KPMG IN RUSSIA AND THE CIS

Debt Advisory. Assistance in finance raising. Development of business plans and financial models

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Transactions & Restructuring
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KPMG’s Debt Advisory Practice

In recent years, borrowers have felt increased pressure from their investment and commercial bankers to accept product driven solutions rather than tailored alternatives — and, crucially, without objective argument or full consideration of their strategic and operational requirements.

The deliverability and structure of debt is usually key to ensuring that your long term growth objectives are met.

All the senior Practice members have considerable experience in debt markets, including working for leading international and Russian banks such as Bank of America, JP Morgan, UBS, Lazard, Schroders, SG Warburg, NatWest, Russian subsidiaries of Societe Generale and Barclays and others.

The deliverability and structure of debt is usually key to ensuring that your long term growth objectives are met.

Our member firms’ independence from the providers of financing products enables us to provide wholly objective advice.

Our experience and market presence gives us intimate knowledge of the appropriate financing options, while relationships with a wide range of potential creditors and investors all over the world gives us the ability to help you with fundraising or refinancing in the most efficient way.

Our Global Debt Advisory Practice has over 10 years of experience in successfully assisting companies and financial institutions to develop and implement their financing strategies.

Our Debt Advisory Practice provides advisory services in selecting appropriate forms and instruments of financing, develops business plans and financial models for fundraising purposes, provides assistance in identifying investors and raising debt finance, and provides advice and support on asset securitisation and refinancing transactions.

We provide objective, expert and pragmatic advice to borrowers on funding options and strategy and provide support for debt raising transactions from inception to execution.

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Why KPMG?

**Access to investors and lenders**

- Active communication and cooperation with KPMG’s global network and access to the accumulated expertise of its member firms
- Understanding of expectations and requirements of Russian and international investors and lending banks

**High technical skills and our experience**

- Ex-banking professionals in advisory practice
- Professional preparation of complete documentation packages for fundraising purposes
- Development of business plans and financial models in line with best world practices and requirements of leading Russian and international lenders and investors
- In-depth understanding of debt financing procedures and the specifics of transaction structuring and completion
- Extensive successful experience in providing transaction advice to companies from different sectors, including key market players
Tailored solutions

- Module based service package - client decides what services are needed
- Expert support through the whole fundraising process or assistance with certain tasks
- Flexible fee structure
- Extensive experience in diverse industries

Efficient project management

- Assisting client address risks identified during finance raising process
- Ongoing communication with the client’s project team, advisors and banks to ensure the best possible results of the transaction
- Minimal diversion of the client’s personnel from its core business

A close-knit team of professionals

- A results-driven team of corporate finance experts
- Direct involvement of KPMG partners and senior management in the transaction, including their assistance in negotiations and robust monitoring of each phase of the process
- Involvement of KPMG experts on tax and legal issues, collateral and business valuation and due diligence can be arranged if required
- Access to global Debt Advisory professionals as appropriate
Development of investment case, including business plans and financial models

Obtaining finance for a company requires investment documentation that fully meets professional quality standards and the requirements of Russian and international banks and other investors.

KPMG can assist in preparing the following documents required to obtain financing:

- Business plan
- Financial model
- Information memorandum
- Feasibility study
- Investment teaser
- Business diagnostic and action plan to improve business investment appeal

Our approach is to compile financial documentation in full compliance with the requirements of target lenders and investors, and to prepare professional and detailed answers to their questions. Our understanding of bank and investor requirements and decision-making policies, as well as our thorough approach to document preparation and excellent reputation in financial markets ensure that our documentation package will help the client to identify funding sources in the shortest possible time.

KPMG professionals have extensive practical experience in drafting business plans and raising finance, and have all the necessary expertise to ensure successful completion of deals. Before joining KPMG, the senior team members worked in international and Russian lending organisations enabling them to get a thorough understanding of how and why banks make loan decisions.

Business plans
We develop business plans based on information from clients and data from both public and specialised sources. We use our practical experience and industry knowledge to analyse the logic of assumptions prepared and provided by the client. Where necessary and with the client’s consent, we can gather information needed for a business plan, working in conjunction with marketing agencies and technical and legal advisors.

In preparing a business plan KPMG will help you to:

- prepare a financial model in compliance with the requirements of leading international and local banks and investors;
- analyse investment project efficiency based on the financial model prepared by us;
- develop marketing, financial and organizational plans for the project;
- identify key project risks and suggest ways to mitigate them;
- develop optimal structure of financing, including collateral and other security arrangements for banks and investors.
### Example: Business plan structure

