nations to/fr Emerging Nations</td>
<td>6%</td>
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  *Trade trends have effectively flipped in past 10 yrs.*

- Population growth within Emerging Markets is driving this growth
Overview: Trade Trends

- Total Michigan Exports: $45B (2010)
- Michigan Agriculture Exports: $1.75B (4.0%) 10% growth
- 33%+ of Michigan Ag. Products are Exported
- Ag. Export volumes have remained much more stable thru recent economic cycles than others (i.e. merchandise, service sectors)
- US Trade Surplus: Food Manufacturers and Ag. Products (competitive adv.)
- **Caution:** With global expansion comes longer lead times and unanticipated trade cycle costs, leading companies to desire to match the physical trade cycle with the financial trade cycle, in order to improve cash flow, optimize working capital, and reduce lead times and costs.
- As companies increasingly depend foreign products and foreign sales, new approaches are needed to fuel the global demands on company working capital.
Overview

Trade Cycle, Trade Risks, Trade Time Line
The Trade Cycle represents the various stages of the buying and selling process among trading partners.

The trade cycle is comprised of three interdependent flows: **flow of goods, flow of information** and **flow of funds**.

The trade cycle diagram illustrates the typical stages of the buying and selling process:
Primary Goals of Global Companies

Research shows that companies doing business globally have four primary goals:

- **Optimize working capital**
  
  insert W/C where needed, in-transit inventory, foreign vendor/foreign buyer financing, pre-export financing…

- **Mitigate key risks** (e.g., commercial, political, FX)

- **Reduce costs** (hard & soft costs)

- **Simplify the trade process** (less internal processing)
Risks in International Trade

- **Commercial Risk** - Insolvency, unscrupulous buyer
- **Product Risk** - Quality, quantity
- **Foreign Exchange** - Convertibility of currency
- **Political Risk** - Government restrictions on payment (both U.S. and foreign), economic stability, war embargo
- **Documentary Risk** - Wrong documents, improperly prepared documents, incomplete documents
- **Transportation Risk** - Timeliness of delivery, piracy, pilferage, unions, etc.
- **Pricing Risk** - Properly identify all costs of the int’l transaction, inland freight, loading, customs duties, clearance, financing, etc…
Considerations to Improve Your Global Supply Chain

- Does your global payables turnover (DPO) compare favorably to your A/R Turnover (DSO)?
- Does off-shore or in-transit inventory offer potential add’tl working capital?
- Are you taking advantage of Trade Discounts from your foreign vendor?
- Have you considered financing your foreign vendor?
- Do you have enough “domestic” borrowing base to adequately support export growth?
- Are you able to adequately finance the production of export orders?
- Do your foreign AR’s offer potential add’tl working capital?
- Have you considered financing your foreign buyers? (30 days to 5 yrs.)
- Have you considered offering a Foreign Currency Price?
Payment Methods: Four Methods

**Buyer (Importer) Perspective**
- Open Account
- Documentary Collections
- Letter of Credit
- Cash In Advance

**Seller (Exporter) Perspective**
- Cash In Advance
- Letter of Credit
- Documentary Collection
- Open Account

Buyer and Seller have Reversed Priorities!
Trade Cycle Financing:
Export Finance Timeline

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**Pre-Shipment Period**

**Working Capital Financing/PO Finance**
1. Bid & Performance Letters of Credit
2. Export Letters of Credit
3. Pre-Shipment Working Capital (Ex-Im Bank and SBA programs)
4. Off Shore & In-transit Inventory Financing
5. Foreign Currency Hedging

**Post-Shipment Period**

**Foreign Buyer Financing**
6. Letters of Credit & Bankers Acceptance (BA) Financing (to 360 days)
7. Documentary Collections & Trade Acceptance (TA) Financing
8. A/R Credit Insurance
9. Discounting BA’s
10. Buyer Financing Programs (Ex-Im Bank) (30 days up to 18 yrs.)
Trade Finance Tools

Export-Import Bank of The US

SBA Export Finance

Export Letter of Credit Financing
Ex-Im Bank


- Created in 1934 as the Official Export Credit Agency (ECA) of the United States.

- Ex-Im Bank’s mission: Jobs Through Exports
  Assist in financing the export of U.S. goods and services.

