

Partnering for Success

Consultative approach with every relationship

Presentation: Financial Literacy Session

Business Strategies & Planning: Lenders Perspective

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Business Strategies & Planning: Lenders Perspective

Find out how your Financial Institution provides guidance/support to business operators when seeking credit. This session will include 2 live case studies, outlining the process, obstacles and the outcome.

Business Plan

(Telling your Story)

“Business plans are the foundation on which successful businesses are built.”

Business Plan Content

Executive Summary

Business Overview

Sales & Marketing

Operating Plan

Management Team

Financial Forecasting / Cash Flow

Additional Pertinent Information

Four M's of Commercial Credit

- **Management**
- **Money**
- **Markets**
- **Materials**

Case Study – Gas Bar Redevelopment

Mr. Brant is the Financial Officer of a First Nation Government located in a rural Canada. The Government is involved with several Economic Development Corporations including a gas station and convenience store for the benefit of the people of the First Nation. Last month at the Council Meeting, it was agreed that the existing gas station has significant cash flow generating potential but requires a sizable investment to achieve it. The gas station is a vital business for the surrounding communities including the First Nation and as such, this project has become a priority for the community.

Mr. Brant has taken the lead on this project and has engaged a General Contractor to begin work which is estimated at \$2,500,000.

Which other resources/advisors should Mr. Brant engage?

- Independent Cost Consultant/Engineer/Project Manager
 - To serve as an independent party to the project protecting the Borrower and the lender from undue risk
 - Verify if the budget proposed by the GC is appropriate
 - Periodically confirm that the project is being completed according to plan and on budget
 - Bank will require this resource to present progress reports for the purposes of money advances
 - Quickly identify and new sources of risk such as potential overruns or other issues with the GC
- Lawyer
 - Will advise on best way to structure the investment and business. Sometimes the establishment of a new entity is required.
 - This will mitigate potential risks and liabilities related to land ownership (if not on designated or on reserve lands), general liability, and optimal ownership structure
- Auditor
 - To plan for financial presentation of the operations
 - Provide forecast/projection of the project
- Banker
 - To provide guidance about any other items that may be required for due diligence on a case by case basis
 - Offer advice on selection of advisors, Bankers usually have wide networks for all of the above and can provide some options if required

How would the Bank determine their appetite for this opportunity?

- Project specific
 - Can the project service the resulting debt obligations?
 - What are the threats and risks facing this project?
 - Cash flow projections

- Financial Sustainability
 - If the project does not generate enough cash to service the debt, whether that is today or in the future, what alternative funding can be relied on?
 - Review of appropriate government programs, funding commitments, contribution agreements, land claim settlements, etc.
 - Financial statement review and analysis

What would the loan structure potentially be?

- How much equity/cash investment will be injected?
- Interest only payments until such time the construction is completed
- Up to 25 year amortization upon completion

Security

- If support from the First Nation is available, then:
 - Corporate Guarantee from the First Nation
 - Borrowing Resolution, acknowledging and approving:
 - New bank services and financing with the Bank;
 - Acknowledging and approving Nation Guarantee in support of the Borrower;
 - Identifying a dedicated funding source in the unfortunate event financial support is required for the Borrower
 - Deficiency Agreement from the First Nation: Committing to provide financial support to the Borrower, in the event of any shortfalls, or inability to service the proposed financing.
- If support from the First Nation is unavailable, then:
 - What other support/guarantees are available in the unfortunate circumstance where there is a gap in cash flow?
- Land status
 - On Reserve
 - Designated
 - Fee Simple
- Environmental Indemnity
- Assignment of Fire Insurance
- General Security Agreement
- Assignment of Book Debts

Any obstacles?

- A major obstacle was the weather. The project began in the fall and was able to progress 5-10% before the snow and freezing temperatures arrived and caused difficulties. This included the inability to excavate causing a major delay to the project.

Resolution

- The Borrower quickly engaged their Bank to explain the situation. Due to the early identification of the issue, the Bank was quickly and fairly easily able to amend the terms and structure to accommodate the Borrower. This included an extension of the interest only period allowing the project to restart in the Spring and consequently succeed.

Insight

- Early engagement of advisors can and usually will lead to a more optimal result for all parties involved. Last minute changes are usually much more difficult to accommodate and it results in the Lender questioning the planning of the project. Planning for the future with the support of your team of advisors is the key takeaway and it will drastically reduce the impact of the any obstacles experienced.

Case Study #2 – Marine Transport Services Expansion

An Economic Development Limited Partnership owned by a First Nation Government is involved in several economic development ventures including Marine Transport Services. The Marine Transport Services business was given an opportunity to submit a proposal for a contract to transport goods to various locations.

Economic Development Management Team reviewed the Request for Proposal and decided to submit a formal written offer. The management team needed to prepare a business plan in support of their written offer as well as to present to the financial institution in consideration financing would be required.

Overview of Advisors/Resources utilized for this opportunity.

- **Accountant**

- To plan/provide support with financial projections which would include Profit and Loss forecasting supported with Cash Flow Statements establishing working capital needs and cash flow available for debt servicing.
- To plan/establish the capital needed to execute on the contract.

In this case, the capital needed to fulfill the contract was \$4,500,000 in marine equipment and an additional \$500,000 in working capital. Structure of the contract is based on established a set rate (revenue) per volume (1 ton) of goods delivered. The financial forecasting provided the framework on establishing the appropriate rate that they would be presenting in their written offer.

- **Banker**

- Review of Business Plan including financial forecasting and providing insight and guidance on the information presented.

In this case, based on the review of the capital requirements, financial forecasting and consideration of the terms of the contract outlined in the Request for Proposal – A financing Discussion Paper was presented.

- What factors did the bank assess prior to the issuance of a Financing Discussion Paper
 - Management Team
 - Historical Track record on executing of Marine Transport Contracts
 - Project Specific
 - Projections were deemed reasonable and debt servicing was evident.
 - Financial Sustainability
 - If during the contract sufficient cash was not generated to service the debt, whether that is today or in the future, the First Nation has sufficient resources to cover funding shortfalls.

- What did the Financing Discussion Paper offer?
 - Working Capital
 - Operating Line of Credit (\$500,000)
 - Corporate MC for Purchases (\$25,000)
 - Equipment Purchase
 - Equipment Facility (\$4,500,000)
Based on 10 year Amortization (align with contract)
 - Security
 - Marine/Collateral Mortgages over equipment
 - Guarantee from the First Nation Government.

Economic Development Limited Partnership was awarded the contract.

- **Marine Surveyor**
 - Completed Marine Surveys - establishing the current market value of the equipment to be purchased.

- **Lawyer**
 - Provide guidance/review of contract establishing appropriate subjects including "Subject to Financing"
 - Prepare Purchase Agreements for Equipment

Any obstacles?

One of the key obstacles was arranging/co-ordinating the Purchase of Equipment needed to fulfill the contract which included barges and tugboats. Key consideration is the Marine Survey which not only establishes the value of the vessel but also highlights its current condition. Satisfactory Marine Survey(s) was a Banks conditions precedent to advances. In this case multiple surveys were completed on multiple pieces of equipment prior to securing the equipment for the awarded contract.

Outcome

Financing was approved and the Economic Development Limited Partnership removed the "subject to financing" and the bank provided funds for the purchase of equipment and working capital.

Insights

The Management Team presented a well thought out Business Plan that set the stage in "Telling the story".

Question Period