<table>
<thead>
<tr>
<th>Business plan sections</th>
<th>Contents</th>
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</thead>
</table>
| 1. Project executive summary               | - Background  
- Rationale  
- Funding requirements  
- General financing scheme and debt security arrangements  
- Outline of marketing plan  
- Key investment ratios  
- Key advantages and risks of the Project  
- Value proposition for banks |
| 2. Market overview                         | - Overall analysis of the product market  
- Market segmentation, with analysis of the wallet (demand), saturation (supply) and dynamics of market segmentation  
- Analysis of the competitive environment  
- Marketing SWOT analysis of the Project |
| 3. Organisational and legal structure of the Project | - Organisational and legal structure  
- Cash flow scheme  
- Management  
  - Company management structure  
  - CVs of key project managers  
- Personnel  
  - Staff numbers by category  
  - Salary levels by category |
| 4. Organisational Project implementation plan | - Milestones  
- Implementation schedule  
- Plan of interrelationship and sequence of organisational, contractual, technical and financial control points of the project linked to the corresponding timeframes |
| 5. Production plan                          | - Technologies  
- Asset base and production capacities  
- Raw material base  
- Project related environmental issues |
| 6. Review of key project risks              | - Description of key project risks (including underfunding, foreign exchange, contractual, marketing, administrative and other risks)  
- Analysis of risk impact on cost efficiency from the perspective of different project participants and risk minimisation options |
| 7. Financial plan of the project           | - Assumptions used in the financial model  
- Project financing structure  
- Financial model outputs (pro forma income statement, balance sheet and cash flow statement)  
- Review of investment appeal  
- Sensitivity analysis and scenario analysis |
| 8. SWOT analysis of the project            | - Analysis of strengths, weaknesses, opportunities and threats of the project  
- Conclusions and recommendations |
| 9. Appendices                              | - Contact details  
- List of required approvals, permits and authorisations  
- Total capital budget  
- List of key suppliers and contractors and contractual payment terms  
- Area development plan, land title deeds, etc. |
Financial modelling

KPMG uses international modelling standards, enabling us to produce transparent, consistent, easy-to-read and updatable models. KPMG usually considers several project implementation/business development alternatives in accordance with the worst case, best case and most likely scenarios, and performs an analysis of the sensitivity of investment factors to changes in key assumptions.

We also provide a rationale for the most preferable size, structure and schedule of financing for the purposes of project implementation/business development.
Financial model will be developed on best world practice and will include several scenarios and sensitivity analyses. KPMG follows six main principles in building up of financial models:

1. **Integrity:** forecast financial statements are consistent with historical data; there are no contradictions
2. **Coherence:** model sheets possess a similar structure and interlinking logic
3. **Segregation:** model is split into three parts: input data, calculation and output, which are visually distinguishable
4. **Linearity:** absence of circular references, minimum usage of iterative algorithms and guaranteed convergence
5. **Simplicity:** models are readable, easy to update and maintain
6. **Availability of options:** various scenarios are presented for each project

Results
- Financial statements
- Cash flow forecast
- Scenario analysis
- Sensitivity analysis
- Investment plan
- KPI
- Financing options
KPMG will construct the financial model in MS-Excel format, which is in accordance with the requirements of the largest international banks and investors. Indicative structure of the model includes:

### Input data

**Input data/modelling assumptions:**
- macroeconomic assumptions
- industry assumptions
- operating activities assumptions
- assumptions on CAPEX volumes
- financing options and assessment of their availability and costs under each scenario
- other

### Calculations

**Revenue:**
- forecast of sales volumes
- forecast of sales prices (based on the market overview and the Company's assumptions)

**Production costs:**
- forecast of variable costs (based on the market overview and the Company's assumptions)
- forecast of fixed costs

**Administrative, Selling and Distribution costs:**
- general and administrative costs
- distribution costs
- other operating costs

**Working capital:**
- forecast of working capital requirements

**Financing:**
- forecast of demand for long-term and short-term financing
- draw downs and repayments under existing facilities, interest and fees payments
- base and alternative financing (refinancing) options
- Financing costs estimations
- tool (input data, calculations) for each option
- changes in dividends, equity

**Fixed assets and CAPEX:**
- book value of fixed assets and depreciation
- capital expenditures

**Discount rate:**
- estimation of discount rate

### Output

**Financial statements:**
- Income statement
- Balance Sheet
- Cash flow

**Key performance indicators (KPI):**
- Growth & profitability ratios
- Liquidity ratios
- Equity & leverage ratios
- Debt servicing ratios (interest cover, DSCR, LLCR)
- other ratios

**Cash flows (FCFF и FCFE):**
- NPV of the Project cash flows
- computation of Internal Rate of Return (IRR)
- pay-back period calculation (PBP)
- estimation of sufficient level of Free Cash Flows for debt

**Scenarios and Sensitivity analysis:**
- Scenario analysis
- Gap analysis
- Sensitivity analysis of company's KPIs, NPV and IRR to changes in key assumptions
Development of financing strategies

Optimisation of financing sources allows the Company to:

- identify new funding sources for business development purposes in line with the Company’s general strategy
- reduce borrowing costs
- improve debt servicing terms
- enhance business financial viability
- achieve more flexible financial policies and better debt manageability

Obtaining finance often comes after efforts to develop the Company’s financing strategies, identify its current and potential needs and select the most suitable financial instruments. A well designed strategy helps to ensure financial viability, reduce borrowing and debt servicing costs and enhance shareholders’ value.