- “Sunset Agency”
  Re-authorized by US Congress every 5 yrs.
Ex-Im Bank: 2011 Authorizations

- $32 Billion in Total Authorizations (loans, guarantees, and export credit insurance)

- 2011 was an All Time Record in Ex-Im Bank’s 77 year history.

- Authorizations for SMALL BUSINESS totaled $6 Billion
  (Small Business defined as < 500 employees)
  - Nearly 200% growth since FYE 2008
  - 87% of total transactional volume
  - 19% of total dollar volume

- FYE 2011 Authorizations Supported over 3,600 US companies.

- Other Items of Note:
  - Ex-Im Bank very conscious of supporting congressional mandates, incl. small businesses, alternative energy, environmentally related products and services.

- Ex-Im Bank is Open for business in 175 countries.
General Guidelines

- **Military and defense items are generally NOT eligible** nor are sales to military buyers.

- Goods eligible for financing must meet Ex-Im Bank’s US content requirements.

- Goods must be shipped from the U.S. to the international buyer…with payment sent directly to exporter in USA.

- Buyer’s country must be eligible according to Ex-Im Bank’s Country Limitations Schedule (CLS)…[exim.gov](http://exim.gov).
Ex-Im Bank
A Review of Financing Solutions

- Working Capital Loan Guarantee Program
- Short Term Export Credit Insurance
- Other Programs of Note
Working Capital Guarantee Program
Program Description

- Pre-shipment Working Capital...
  > Production costs of inventory & labor on Export Orders.
  > Performance LC’s (i.e. “advance payment guarantees”)

- “Revolving Credit Line” or “Transaction Specific Credit Line.”

- Loan is closed/funded with an “Ex-Im approved” financial institution and Ex-Im guarantees the loan (generally a 90% guarantee).

- Generally One Year maturity, but may extend up to three years.

- Excellent Tool to Finance Export Growth
Working Capital Guarantee Program
Features/Benefits

- **Advance Rates**
  - 90% of Eligible Export-Related Accounts Receivable
  - 75% of Eligible Export-Related Inventory, incl. WIP!

- **Standby Letters of Credit** (bid/performance/warranty)
  - Reduced Collateral requirements…just 10% to 25% of LC

- **Ex-Im Bank will also consider:**
  - Export-Related Overseas Accounts Receivable
  - Export-Related Overseas Inventory
Working Capital Guarantee Program
Features/Benefits

- **Supports “Indirect Exports”**
  Company A produces and ships to Company B in USA, then Company B exports product

- **Delegated Authority Lenders**
  Enables designated banks to commit to facilities up to $10MM without pre-approval from Ex-Im Bank, thus expediting the process for exporters.

- **Ex-Im Bank generally wants to find a way to get the deal done.**
Working Capital Guarantee Program
Requirements/Qualifications

- Minimum Operating History: One (1) year
- Minimum US Content: 51%
- US Export from an adequately capitalized business operation
- Military/Defense and Nuclear Sales: Not Eligible
- Semi-annual field audit required for loans $1MM and greater
Working Capital Guarantee Program
Requirements/Qualifications

- **Ratio Test:** Borrower must pass 4 of 7 financial ratios as published by the RMA based on either “Assets” or “Sales.”

- **Positive Tangible Net Worth:** Borrower must have a positive tangible net worth at the time of application based upon the most recent interim financial statement.

- **Personal Guarantee:** All persons or other entities with a 20% ownership must guarantee the credit facility. Venture capital firms will be excluded.

- **Borrowing Base Certificates** (weekly or monthly)
Working Capital Guarantee Program
Program Costs

- Ex-Im Bank Application Fee: $100

- Ex-Im Bank Facility Fee:
  - 1.5% of loan amount for a one-year loan
  - .75% of loan amount for loans up to 6 months

- Bank Loan Interest Rate: Negotiated between bank & borrower

- Loan Closing Costs (i.e. legal fees)
SBA – Export WC Financing

VERY SIMILAR TO EX-IM BANK...

