

SYNOPSIS OF FINANCE WORKSHOP AND NETWORKING EVENT ON 13th/14th March 2012

Growth Strategies for Exporting SME's

Outlined below are the key messages from each speaker, to access slides of their presentations please visit the EI corporate website at www.enterprise-ireland.com/financeforgrowth

1. **Hilary Hough, hi-lighted various growth strategies and the primary considerations for a company to achieve sustainable growth, some key messages included:**

- o Growth for growths sake should never be an objective, there is no value unless delivering cash to the bottom line
- o Ultimately there are only 2 ways grow the business profit
 - o Increase the return – sell more products, sell a service, increase the margin by increasing prices or lowering costs, acquire sales from an M&A, etc
 - o Reduce the capital employed - sell of unwanted assets, unprofitable departments, lease, outsource, etc
- o If you do not get the information you required when considering an M&A then walk away, you need to ensure that the synergies will be worth it (i.e. $2 + 2 = 5$) - it is essential to have a walk away price. The first 90 days are essential if these synergies are to be achieved
- o It is essential to get the capital structure of a business correct; getting it wrong is one of the most common causes of business failure. A simple rule of thumb is that if the ROCE < the interest cost then you are in effect working to repay debt. The company requires more equity not debt to finance. Where a company has a Debt:Equity ratio >1 it means that the bank has more money in the company than the shareholders but it's the owners who are making all the decisions
- o Capital structure should reflect reasonable balance between Business & Financial risk - If Business Risk is high then the business will not be able to take on high Financial Risk
- o Essential to match the use with an appropriate source of funding type – Co must identify permanent finance, permanent working capital and fluctuating wc
 - o Fixed Assets = Equity and term debt
 - o Permanent Working Capital = Revolving credit (such as ID)
 - o Fluctuating Working Capital = Overdraft

Suretech Case Study – Key points

- o High business risk – operating margin is very tight, a single mistake could have very costly implications for the business – suggests that Suretech ideally should opt for a low financial risk strategy
- o Currently the debt structure is wrong for the business – primary debt is a term loan but the company have insufficient cash to make repayments.
- o FA are low and equity funds this and a considerable amount of permanent working capital - the remaining permanent wc should be funding through ID i.e. replace the term debt

2. **EI Client Presentations** Brian Stack (Qumas) and Mark Kenny (ERGO) - key points included:

- o Growing internationally you need to get local knowledge and someone you trust on the ground there
- o Its important to manage you people and the company culture – find good people and invest in them
- o Need a good understanding of the buyer and do in-depth research into the market opportunity to insure that you don't over invest

- o Need review mechanisms to ensure that you can handle the sudden increase in demand and that any strategic partners are consistently reviewed – if they are not working then get rid of them
- o Finance person needs to be engaged all the way through the process – confirming the opportunity and looking at ways to mitigate the risk e.g. FX, tax, appropriate funding strategy, etc

3. Topics discussed at the CFO forum by the attendees

- o Access to credit and level of guarantees required
- o Information requirements for the bank
- o Discussion on how to quote for business in a foreign currency and how to hedge against movements
- o Organisation change and growth plans of the company
- o Re-location to the US – opening a US subsidiary
- o VC funding for next phase company (revenue generating but not quite profitable)
- o Difficulties in obtaining a letter of credit