Our work begins with an analysis of the Company’s strategy, its financial position, property and debt portfolio and reasons for fundraising, identification of key indicators, and an assessment of the investment appeal of the project/business for domestic and international banks, investment funds and others. Based on our analysis we recommend one or more preferred financing structures and map out an action plan to raise capital.

Where necessary we also develop a financial model of business operations and financing, which serves as a financial planning instrument for the Company.

Key milestones:

- Identification of strategic goals
- Preparation of financial forecasts
- Preparation of various development scenarios
- Identification of funding needs
- Review of current funding sources and their structure and cost
- Assessment of whether the funding sources match the Company’s requirements and development plans
- Review of the benefits and accessibility of new funding sources for the Company
- Assessment of opportunities to provide pledges, guarantees and sureties
- Analysis of debt markets
- Forecasting of the cost of financial resources
- Identification of financial targets (debt to equity ratio, financial leverage, DSCR, etc.)
- Development of proposals on the best financing structure and identification of potential alternative sources of financing
**Financing considerations**

Examination of all the potential options and a cogent funding strategy is essential, given the current state of the debt markets.

**Maturities and timing**
- Working capital requirements
- Debt maturity profile
- Refinancing risk?
- Fund timing requirements

**Financing strategy**
- Current adequacy of liquidity?
- Optimal mix of bank/capital markets funding
- Short and long term requirements
- Hand in hand with operational strategy
- Credit rating?

**Operating strategy**
- CapEx programme?
- Margin focus and further optimisation available?
- JV’s and strategic acquisitions?
- Potential carve out of business to create a stand-alone financing entity?

**Shareholder considerations**
- Value maximisation
- Dividend requirements
- Shareholder dilution?

**Debt market conditions**
- Bank markets tough with limited underwriting
- Current high yield bond markets not favourable, unless top quality issuer
- What will the market look like in six months?
- What market testing has been conducted/ Who have you already spoken to?

**Alternative markets**
- Mezzanine appetite?
- Asset based lending
- Export and import financing options applicable?
- USD and Euro funding?
- Asian debt markets are healthier than US/Europe for the right issuer

**Debt capacity**
- What is the debt capacity of the company based on forecasts, assessed against market appetite?
- Leverage?
- Existing covenants?
- Maintain and develop key financial ratios

**Banks**
- Existing facility agreements?
- Appetite for sector
- Client’s risk profile and margins
- Refinancing considerations
- Do we need to or can we tap additional liquidity pools?
Assistance in finance raising

Financing can be arranged in the form of your choice; if you have not yet chosen one, we can advise which of the potential sources of financing is most appropriate in each particular case.

We provide assistance in selecting potential investors and creditors, help to compile a comprehensive package of documents best suited for the type of financing in question or develop a business case for your investment plans in line with global best practices (business plan, investment memoranda, investment teaser or financial model).

In order to optimize your sources of financing, reduce financing costs and improve debt servicing terms KPMG can help with refinancing or restructuring of existing debts, negotiations with investors and creditors or selection of new financial partners.

We can assist you throughout negotiations with potential financial partners up to and including the successful conclusion of the deal. We will help to ensure a well-organised competitive investor selection process, enabling you to raise financing as quickly as possible and on the best possible terms.

If necessary, we can bring in experts from other KPMG business units to perform tax and legal reviews, collateral and business valuation, due diligence, restructuring advice for distressed companies, etc.

KPMG considers the following potential sources of financing:

- General corporate lending and trade financing to maintain and support current operations (including financing of investment programs and working capital)
- Project financing
- Financing of export/import operations including against the guarantees of export credit agencies (ECA)
- Financial lease operations
- Factoring operations
- Major syndicated and club deals
- Bond issues
- Credit linked notes (CLN)
- Bridge financing
- Investment funds and strategic investors
- Mezzanine financing
- Public offerings of shares (IPO, SPO)
- Securitisation
- Other instruments
KPMG’s role at each stage of finance raising

KPMG may be involved throughout the whole process as the Company’s partner or assist Company with certain tasks – for example, prepare investment memorandum (business plan) or advise on negotiations with creditors regarding proposed terms and conditions.