Key Differences
- Must meet SBA size standards
- No support of warranty letters of credit
- No Financial Ratio Test
- NO Minimum US Content
- NO Military/Defense restrictions
- No Semi-annual field audit required for loans $1MM and greater
- $5MM Maximum loan facility size
# Trade Cycle Financing Solutions – Case Study I

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<thead>
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<th>Company</th>
<th>Midwest Agri-Business Sales, Inc.</th>
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<tr>
<td>Line of Business</td>
<td>Manufacturing of food packaging equipment and specialty packed foods</td>
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<tr>
<td>Requirement</td>
<td>Loan to finance a $3MM export contract to Mexico</td>
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<tr>
<td>Issue</td>
<td>Need Working Capital to finance INVENTORY &amp; PRODUCTION COSTS.</td>
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<td></td>
<td>Need to manage credit/repayment risk of foreign buyers</td>
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<td>Solution</td>
<td>$2MM line of credit, backed by Ex-Im Bank Working Capital Program.</td>
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<td>Finance export related inventory (75%) and foreign AR’s (90%)</td>
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<td>Standby Letters of Credit supporting export bids, advance payments/ performance and warranty guarantees (using only 25% collateral)</td>
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<td>Standby Letters of credit, Credit insurance, and Foreign Exchange.</td>
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<td>Results</td>
<td>Strategic Export financing tool for pre-shipment W/C needs</td>
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<td>Strong leveraging tool that incorporates aggressive advance rates on normally ‘ineligible’ assets.</td>
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<td>Foreign PO financing.</td>
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Trade Cycle Financing:

**Export Finance Timeline**

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**Pre-shipment Period**

**Working Capital Financing/PO Finance**

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**Foreign Buyer Financing**

6. Letters of Credit & Bankers Acceptance (BA) Financing (to 360 days)
7. Documentary Collections & Trade Acceptance (TA) Financing
8. A/R Credit Insurance
9. Buyer Financing Programs (Ex-Im Bank) (30 days up to 18 yrs.)
Export Letter of Credit

$100,000 Export Order from Korea Buyer
Confirmed and Payable “90 days after date of shipment”

$1,250 All-In LC cost... accomplishes the following:
- Competitive 90 day terms provided to foreign buyer
- Removes all foreign payment risk
- Payment risk with your USA Bank partner (“confirmed” LC)
- Exporter receives payment at 90 days

$1,750 All-In LC cost… (approx. 2% of invoice amount)
- Exporter receives $$ at time of shipment
Ex-Im Bank
A Review of Programs

- Working Capital Loan Guarantee Program
- **Short Term Export Credit Insurance**
- Other Programs of Note
Export Credit Insurance
Program Description

- **Short Term Insurance**
  To 180 days, exceptionally to 360 days.  
  51% minimum US content, otherwise only insurable up to US content amount.

- **Medium Term Insurance**
  Loan to buyer, under $10MM, up to 5 year maturity.  
  85% minimum US content, otherwise only insurable up to US content amount.
S/T Export Credit Insurance
Program Description

- An insurance policy that provides “A/R Collection Protection” from non-payment of foreign buyers

Commercial Risk:
Nonpayment by overseas buyer due to insolvency and slow pay. Currency fluctuation due to government actions are considered commercial risk.

Political Risk:
Nonpayment due to war, revolution, cancellation of import/export license, currency inconvertibility, and other government actions.

- Policies can cover foreign and/or domestic sales
- Policies can cover a Single Buyer or Multiple Buyers
S/T Export Credit Insurance
Features/Benefits

Credit Insurance: 3 Primary Advantages

1. Risk Mitigation Tool
   *Insure selected receivables against non-payment.*

2. Marketing Tool
   *Extend competitive credit terms to international buyers.*

3. Financing Tool
   *Arrange attractive financing with the exporter's lender by using insured foreign receivables as additional collateral.*
S/T Export Credit Insurance
Features/Benefits

- **Multi-Buyer Policy**
  - One (1) year policy insuring *all* short-term export credit sales
  - Political/Commercial Risk Coverage:
    - 90%/100% OR 95%/95% on Private Buyers
    - **98% on Bulk Agricultural sales**
    - 100% on Sovereign Buyers (foreign govt.’s)

- Premiums are paid only on actual shipments.
- Covers payment terms up to 180 days, exceptionally to 360 days.
- *Policy can be assigned to a bank for financing purposes.*
S/T Export Credit Insurance
Features/Benefits/Costs

“SMALL BUSINESS” Multi-Buyer Policy
Eligibility: Exporters with avg. annual export sales under $7.5MM.

