AIL STRUCTURED FINANCE

We bridge the gap

Newsletter June 2016

Canada / Rocky Mountaineer – Successful Closing, AIL advises Stadler Rail and Rocky Mountaineer on the financing of new Panoramic Coaches

At the end of January 2016 an export finance transaction structured and arranged by AILSF, acting as advisor to the Swiss rolling stock company Stadler Rail AG, has reached financial closing. Purpose of the transaction is the delivery of 10 tailor-made panoramic bi-level dome rail coaches ("GoldLeaf Domes"), featuring a dining room in the lower deck, a lift from lower to upper deck for people with disabilities and mobility issues and an outside open-air observation platform at the end of the lower deck.

Headquartered in Vancouver, Canada, Rocky Mountaineer is a world leader in luxury train travel, offering unique vacation packages focused in the provinces of British Columbia and Alberta, and Washington State in the United States of America. Rocky Mountaineer is a seven-time winner of World's Leading Travel Experience by Train. Rocky Mountaineer offers over 45 vacation packages that are built upon four unique rail routes. The packages combine the core 2 or 3-day rail journeys with activities and excursions, such as sightseeing tours, whale-watching, or Alaska ocean cruises. Packages are customizable to meet the travel preferences of their guests and showcase the scenery of Western Canada alongside exceptional cuisine and service onboard the train.

Steve Sammut, president of Rocky Mountaineer, is very pleased with the investment decision and the financial support offered by AIL on behalf of Stadler in the financing of the project: "Thanks to the comprehensive support of Stadler Rail, SERV and AIL we were able to attract a long-term financing solution, tailored to suit our financing needs for the purchase of our new coaches. The financial structure of the project as created by AIL as well as the support provided to evaluate the best financing partners simplified our entire project financing process."

AIL accompanied and supported Stadler Rail and Rocky Mountaineer throughout the entire financing process. The coaches are financed to a

[1] 2016 Swiss Export Risk Monitor, www.ti.bfh.ch/exportrisiko_monitor

large extent with the means of an export loan, which has been arranged and funded by two large international banks, supported by the Swiss Export Agency SERV.

Optrel AG, Switzerland - Deferred Terms of Payment for Russian Client – Successful Closing for Swiss SME

In April 2016, AIL closed a receivable purchase financing for a Swiss SME, Optrel AG, in relation to sales to a Russian purchaser.

Optrel AG, a Swiss technology expert, is an industry leading specialist in the manufacturing of automatic darkening filters which are used in welding protection products (welding helmets) as well as in medical protection glasses. The company focuses on safety, health and efficiency of welders worldwide.

In the fall of 2015, AIL was appointed by Optrel as financial advisor to assist in the structuring and arrangement of financing for a delivery of welding helmets and components to a private sector Russian client. Optrel's intention was to offer competitive contract and payment terms to its Russian client, thereby achieving a competitive advantage and securing the supply contract. At the same time, the prospective financing solution was required to meet Optrel's liquidity and payment security objectives.

In close cooperation with Optrel's management, AIL structured the transaction making use of Swiss Export Credit Insurance SERV, combined with a receivable purchase by a Swiss bank. In combination, the structure provided extended terms of payment to the Russian importer, allowing the importer to smoothen its cash outflow. The purchase of the SERV insured receivables by the Swiss bank permitted Optrel to secure liquidity upon delivery of the products.

All in all, the solution achieved was a true win-win situation both for the Swiss exporter and the Russian purchaser. It demonstrates that the clever application of competitive Swiss financing instruments can be used to increase the competitiveness of Swiss small and medium sized exporting firms. So much so, that Optrel is working on a second very similar transaction.