Preparation of a package of investment documentation for fundraising purposes

- Assistance to the Company in compiling a package of documents that can best meet the requirements of potential lenders and/or investors
- Developing a project financial model
- Preparing an investment memorandum (business plan) for the project
- Selecting financing instruments and identifying the preferred range of lenders/investors
- Assisting in choosing legal and other advisors and coordinating project team efforts if necessary

Marketing

- Advising the Company at all the process stages including development of marketing fundraising strategies, mailing lists for investment offers, etc.
- Advising the Company on different financing options and their strengths and weaknesses
- Assessing the current debt market situation
- Compiling a list of potential lenders
- Drafting investment teasers and Confidentiality Agreement (if necessary)
- Approaching potential lenders and distributing the Confidentiality Agreement and teasers
- Distributing an investment memorandum and a package of documents
- Maintaining a dialogue with bankers and other investors in order to get feedback and explanations
- Obtaining indicative offers and providing recommendations on selecting the best ones
- Preparing a detailed report for Company’s management

Deliverables

A full package of investment documentation including financial model and list of potential lenders/investors

Indicative offers and selection of the best proposals
Consideration and approval of the deal by lenders

- Arranging and conducting a tender (where applicable)
- Assistance in creditworthiness analysis and risk assessment, including assistance in development of scenarios and sensitivity analysis of financial models
- Providing required explanations to investors/bankers
- Involvement in developing final terms of financing

Depending on type of financing
- Coordinating full-scope due diligence by investors
- Assistance in negotiations with export credit agencies

Deliverables

Obtaining a decision and final proposals on providing finance

Agreeing upon financing terms and signing deal documentation

- Conducting negotiations on final proposal terms
- Participating in the consideration and agreement of deal documents (loan agreement, pledge, surety or assignment agreements, etc.)

Deliverables

Closing the deal and raising finance on the most favourable terms
Financing of investment programmes/project financing

Unfavourable global capital market conditions and tightening of banking regulations in Europe inevitably result in a bank lending squeeze. Many banking analysts predict an increase in the share of institutional investors in total investment financing, especially of infrastructure projects. However banks remain the main providers of investment and project debt financing.

Although both banks and borrowers consider investment financing to be a straightforward, reliable and attractive product, many lenders avoid participating in long-term projects due to problems with liquidity in the mid- and long-term perspective.

Moreover, given the tightening of banking regulations and implementation of Basel II/III standards, it is hardly likely that systemically important banks will ease their requirements for loan portfolio quality and pursue more aggressive lending policies. This will mostly affect borrowers who operate mainly in developing markets and/or countries with no investment-level credit rating (BBB according to the international scale of three major rating agencies, Moody’s, Fitch and S&P).

KPMG assists in planning and arranging financing both for individual investment projects (including greenfield, developer and commercial real estate projects) and integrated business development programs (related to expansion through acquisitions or via organic growth).

KPMG’s team has deep understanding of the market and hands-on experience in raising finance on both the client’s and the lender’s side, and has access to global and local financial markets. This enables us, even in the current challenging market environment, to help our clients arrange financing of investment projects through selecting optimal instruments and finance providers and securing the best terms for the client.

KPMG considers the following to be potential sources of financing for capital expenditures and investment projects:

- Funding provided by international financial institutions (EBRD, IFC, ADB, etc.)
- Financing provided by state development banks (VEB, EDB, etc.)
- Project financing through commercial banks
- General lending
- Syndicated and club deals
- Loans for construction and commercial real estate projects secured by real estate
- ECA covered financing of investment projects
- Financial lease
- Funding provided by investors from the industry or financial investors, including investment funds
- PPP/PFI type structures
## Advantages and disadvantages of various financing options

### Key success factors for raising of different types of financing

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<tr>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Success factors</th>
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<tbody>
<tr>
<td><strong>Investment loans</strong></td>
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<tr>
<td>• Make it possible to obtain mid-term and long-term financing for investment projects with payments according to a predetermined schedule and a possible grace period (typically 6-12 months depending on the project)</td>
<td>• Given that each bank has limited headroom for a single borrower, financing of big projects and investment programmes often requires several investment loans from different banks or arranging syndicated/club deals</td>
<td>• Transparent financial statements</td>
</tr>
<tr>
<td>• Banks consider and approve loans within relatively short time</td>
<td>• Current core operations of the Company/group of companies are considered to be the main source of funds to pay the loan and cover potential project losses, so the amount of the loan is limited by the Company’s existing financial capabilities</td>
<td>• Earnings from current operations making it possible to service both the existing loan portfolio and a potential loan (excluding the expected positive cash flow from implementing the investment project)</td>
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<tr>
<td>• Relatively low overheads on raising finance</td>
<td>• In most cases, obtaining an investment loan would require guarantees from other group companies and security over fixed assets</td>
<td>• A good credit history</td>
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<td></td>
<td>• Typically the loan term is no longer than 5-7 years, during which the principal is depreciated</td>
<td>• Having collateral with a value exceeding the loan amount and having guarantors</td>
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<td></td>
<td>• Monitoring of the proper use of the loan funds</td>
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<tr>
<td><strong>Project financing</strong></td>
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<tr>
<td>• The maximum loan amount is determined based on expected cash flows from implementation of the investment project, making it possible to obtain long-term debt financing that significantly exceeds the current scope of the business; start-up financing also possible</td>
<td>• Strict requirements on having initial permits and approvals, the quality of project preparation, and the project team; limitations on the Company’s further operations</td>
<td>• A promising business in an attractive industry and having competitive advantages</td>
</tr>
<tr>
<td>• Possible financing on a non-recourse or limited recourse basis</td>
<td>• Banks usually take a long time (6-12 months) to consider the project and make a decision</td>
<td>• Detailed project documentation and having risk minimisation arrangements</td>
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<td></td>
<td>• Higher interest rates before the project reaches full capacity, high overheads and commission charges for arranging financing</td>
<td>• A qualified project team with successful experience of doing similar business</td>
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<td></td>
<td>• The need to fund part of the project from own funds or by attracting an equity investor/sponsor</td>
<td>• Good standing of the project originators, sponsors, management team and advisors</td>
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<td>• Good credit history of project originators</td>
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<td>• Financing of at least 20-30% of the project at the expense of its originator or sponsor</td>
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</table>
### General purpose/working capital financing

