NAELB 2015 Annual Conference

FINANCING OPTIONS
FOR INTERNATIONAL SALES

Presented 1 May 2015
in Phoenix AZ
by Gary Mendell
Meridian Finance Group

Presentation Outline

- International markets
  - Sales growth opportunities for vendors
  - Challenge = global demand for credit
- Export financing alternatives
  - Short-term credit for small-ticket transactions
  - Medium-term credit for larger deals and buyers
- Export credit insurance
  - International non-payment and asset risks
  - Managing international risks with insurance
- Working with Meridian
  - Meridian Finance Group's role(s)
  - Income opportunities for brokers

Opportunity: International Markets

There are challenges in the world economy
but also opportunities for growth

- Out of all the people on Earth, only 5% live in the USA
- The US economy represents less than 25% of global GDP
- The global recovery is not affecting every country the same way
- Worldwide demand continues to engender a lot of international trade
- **So your vendors are exporting—or at least they should be exporting—to markets all around the world**

Challenge: Global Demand for Credit

Vendors need to offer payment terms to expand their international sales:

- When customers refuse to pay cash in advance or open L/Cs
- By way of a competitive tactic vs other suppliers
- For foreign customers facing limited access to capital
- As alternatives to high foreign interest rates, exchange controls
- To develop and support distribution and fill supply chains
- And to open doors open in strategic markets

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Export Financing Alternatives

- Short-term (up to 1 year) credit for single or multiple deals
  - No minimum transaction size
  - Flexible underwriting of customer credit
  - Need only vendor's invoice, bill of lading, etc.
  - **Any kind of terms can help increase international sales, especially for vendors who up until now have required foreign customers to pay cash or open letters of credit**
- Medium-term (1-5 years) financing for single deals
  - Only for customers with top-tier credit
  - Minimum transaction size = $1 million
  - Requires visits, structured debt, liens, etc.
- Medium-term programs for multiple deals
  - Greater risk retention by vendor in return for flexibility
  - For vendors with enough volume and experience to make the own international credit decisions

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Short-Term (up to 1 year) Programs

- International sales tool for vendors
  - Foreign customers seek credit for different reasons from US lessees
    - Time it takes for equipment to get delivered, installed, commissioned
    - Local regulations, access to capital, currency exchange controls
  - Foreign buyers of small-ticket equipment may ask for 2 to 5 years, but medium-term financing does not exist for small-ticket deals
  - **Many US vendors now offer little or no export payment terms at all, so even short credit terms can help expand their international sales**
- Vendor involvement in credit/financing structure
  - Vendor invoices foreign customers directly
  - Payment terms are spelled out on vendor's invoices
  - Vendor protects receivables with export credit insurance
  - Insured foreign receivables can be financed various ways
  - Feasible for one-off deals, but usually set up as a program

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Short-Term (up to 1 year) Programs

- No minimums in most cases
  - No minimum transaction size for terms up to 180 days
  - No minimum annual volume for some types of equipment
  - Available for equipment, raw materials, parts, services, etc.
- More flexible credit underwriting
  - In some cases requires only credit reports and trade references
  - Small to medium-sized customers okay, even in emerging markets
  - Relatively fast approval turnaround times
- No structured financing documentation
  - Required documents = order, invoice, bill of lading, etc.
  - Vendors need to know their foreign customers, but information/documentation requirements are proportional with transaction sizes and terms

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Medium-Term (1-5 years) Deals

Unlike export transactions with short credit terms, medium-term (1-5 years) deals need to address:

- Patriot Act, KYC, and other due diligence requirements
  - Lender and vendor need to visit customer and kick the tires
  - OFAC, EPLS, etc., plus local regulatory prerequisites
- Documenting the customer's debt obligation
  - Different legal system in each country
  - Credit agreements take weeks, plus legal costs
- Perfecting first-position security interest in collateral
  - Nothing as simple as a UCC filing
  - Costs for liens and legal opinions run 4- to 5-figures

Therefore medium-term financing is available only:

- For deals over $1 million (or larger if more complex)
- For customers with top-tier credit (audited financials, etc.)

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Programs for Experienced Vendors

- For vendors with significant experience
  - international credit department, procedures, people in foreign markets
  - background extending similar payment terms, successful track record
  - broad spread of risk in terms of countries, sectors, customers, etc.
- Delegated authority for vendor to offer payment terms:
  - with vendor continuing to make their own credit decisions
  - based on mutually-agreed credit/collections procedures
  - obviating need for underwriting by outside insurers/lenders
- Vendor participation in foreign exposure:
  - includes a larger portion of the portfolio nonpayment risk
  - is typically much smaller total risk than vendor acting alone
  - facilitates financing, parent company approvals, etc.

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Options for Inexperienced Vendors

- Trading company financing for vendors:
  - lacking experience in export regulations, transportation, etc.
  - with limited working capital and no credit facilities
  - who don't have any interest in exporting themselves
- Pros
  - payment of vendor's invoice = 100% upon shipment
  - vendor has no role in making international credit decisions
  - trading company handles shipping, cargo insurance, delivery, etc.
- Cons
  - expensive (markup may equate to 2% - 4% per month)
  - vendor is not invoicing directly to its customer(s)
  - recourse to vendor for equipment performance

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Problem: International Credit Risks

What happens if a foreign customer doesn't pay as agreed?

International credit risks:

- Customer bankruptcy, receivership, or insolvency
- Cash flow problems, balance sheet issues, financial fraud
- Over-estimated demand, under-estimated competition, etc.
- General economic conditions (there or in USA)
- Reductions in access to local working capital
- Currency fluctuations, foreign exchange controls
- Expropriation, confiscation, nationalization
- War, civil strife, violence, sanctions, embargoes

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Solution: Export Credit Insurance

Export credit insurance enables vendors and lenders to:

- Protect their foreign receivables against virtually all default risks
- Extend competitive export payment terms with confidence
- Expand their international sales and market share
- Increase profitability of doing business internationally
- **Finance their foreign receivables, which financial institutions won't touch otherwise**

(Export financing arranged by Meridian Finance Group does not always require export credit insurance, but the coverage is such an effective sales/financing tool that it is often a component of our stand-alone deals as well as most of our vendor programs)

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- Foreign buyer financing for large-ticket international deals
- Vendor credit programs for all sizes of export transactions
- Support for vendors every step of the way
  (credit reports, financial analysis, translation, training, etc.)
- Diverse other export financing alternatives

Meridian International Insurance Services

- Over 20 years of specializing in export credit insurance
- More Ex-Im Bank policies than any other insurance broker in the country (although most of Meridian's policies are underwritten by insurers in the private sector)
- Other specialties include political risk insurance for foreign government deals, project finance, protecting assets against expropriation, etc.

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Broker Income Opportunities

- Referral fee (from Meridian to broker)
  - For the life of Meridian's relationship with the vendor
  - Regulatory limitations (insurance vs financing, no buy/sell rates, etc.)
  - Generally smaller than compensation on domestic leasing deals
  - May not be combined with other income (conflict-of-interest)
- Vendor charge (from vendor to broker)
  - Broker has pre-existing relationship with vendor (?)
  - Manageable for vendors and their foreign customers
- Foreign buyer charge (from buyer to broker)
  - Broker has relationships with vendor's customers (?)
  - Cannot replace vendor's due diligence responsibilities
- Financing arrangement fee (from lender to broker)
  - If Meridian provides only export credit insurance and . . .
  - Leasing broker arranges A/R financing for vendor

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