



# **Enterprise Ireland Finance for Growth FX & Export Finance Workshop**

**October 16<sup>th</sup> & 17<sup>th</sup> 2012**

Michéal Doyle  
Area Head of Commercial Centres - AIB





## Commercial Banking – A Relationship Model

- Aim to provide a dedicated Relationship Banking approach
- Sectoral focus to ensure that we understand your business and your industry
- A range of products and services that can be tailored to your specific needs, holistic approach to each client
- 14 Commercial Centres
- E.I. HPSUs to Established clients

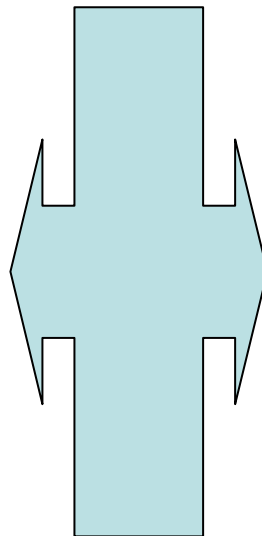




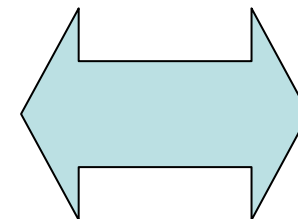
# Commercial Banking – A Relationship Model

- Relationship Managers supported by Specialist Teams:

- Working Capital
- Term Lending
- Asset Finance
- Treasury Services
- Trade Finance
- Invoice Finance
- Agri Specialists
- Emerging Sectors
- Deposits
- Credit Card Services



Relationship  
Manager



Customer



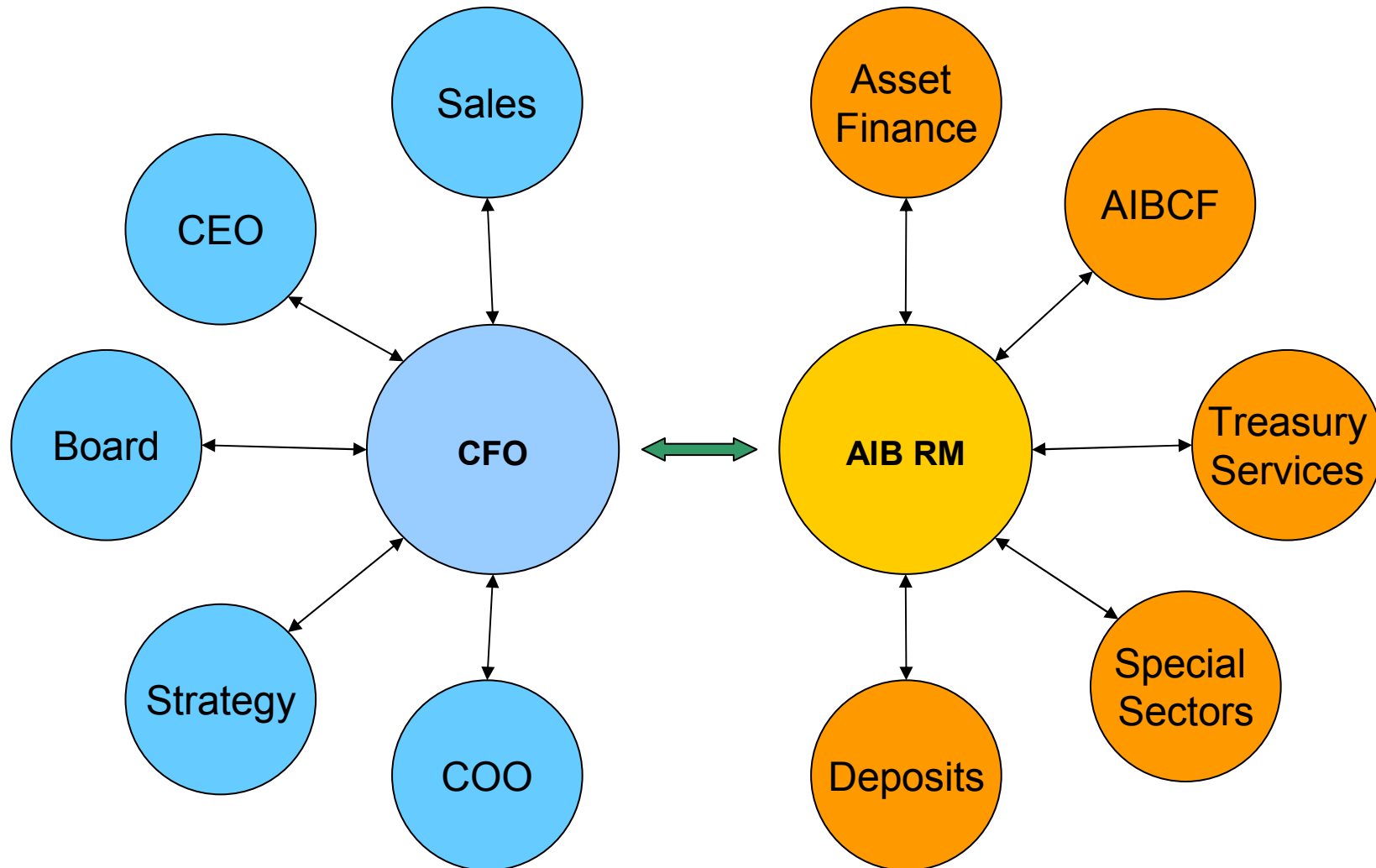
## Commercial Banking – A Relationship Model

