Working Capital Financing as Competitive Advantage for Swiss Exporters

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1. Increasingly Back-ended and longer Payment Terms

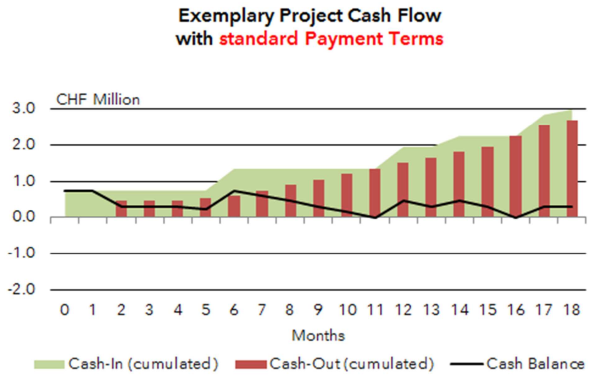
In connection with the changing market dynamics over the last few years, we have seen an increasing trend in the capital goods export sector towards back-ended and longer payment terms. Whereas in the past customary payment terms were composed of an advance payment of 15% to 30% of the export contract 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

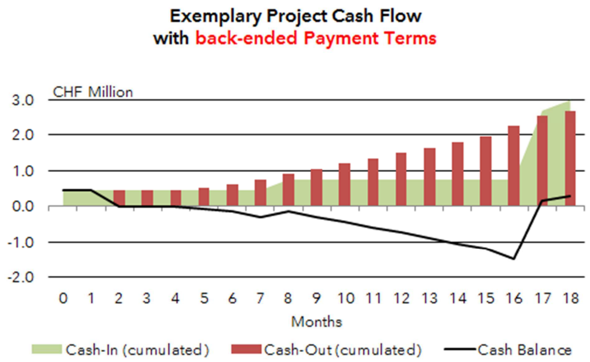
[1] 2016 Swiss Export Risk Monitor, www.ti.bfh.ch/exportrisiko_monitor

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.

2. 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.

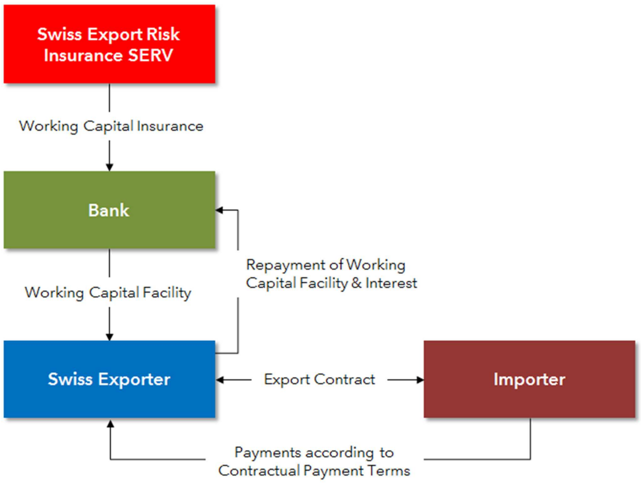


In such circumstances, the exporter needs to rely on existing cash reserves and/or working capital financing, which will fill any negative cash flow gaps, enabling the company to function normally until operating cash outs can be consistently covered by incoming payments.

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

3. 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.



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.

4. 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.

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

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.

5. 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

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

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