<table>
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<tr>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Success factors</th>
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<tbody>
<tr>
<td>A readily available and quick way of financing working capital, which the Company can use both on a regular basis to balance its payment structure and from time to time for business development purposes (procurement of goods, supplies for sales premises, etc.). This also enables operating cash flow to be used for capital expenditure purposes if need be</td>
<td>Relatively short timeframes linked to the operational or financial cycle</td>
<td>Company’s revenues are sufficient to repay debt while profits are enough to pay interest</td>
</tr>
<tr>
<td>Diversity of lending products and options (loans, loan facilities with disbursement and withdrawal limits, tranches or depreciated payment, overdrafts, etc.) The Company can always choose the most convenient and beneficial product from different bank proposals</td>
<td>Monitoring of the proper use of funds</td>
<td>The Company is founded more than a year ago</td>
</tr>
<tr>
<td>Typically no requirement to develop a financial model; the documentation package is simpler</td>
<td>Depending on the client’s scope of operations and credit risk, security or guarantees may be required</td>
<td>Good credit history</td>
</tr>
<tr>
<td>Trade finance and documentary products</td>
<td>Usually requires remittance of all or part of revenues from customers to accounts opened with the lending bank</td>
<td>Having collateral and guarantees</td>
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</table>

### Trade finance and documentary products

<table>
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<tr>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Success factors</th>
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<tr>
<td>A large number of sub-types and uses of three main trade finance instruments (guarantees, letters of credit and collection transactions). Some (tender guarantees, advance payment refund guarantees, customs or excise tax guarantees, etc.) have become integral to business for many companies; others (e.g. instruments with post-financing) can further facilitate relationships with counterparties and replace working capital financing</td>
<td>Except for certain structured foreign trade financing products, these usually specify short post-financing periods matching the dates the client receives payments from end customers</td>
<td>Depend on the sophistication of the instrument</td>
</tr>
<tr>
<td>A separate instrument is represented by long-term foreign trade financing (see pre-export financing and investment project financing against ECA guarantees)</td>
<td>Collateral, security or guarantees may be required</td>
<td>For instruments with post-financing, the success factors are the same as for the corresponding types of lending</td>
</tr>
<tr>
<td>Letters of credit ensure safety of payments, especially in cross-border deals</td>
<td>In case of a security-backed guarantee, the security is released from the pledge only once the client’s obligations are met. It is especially important to consider beforehand when planning bank guarantees secured by deposits (in deals with cash covered letters of credit, security is represented by the coverage account from which the funds are withdrawn)</td>
<td>Good record of transactions against which the instrument is provided</td>
</tr>
<tr>
<td>Bank guarantees and letters of credit replace prepayments and/or provision of security deposits to international and local providers, lessors or government authorities without using working capital</td>
<td></td>
<td>Good credit history</td>
</tr>
<tr>
<td>More effective cost management compared to lending products: the cost of trade finance products is substantially less (from 1% to 6% p.a. depending on the risk profile and security) until a guarantee or letter of credit becomes a pecuniary obligation of the client</td>
<td>For covered letters of credit (with blocking of cash coverage): absence of bankruptcy procedures initiated against the client, compliance with international sanctions in respect of individual countries</td>
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<tr>
<td>Approval and issuance is usually considerably quicker than for lending products</td>
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</table>
In this way pre-export financing is normally provided by international banks and against ECA guarantees (for more detail on obtaining such guarantees see above). In this way pre-export financing allows enterprises to manufacture goods without using working capital or when it is unavailable.