- Communication is key to productive relationships
- Early engagement with Relationship Manager
  - discuss possible new contract scenarios
  - impact on finance requirements – fx, working capital
  - know what supporting documentation will be required
- Enterprise Ireland engagement
  - Client's consent
  - 3-way engagement





# Engagement





# New Business

- Evaluate new business opportunities carefully:
  - Ensure resources both human and financial are available to complete contract – avoid overtrading
  - Due diligence the contracts – avoid onerous conditions that may preclude specific financing arrangements e.g. ban on assignment of debt
  - Is there sufficient margin? Don't chase turnover
  - Will performance related security be required by your customer?
  - Other associated risks e.g. FX, managing receivables etc





# **Enterprise Ireland Finance for Growth FX & Export Finance Workshop**

October 16<sup>th</sup> & 17<sup>th</sup> 2012

Brian Colgan  
Head of Commercial Treasury  
Kieran O'Byrne  
Senior Manager Trade Finance





# What do We Want To Achieve?

- Basic understanding of Trade Finance products
- Funding Implications – Credit Policy
- Understanding the dynamics of currency markets
- Appreciation of “Value at Risk”
- Importance of a Treasury Policy







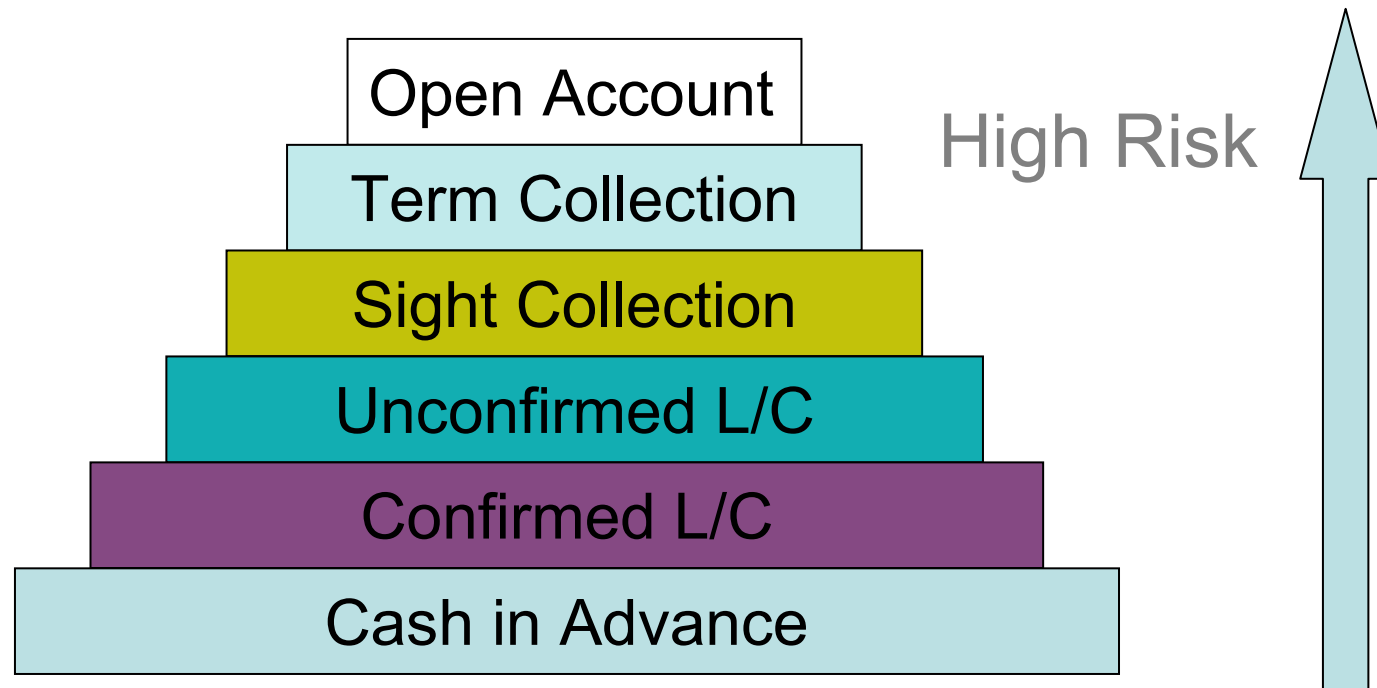
# Trade Payment Solutions

- Payment Terms
- Risks
- Credit Policy
- Payment options available





## Risk Pyramid - Exporter Getting Paid



- Always get expert specialised advice for these products



# Open Account Trading

- Most common form of payment method used
- More suitable for stable markets –UK, Western Europe and the USA
- No bank involvement other than receiving funds
- Goods shipped with no guarantee of payment
- Importer gets immediate access to goods
- Exporter issues invoice and sends to Importer
- Importer pays invoice when due....OR DOES HE???





# Documentary Collections

- Agreed in advance as part of the sales contract
- No bank guarantee involved
- Transaction initiated by exporter – goods shipped to Importer
- Entrusts related shipping documents to Bank for collection of funds
- Exporters Bank sends documents to importers bank with instructions:
  - If No Credit Terms Agreed:
    - » Release against payment only:
  - If Credit Terms agreed (i.e. 60 days after date of shipment)
    - » Release against acceptance of Bill of Exchange
- Importer gets control of the goods
- Importer makes the decision on whether to pay!!!





# Letter of Credit

- Issued in advance of shipment
- Cannot be cancelled without exporter's agreement
- Cannot be amended without exporter's agreement
- Unconfirmed Letter of credit
- Confirmed Letter of credit
- Possible to draw funds early - Discounting





## Cash in Advance

- Sounds ideal – No risk
- Competitive disadvantage?
- Suitable in niche market
- Importer might not agree to such terms
- Partial payment in advance?
- May have to provide Advance Payment Guarantee
  - Failure to perform allows Importer to recourse of advance
- Impact on Credit facilities





## Case Study

- SME-ABC Ltd
- 8 Employees
- T/O €10 mln p.a.
- Domestic & European client base
- Actively seeking opportunities further afield





## ABC LTD

- Overdraft Facility €250k
- Current balance €248k dr
- Negotiating with Credit Provider for increased Overdraft facilities or alternatives
- Domestic & European client base
- Dilemma- How to finance further Sales
  - How to manage payment risk
  - How to manage currency exposure







**SUCCESS!**

Company is successful in winning  
Export Contract to China for  
\$500k





## The morning after!

**What happens next?- What are the Issues?**





## Issues....

- Working Capital?
- Getting Paid
- Currency Exposure?
- Hedge or not to Hedge?
- Which Product?





## Issues – Lets look at these in order

- Working Capital – how can ABC LTD fund the new order?
- Increased Working Capital required now!
- Negotiations in train with Credit Provider
- Key information?
- Credit terms agreed at 60 days after shipment
- One Shipment within 60 days of order





## Working Capital

- Increased Overdraft?
  - Invoice Discounting
  - Credit Insurance?
  - Discounting Letter of Credit
- \* The Initial negotiation of the contract should include a consideration of these alternatives





## Trade Finance Solution

- Use of discountable Trade Finance products to release working capital, however this transaction will require working capital pre shipment!
- Multiple shipments may provide opportunities to release working capital throughout the duration of the deal?