- Generally same as regular Multi-Buyer Policy… with these Enhancements:

1. **Simplified and Less Expensive Premium Rate Schedule**
   - 1 – 60 days: 55 bps (.55%)
   - 61-120 days: 90 bps (.90%)
   - 121- 180 days: 115 bps (1.15%)

2. **No Annual First Loss Deductible**

3. **Premiums are paid only on actual shipments.**
S/T Export Credit Insurance
Approval of Foreign Buyers

Required Credit Information on Foreign Buyers

- **Up to $50,000**: Credit Agency Report, or Trade Reference
- **$50,001 to $100,000**: Credit Agency Report and Trade Reference
- **$100,001 to $300,000**: Credit Agency Report and 2 Trade References...The Buyer’s audited or signed unaudited financial statements for the last 2 fiscal years may be substituted for the trade references
- **$300,001 to $1 million**: Credit Agency Report and 2 Trade References and the Buyer’s audited or signed unaudited financial statements for the last 2 fiscal years with notes.
- **Over $1 million**: Credit Agency Report and 2 Trade References and a Bank Reference and the Buyer’s audited or signed unaudited financial statements for the last 3 fiscal years with notes.

* The applicant’s credit experience with the Buyer may be substituted for a Trade Reference.
## Trade Cycle Financing Solutions – Case Study II

<table>
<thead>
<tr>
<th>Company</th>
<th>Superior Edibles, Inc.</th>
</tr>
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</table>
| Line of Business | Manufacturers of commodity and specialty packaged foods.  
|               | US grown and manufactured product  
|               | Primarily sold in USA, with growth prospects in Mexico and Canada |
| Requirement  | Risk management of growing foreign A/R exposure  
|               | Financing foreign (Mexico/Canada) accounts receivables |
| Issue       | Additional security needed to offer competitive export sales terms (i.e. net 60 days)  
|               | Additional W/C needed support strategic export growth |
| Solution    | Ex-Im Bank “Small Business” A/R Credit Insurance:  
|             | • $1MM Revolving Line of Credit facility supported by Ex-Im Bank policy with policy assigned to lending bank.  
|             | • Enables MI agri-business to pursue the int’l markets with competitive sales terms (i.e. net 60 days) and execute its foreign sales growth goal with financing security & collection confidence. |
| Results     | • Better sleep habits at night!  
|             | • Improved W/C capital position to support foreign growth goals (transformed formerly ineligible assets!)  
|             | • A sound strategy of growing export with confidence. |
Ex-Im Bank
A Review of Programs

- Working Capital Loan Guarantee Program
- Short Term Export Credit Insurance
- **Medium Term Export Credit Insurance**
- Other Programs of Note
M/T Export Insurance
Program Description

- Foreign buyer financing, generally 3-5 yrs.
- Best Use: Equipment and Machinery
- Exporter paid after shipment...at time of loan closing.
- Buyer must make a 15% cash down payment and Ex-Im Bank will guarantee the remaining 85% at 100% coverage.
- Cost: Ex-Im “Exposure Fee” of 2-4%, plus loan spread.
Ex-Im Bank
A Review of Programs

- Working Capital Loan Guarantee Program
- Short Term Export Credit Insurance
- Medium Term Export Credit Insurance
- Other Programs of Note
Private Insurance Market
(i.e., Euler Hermes, CoFace, Atradius, FCIA, AIG)

**PRO’s...**
- Private Market is competitively priced… and often is less expensive than Ex-Im Bank credit insurance policies.
- The capacity of private insurance market has been steadily recovering since the global credit crisis (2008-2009).
- Private market has no U.S. content requirements or military restrictions.
- Specialty risks (unfair calling of LC’s, contract frustration, nationalization)

**CON’s...**
- Ex-Im Bank’s WCGP (pre-shipment financing) is unique.
- Ex-Im Bank has more political considerations and staying power than private insurance market.
- Private insurance market is more likely to pull/cancel policies and exit whole industry types in rough economic times
- Ex-Im Bank is open in 175 countries, more geographic coverage.
Trade Cycle Financing:

**Export Finance Timeline**

- **Pre-Shipment Period**
  - Exporter:
    - Sale
  - Import Shipment:
    - Invoice
    - Bill of Lading

- **Post-Shipment Period**
  - Importer:
    - Payment

**Working Capital Financing/PO Finance**
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