<table>
<thead>
<tr>
<th>Advantages</th>
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<tr>
<td>Debt financing of industrial technology imports, preparation and building/installation works against guarantees from ECAs in the exporter’s country is one of the most attractive types of financing. The loan is provided by the exporter’s bank either directly to the importer or, in most cases, to the importer’s bank as an interbank loan. Since the ECA insures against geography related risks of default, the borrower will save on average 2-3% compared to a standard bank loan, even considering that borrowing costs include the margins of the importer’s bank and the exporter’s bank, the ECA’s insurance premium and additional outlays on drafting and expert reviewing of documentation. A long period of financing (3-12 years)</td>
<td>The deal structure usually requires a contractual down payment (15% on average) from the buyer’s own funds. The funds can be provided as a separate loan by a resident bank involved in the deal. Approval and set-up take several months. Additional financial and time costs of drafting and expert reviewing of the loan documentation. Mandatory direct contract with the exporter, and the need to make the terms and conditions of the contract with the supplier comply with ECA requirements. Financing to be provided exclusively in foreign currency with the resulting currency risks. Each export credit agency has its own requirements, e.g. additional security in the form of promissory notes or an expanded package of documents. ECAs work only with accredited banks. Obtaining accreditation from a particular ECA by the importer’s servicing bank may take additional time.</td>
<td>The equipment manufacturer (exporter) is interested in selling the equipment to the buyer from Russia and the CIS, and the exporter’s servicing bank is able to finance the deal. The importer’s bank is accredited by leading export credit agencies of the exporter’s country and has open limits for transactions in major banks abroad. The importer company can confirm its creditworthiness over the entire lending term. Having good project documentation proving that the project will generate enough cash flows to repay the loan. Sufficient financial transparency of the importer for audits by western financial institutions.</td>
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<tr>
<td>Pre-export financing</td>
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<tr>
<td>Financing of working capital required to buy raw materials and start producing goods intended for export. Debt repayment through assigning a certain portion of foreign exchange revenues from export operations. Guarantee of payments by the international counterparty under the export contract: an irrevocable letter of credit to be opened with a reputable western bank for the benefit of the exporter. Financing is normally provided by the exporter company’s bank using a loan from an international bank obtained specifically for this purpose; for especially large deals a syndicate is established involving several international banks and against ECA guarantees (for more detail on obtaining such guarantees see above). In this way pre-export financing allows enterprises to manufacture goods without using working capital or when it is unavailable.</td>
<td>Organisation takes a long time and requires a lot of work. Often requires collateral and guarantees. The lending bank monitors the production process. Banks are interested in selected sectors such as ferrous and non-ferrous metals, engineering and oil and gas. Sometimes local banks who offer pre-export financing services understand this to mean just standard trade finance and documentary products (letters of credit and guarantees) or factoring operations, and do not envisage working capital financing at the raw material purchase and/or production stages.</td>
<td>Having competitive products and having buyers for these products. A good business reputation and good payment record on the part of the exporter. Experience in export-import activities. Transparent financial statements and group structure on the part of the exporter. A sustainable financial position on the part of the manufacturer. The clear and unambiguous nature of the export arrangements to be financed. The number and volumes of FX deal passports opened with the bank.</td>
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### Advantages

<table>
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<th>Syndicated loans/Club deals</th>
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<tbody>
<tr>
<td>• Credit is provided by several lenders to one borrower. If necessary, almost any form of bank financing can be arranged as a syndicated or club loan. The &quot;club&quot; structure means that the list of lenders (club) is pre-agreed with the borrower or the club may be even collected by the borrower itself</td>
</tr>
<tr>
<td>• The amount of financing raised significantly exceeds the capability of a single bank, and compares to that of funds raised from a public share offering or loan bonds</td>
</tr>
<tr>
<td>• No need to register with the government regulators, unlike with loan bonds</td>
</tr>
<tr>
<td>• The company does not end up in a situation where it depends on one main bank lender that is in a stronger negotiating position in terms of the cost of banking products and services, and its possibility of working with other banks is limited</td>
</tr>
</tbody>
</table>

### Disadvantages

<table>
<thead>
<tr>
<th>Syndicated loans/Club deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lack of technology and experience at most local banks limits the depth of this market. The main organisers and participants in the syndicates of several Russian banks are subsidiaries of foreign banks and international financial institutions</td>
</tr>
<tr>
<td>• The loan documents include a wide range of financial and non-financial covenants (limitations), enabling a syndicate of banks to indirectly control and even limit the growth of a company's activity in order to mitigate their own risks</td>
</tr>
<tr>
<td>• For significant amounts of financing, the syndicate maximises the potential amount of security. Offering the best collateral and terms to subsequent lenders is always limited</td>
</tr>
<tr>
<td>• Take longer to arrange than a bilateral loan from a single bank</td>
</tr>
<tr>
<td>• Maturity in Russia is not usually more than 5 years</td>
</tr>
</tbody>
</table>

### Success factors

<table>
<thead>
<tr>
<th>Syndicated loans/Club deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The same as for attracting an investment loan or project finance</td>
</tr>
<tr>
<td>• Having an experienced bank organise the syndicate or the club</td>
</tr>
<tr>
<td>• Since such transactions almost always involve international financial institutions, the borrower needs to have a minimum of 1-2 years of IFRS/GAAP financial statements</td>
</tr>
</tbody>
</table>