[1] 2016 Swiss Export Risk Monitor, www.ti.bfh.ch/exportrisiko_monitor

Working Capital Financing as Competitive Advantage for Swiss Exporters

Increasingly Back-ended and longer Payment Terms

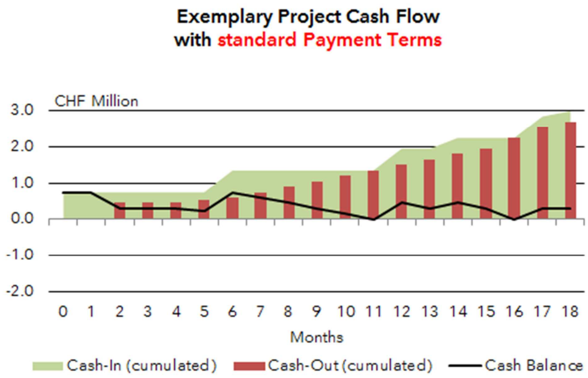
In connection with the changing market dynamics over the last few years, we have seen an increasing trend in the capital goods export sector towards back-ended and longer payment terms. Whereas in the past customary payment terms were composed of an advance payment of 15% to 30% of the export contract value, interim payments during the manufacturing phase of up to 50% of delivery volume and final payments at delivery and acceptance of the relevant capital equipment, Swiss exporters are increasingly forced to offer and accept back-ended and/or longer terms of payment due to competitive pressure, with typically a small down-payment at signing of the export contract, small interim payments (if any) and remaining substantial payments due only at delivery and acceptance of the export goods. We have already been involved in export transactions with a relatively long delivery period of approx. 2 years and with payments due only in full (100%) upon delivery of the relevant capital goods. This trend to back-ended and longer payment terms is an issue that affects in particular small and medium-sized (SME) Swiss exporters.

A recently published survey[1] among 300 export-oriented Swiss companies by the Bern University of Applied Sciences and Euler Hermes, the leading provider of trade related credit insurance solutions, comes to a similar conclusion. The survey states that the majority of Swiss exporters (78%) primarily use advance payments to mitigate political and delcredere risks. In this regard, the survey revealed that the majority of companies, most of them SMEs with between10 and 250 employees, can enforce payment terms, which on average consist of an advance payment of 30%, an additional 30% milestone payment at factory acceptance and a final payment at delivery. 67% of companies reported that they can enforce advance payments of up to 100% in certain cases. However, in this aspect, the survey does not make any statement if such advance payments need to be secured by advanced payment guarantees on behalf of the exporter. The latter often leads to a situation where the benefit for the exporter from a cash flow perspective remains rather limited if the exporter’s cash or other assets have to serve as collateral/security for the issuance of such bank guarantees. From the survey results it can also be concluded that Swiss exporters expect that prepayments as risk mitigation instrument will rather decrease in the near future. This means, it is anticipated that the amount of advance payment, which can be demanded from clients, most probably will be lower in the future due to increasing competition.

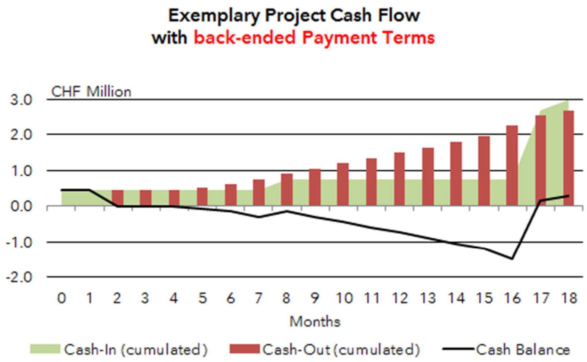
[1] 2016 Swiss Export Risk Monitor, www.ti.bfh.ch/exportrisiko_monitor

Pressure on Cash Flows and Liquidity

The time lag from generating positive cash flow and outgoing payments during the delivery / manufacturing phase of a certain project can create cash flow and liquidity shortfalls for an exporter. Depending on the timing difference between outgoing and incoming payments, the cash balance for a specific project can be significantly negative over a certain period of time.