# Currency Risk-Treasury Policy

- Currency Risk-Volatility !
- \$500,000 @1.3460\* = €371,371.02
- \$500,000 @1.2090\* = €413,564.93
- Treasury Policy? Value at Risk-analysis
- Product Choice

\* EUR/USD Hi-Lo 2012





# Currency Risk

- Identification- Currency?
- Quantification- How much & when?
- Sensitivity analysis- Value at risk?
- Product Choice-Knowledge ?







## Where do I start

- A good framework is required

A treasury policy should lay down the parameters to manage the risks associated with the management of liquidity, funding and foreign exchange and interest rate risk.

- A policy will put discipline and clarity in place for all key personnel
- The policy needs to be applied and monitored across the business, not just Finance Function





# Treasury Policy

- Identify responsibilities
- “Who needs to do what”?
- What are the guidelines?





# Treasury Policy

## Co-ordination Between

- Finance
- Sales
- Purchasing
- Credit Control





# Treasury Policy

- How much financing will be required -
- Have facilities (if required) been arranged?
- Have discussions with credit providers commenced?
- Are there alternatives?





# Treasury Policy- Management of the Exposure

- Volatility- information & awareness of currency movements
- Sensitivity- the value at risk as a consequence of currency movement
- Policy- level of acceptable risk?





## EUR V'S USD (1-Year History)



Source: Thomson Datastream



## EUR V'S USD (5-Year History)



Source: Thomson Datastream



## EUR V'S USD High Low's

### Trend in USD/EUR

	<u>High</u>	<u>Low</u>	<u>Average</u>
2007	1.486	1.289	1.370
2008	1.598	1.245	1.471
2009	1.509	1.253	1.394
2010	1.455	1.193	1.326
2011	1.489	1.291	1.392
2012 (Year to Date)	1.346	1.209	1.281

Source: Thomson Datastream





# Foreign Exchange Risk Management of the Exposure

- Information-How do I get it?-Cheaply!
  - Prices
  - Market Sentiment
  - Expectations
- Awareness
  - What's going on?
- Discipline

Follow the policy, do not chase the rate!

**Review the policy!**





## Product Choice

- Spot
- Forward contract (requires credit approval)
- Options (tendering)-may require a premium
- Keep it Simple!
- Talk to your treasury provider!





# Recap

Questions / Discussion





# Thank You

Brian Colgan

Head of Commercial Treasury Allied Irish Banks

[brian.m.colgan@aib.ie](mailto:brian.m.colgan@aib.ie)

Ph: 01-6417883

Kieran O'Byrne

Senior Manager Allied Irish Banks Trade Finance

[kieran.g.o'byrne@aib.ie](mailto:kieran.g.o'byrne@aib.ie)

[Ph: 01-6417336](tel:01-6417336)

AIB Customer Treasury Services is a registered business name of Allied Irish Banks, p.l.c. Allied Irish Banks p.l.c. is regulated by the Central Bank of Ireland. Registered Office: Bankcentre, Ballsbridge, Dublin 4. Registered in Ireland: Registered No.024173.





# **Enterprise Ireland Finance for Growth FX & Export Finance Workshop**

**October 16<sup>th</sup> & 17<sup>th</sup> 2012**

**David Avery**  
**Head of Business Development**  
**AIB Commercial Finance Limited**





# The Invoice Discounting Market

- In Ireland, as at June 12, currently 1,988 businesses using ID or Factoring, total Funding provided at €1.3bn
- In UK, ID is seen as integral in supporting SME sector whereby 41,496 business use some form of ID, Factoring or Stock Finance, Total Funding of £15.8bn provided
- Across Europe invoice finance market estimated to be €1,090bn in 2011 vs. €991bn in 2010, €844bn in 2009
- Invoice Finance is increasing being viewed as the norm for providing 'working capital' as opposed to traditional 'overdraft'





# Invoice Discounting – What Is It?

- An Asset based finance product
- Releases cash tied up in trade debtors
- Secured by a first charge over the Book Debts
- Revolving facility – no repayment schedule
- Purely a Funding facility - credit control remains with the Client





# Key Benefits of an Invoice Discounting Facility

- Facility grows in line with Sales – thereby supports sales growth of business
- Can typically release more Funding than Overdraft
- Is supported by Company assets not Personal assets
- Is a Revolving facility i.e. not repayable over a defined term
- Is often cheaper than an overdraft
- Generates additional MI for clients – debtor days, credit ratings of customers etc.
- Can be used for a number of different purposes, providing added value opportunities