### Internal bonds denominated in national currency

<table>
<thead>
<tr>
<th>Internal bonds denominated in national currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A mid-term and long-term loan period. Amounts of corporate issues are quite large starting from 500 million and reaching up to 12-15 billion Russian roubles (or equivalent in national currency for other CIS countries)</td>
</tr>
<tr>
<td>• This financing option is available for both largest and second tier market players</td>
</tr>
<tr>
<td>• Financial sources may be used for financing of wide range of corporate needs (as opposed to investment loans or project finance when funds are provided for financing of particular projects)</td>
</tr>
<tr>
<td>• Preparation of IFRS accounts and obtaining of credit rating is desirable but not strictly required</td>
</tr>
<tr>
<td>• Creation of a public credit history that can be taken into account in an IPO at local stock exchanges</td>
</tr>
<tr>
<td>• Listing at local stock exchange and registration of issue in accordance with national legislation is required</td>
</tr>
<tr>
<td>• For Russia and CIS available in national currencies only</td>
</tr>
<tr>
<td>• Minimum amount typically starts from 500 million RUB (or from equal amount in national currency for CIS countries other than Russia)</td>
</tr>
<tr>
<td>• Issuance of bonds is subject to taxation</td>
</tr>
<tr>
<td>• The exact cost of financing is not established until the offering, and may change during the maturity of the bonds (depending on the terms)</td>
</tr>
<tr>
<td>• Terms of internal Russian and CIS bonds often include put option clause because in other case desirable pricing or duration of the issue may be not achievable</td>
</tr>
</tbody>
</table>

### Credit-linked notes (CLNs)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>• CLNs are securities that an issuing bank issues at the time of a loan to a borrower. The Issuer is not liable for this loan; the company is liable for all the obligations</td>
</tr>
<tr>
<td>• Available in any currency</td>
</tr>
<tr>
<td>• Access to international debt market</td>
</tr>
<tr>
<td>• Speed (typically 3 months) and simplicity of issue: there is no need for preparation of offering circular and organization of listing of these securities at foreign exchanges. Credit rating is not an obligatory requirement</td>
</tr>
<tr>
<td>• Less liquidity than for Eurobonds and LPNs (loan promissory notes)</td>
</tr>
<tr>
<td>• Investor base is different from Eurobonds (usually for companies from Russia and CIS about 70% of investors are native)</td>
</tr>
<tr>
<td>• A higher interest rate than for eurobonds and loans</td>
</tr>
<tr>
<td>• The minimum issue is 30 million USD, which often makes this instrument inappropriate for small and medium businesses</td>
</tr>
<tr>
<td>• Having an interested bank which is able to issue CLNs</td>
</tr>
<tr>
<td>• Proven market appetite</td>
</tr>
<tr>
<td>• Evidence of company’s financial capability to service the debt in a timely manner</td>
</tr>
</tbody>
</table>
### Advantages

#### Credit-linked notes (CLNs) continued

- Low cost of preparation and placement
- No collateral or guarantees required
- Early repayment allowed
- The issue of CLNs helps to establish a public credit history
- CLNs are usually issued by affiliated to the bank special purpose venture (SPV) or transferred by bank to the SPV’s balance sheet right after the issuance. Thus, issuance of CLNs has no or limited effect on bank’s own balance sheet and it is not a subject for legal limitations on lending to one borrower/borrowing group

### Disadvantages

- Loan amount usually does not exceed USD 100 million

### Success factors

#### Credit-linked notes (CLNs) continued

- Having sufficient authorised capital or a guarantor or bank guarantees
- A high credit rating
- IFRS compliance and a transparent legal structure
- Name recognition

#### External bonds – Eurobonds and LPNs (loan promissory notes)

- Eurobonds are international bonds which are denominated in a currency not native to the country where they are issued
- Due to specificity of national legislation and FX control measures most borrowings of corporate clients from Russia and CIS are structured in form of LPNs via special purpose venture that is established aboard (In Russian and CIS practice in most cases analysts usually say Eurobonds but mean LPNs)
- A long-term loan period and high-value issues (typically from 100 million USD)
- No collateral required
- Lower interest rates for Eurobonds/LPNs than for CLNs
- Diversified base of investors. Share of foreign investors usually is about 70%
- Creation of a public credit history that can be taken into account in an IPO
- The documentation specifies fewer covenants and events of default than the loan documentation
- The document preparation is complicated. Organising and servicing the issue is expensive
- The need for a credit rating assigned by at least two of international agencies
- The full range of market opportunities and lower resource costs are available only to companies with an investment rating (or to companies whose bond issues have an investment rating).
- The high level of dependence on bond market behaviour
- Legislative and financial restrictions on the issue amount