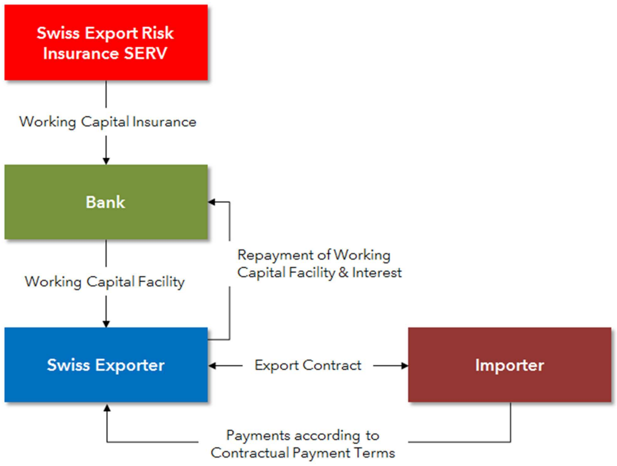
In such circumstances, the exporter needs to rely on existing cash reserves and/or working capital financing, which will fill any negative cash flow gaps, enabling the company to function normally until operating cash outs can be consistently covered by incoming payments.



Working Capital Financing supported by SERV

Many small and mid-sized Swiss exporters find it hard to get working capital financing at favourable terms and conditions in terms of pricing and collateral requirements. In this case, working capital finance based on credit insurance from the Swiss Export Risk Insurance SERV can be an attractive way for Swiss exporters to finance any negative cash flow during the delivery phase of a certain project.

[1] 2016 Swiss Export Risk Monitor, www.ti.bfh.ch/exportrisiko_monitor



The key concept behind SERV's working capital insurance is to provide Swiss exporters with easier access to advantageous working capital financing by granting credit insurance to banks in relation to a specific export transaction. The insurance covers the relevant bank's claims for repayment and interest from the exporter under the specific working capital loan. In order to be eligible for SERV support, the relevant project must meet the prevailing SERV rules.

What are the Benefits of SERV's Working Capital Insurance?

The main benefits for the exporters are access to working capital financing at preferential interest rates and that there is no necessity for further collateral (for instance in form of cash deposit), which preserves the company's liquidity. In addition, existing working capital credit lines will be available for other projects.

SERV always grants the credit cover in relation to a specific export transaction. SERV's risk assessment is therefore driven to a large extent by the specific transaction and to a lesser extent by the overall creditworthiness of the exporter. This means, also exporters or even start-up companies with a limited credit rating or credit history can benefit from SERV's support in form of working capital insurance if the relevant export transaction is compliant with SERV's requirements.

However, there is yet another important advantage. The availability of working capital financing also enhances the exporter's competitiveness allowing them greater flexibility in the negotiation of the terms of payment (for instance in form of back-ended and/or longer terms of payment) and/or in the setting of prices (for instance in form of better prices for clients), which can create a competitive advantage. Consequently, from our point of view, Swiss exporters should absolutely and proactively use the possibility of SERV covered working capital financing as financial sales support instrument in order to support their sales pipeline.

[1] 2016 Swiss Export Risk Monitor, www.ti.bfh.ch/exportrisiko_monitor

How We can support You

Over the last few years, AIL has supported and advised various small and mid-sized Swiss exporters in different industries and markets in arranging of project specific SERV backed working capital financing. For our customers we provide tailor-made services including

- Identification of working capital needs related to the specific project and evaluation of project specific risks
- Advising generally on structuring and negotiating the delivery contract – particularly from the point of view terms of payment and financing (thanks to our longstanding experience we are familiar with the pitfalls of supply contracts and can provide you with genuine added-value in this context)
- Preparation of SERV application for working capital insurance
- Coordination of the entire financing process and act as point of contact to the relevant bank and SERV
- Support in the negotiation of the relevant working capital loan agreement with a view to close the working capital financing at the most favourable market conditions
- Generally advising on common market practices regarding working capital financing

As independent financial advisory firm, we are glad to act as a «one-stop shop» for financial issues in respect of our customers export activities. Thanks to our proven broad international network in the financial sector and our comprehensive market knowledge, we are capable, on behalf of the exporter, to evaluate suitable banks and risk underwriters for the specific export project. Our principle is to set up for any specific export transaction the ideal financing structure combined with the optimal risk mitigation and to close the respective financing under the most favourable market conditions. Needless to say that such a structuring solution also takes into consideration the size of the project and any other specific request an exporter might have in the financing support of its sales pipeline.

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[1] 2016 Swiss Export Risk Monitor, www.ti.bfh.ch/exportrisiko_monitor