# Uses of Invoice Discounting

- Working Capital
- Acquisitions / Mergers
- MBO's
- Capital Expenditure (though typically modest)
- Negotiate better trading terms with Suppliers – settlement discounts, bulk purchase of stock
- Partially/fully replace Overdraft, potentially providing a release of personal security





# Criteria

- Irish or UK registered trading entity
- Selling on a B2B basis, on credit
- Satisfactory trading performance
- Suitable business activity
- Satisfactory credit control processes, audit trail for invoices raised, quality & spread of customer base
- Minimum average ongoing funding requirement of c€150k\*

\* *equates to annual T/O of c.€1m*





# Suitable Sectors

- Manufacturing
- Wholesale & Distribution
- Services – Recruitment, temporary labour
- Transport & Couriers
- Food & Drinks
- Security Services
- ***The more simple the nature of the business the easier to provide funding on an Invoice Discounting basis***





# Unsuitable sector?

- Retail
- Construction / Architects
- Software Development / Project based work
- Marketing / Brand development
- Maintenance contractors
  
- Review potentially onerous contracts – ‘Sale or Return’, stock rotation, staged billing, invoicing in advance, rebates, warranties, liquidated damages etc
  
- ***First Question – ‘What do they do?’***





# Credit Assessment

- Review the spread of the debtors – no over-reliance on a single customer
- Assess ageing profile of the sales ledger – debtor days
- Review Terms of Trade/Contracts, determine the 'complexity' of debt
- Assess quality of debtors / Bad debt history
- Assess Credit Note levels
- Assess robustness of the audit trail to support invoices raised
- ***If the business fails – would the debtors pay?***





# Funding Export Debt

- Invoice Finance can form one part of a suite of working capital facilities to fund export debt
  - e.g. accompanying Trade Finance funding
- Export debt (in AIB) is defined as non Irish & non UK
- Appetite to fund suitable export debtors exists
  - facility can be structured on the basis of either being disclosed, confidential, confirmed, insured or uninsured and any combination of such
- Reviewed on case by case basis and **same rules of funding apply as per domestic debt**
  - i.e. suitable business activity, well spread ledger, satisfactory credit ratings for individual debtors, good 'paper' trail, etc.
- AIBCF appetite is for OECD domiciled Export Debtors





# Myths vs. Reality

## Myth

- Lender of last resort
- Expensive
- Cumbersome Admin
- Same as Factoring
- Domestic only debtors

## Reality

- Lender of best potential, large UK/ US corporates use this form of finance
- Competitively priced
- Internet based, minimal paperwork
- Confidential, funding only facility
- Export debtors can be funded too





## Case Study – Export Debt

- Specialist manufacturer, supplying into the medical and pharmaceutical sector.
- Largest customer represents 50% of sales - based in mainland Europe. All other debtors are based in RoI / UK.
- Company approached AIB for an increase in its existing overdraft (€100k) to help fund the increased level of sales.
- Company was subsequently offered a working capital facility, comprising of a €50k overdraft and a €200k Invoice Finance facility.







## Case Study contd.

- Invoice Finance facility was offered as two alternatives:
  - (i) fund the European debtor to 50% of the sales ledger balance operating the facility on a Disclosed / Confirmed basis **or**
  - (ii) fund the European debtor to 30% of the sales ledger balance but on a Confidential basis.
- In both instances the provision of credit insurance was not required due to the strong credit rating of the debtor.





# Contact Details

David Avery  
Head of Business Development  
AIB Commercial Finance Ltd.

[david.g.avery@aib.ie](mailto:david.g.avery@aib.ie)

Office – 01 772 4488

Direct – 01 641 4807

Mobile – 086 778 2546

Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Registered Office: Bankcentre, Ballsbridge, Dublin 4. Tel: + 353 1 660 0311. Registered in Ireland: Registered No. 24173. Invoice Discounting is provided by AIB Commercial Finance Limited, a subsidiary of Allied Irish Banks p.l.c. Please note that the provision of this product or service does not require licensing, authorisation or registration with the Central Bank of Ireland and, as a result, it is not covered by the Central Bank's requirements designed to protect consumers or by a statutory compensation scheme.