### Mezzanine financing

- Mezzanine financing is subordinated unsecured debt backed by securities with repayment of the principal on maturity, with the possibility of conversion of the debt into shares in the borrower
- A mezzanine loan can be used to finance a new business, add to internal funds for project finance, and for acquiring a shareholding using borrowed funds
- The term is usually 3-5 years, with the principal being repaid on maturity
- Both the main and mezzanine financing are provided to a legal entity incorporated in a country where the legislation allows for loan subordination (for example, loan subordination is not possible in Russia)
- Appearance of a financial investor in the company’s equity
- Significantly more expensive than standard bank loans
- Lack of technology and experience at most banks in Russia and the CIS
- Not a deep market in the CIS
- Significant company asset and capitalization growth potential
## Advantages

**Financial investor/Investment funds**
- The possibility of receiving significant equity financing at all stages of business development, including the initial stage
- Non-interference in day-to-day management of the company
- The possibility of increasing business value quickly
- The possibility of buying back the share in the fund later

**Strategic investor**
- Potential for a premium on the sale of a large shareholding
- Long-term ownership interest, unlike with a financial investor
- Expansion of sales markets; access to new market segments
- The possibility of using the know-how, technology, brands, distribution channels and other assets of the strategic investor
- A strategic investor is less concerned with dividends and can invest in a mature business with low returns, gaining from economies of scale, synergies, growth in the capitalisation of a merged company, etc.

**Public share offering (IPO, SPO)**
- Opportunity to receive significant equity financing at lower cost
- Control over dividend flows
- Access to a wide range of investors
- Acquisition of a public company status and strengthening of reputation
- Option to realise part of value for existing shareholders
- Additional earnings from the Company’s redemption of its own shares in price adjustment periods, provided the basic indicators are strong
- Use of shares in the company as a payment instrument for M&A transactions
- If the market is favourable, a publicly traded company has an option to raise additional financing through an SPO in a short timeframe
- Provide flexible share incentive programmes for management

## Disadvantages

**Financial investor/Investment funds**
- The fund’s expectation of rapid company growth and significant returns on investments
- The risk of confrontation on strategy and business development goals; the desire of some funds to make as much profit as possible in the short term and then withdraw from the business
- After an investor withdraws, its share may be transferred to less supportive shareholders

**Strategic investor**
- Dilution of the shareholdings of existing shareholders, up to loss of control
- The investor’s desire to take part in the strategic and day-to-day management of the company, and to be represented on the senior management team

**Public share offering (IPO, SPO)**
- IPO markets unpredictable whilst the IPO preparation process is lengthy. In uncertain market conditions companies have to postpone IPOs until the environment becomes more stable. As a result, the company cannot rely on an IPO as a sole source of long-term financing
- The IPO preparation requires companies to incur upfront costs for preparation, is lengthy (6-12 months in Europe and the USA, 3-6 months in Russia) and complex
- If the company is not ready for an IPO and needs to undergo a reorganisation/create a proper legal and management structure/prepare financial statements in accordance with international standards, the IPO process may take up to 2-3 years
- Advisable only where the target value of the offering is no lower than 50-100 million USD and the minimum value of the company is 200 million USD

## Success factors

**Financial investor/Investment funds**
- Having significant growth prospects in an attractive industry
- Having a clear development strategy and significant competitive advantages
- Having a professional management team and work experience in the market in question

**Strategic investor**
- Being a mature business with a significant market share and/or having unique competitive advantages
- Real readiness to admit the investor into the management team and to take its interests into account when doing business

**Public share offering (IPO, SPO)**
- A clear development strategy, an attractive equity story and a transparent business and tax structure
- High corporate governance standards, including independent directors on the Board
- Solid market position, high profitability, robust cashflows and good growth prospects
- IFRS or GAAP financial statements, and an experienced international auditor
- Experienced management team, recognised in the market for its expertise and achievements
- Appointment of an experienced lead underwriter/Sponsor who advises on appropriate offering structure, market and pricing
- An early IPO readiness assessment by an experienced team
### Advantages

**Public share offering (IPO, SPO) continued**

- The need to meet formal stock exchange requirements including ongoing reporting and to take account of the investment community expectations
- The timeframe, value of the offering and price range may be reviewed depending on the state of the market, and may differ significantly from that initially planned

### Disadvantages

- An analysis of the company’s current financial position indicates that the company is able to meet its lease payment obligations in a timely manner
- The liquidity of the assets being obtained under the leasing arrangement

### Leasing

- Reduction of the profits tax base and the property tax base through the use of accelerated depreciation
- No collateral required (the object of lease itself acts as the guarantee)
- Requirements on the borrower’s financial position not usually as strict as for an investment loan
- The leasing company remains the owner of the leased property until all the lease payments have been made.
- The impossibility of using this property as loan collateral; the risk of bankruptcy of the leasing company
- Typically, only sufficiently liquid assets can be obtained through leasing
- In an undeveloped market interest rates may be higher than for a loan

### Success factors

- Can be used only for debt of buyers whose credit quality satisfies the factor, and not for all receivables. In addition, the debtor must be ready to work under the factoring arrangement
- In an arrangement with recourse, the factor may demand compensation from the supplier if the debtor fails to meet its obligations. An arrangement without recourse is more expensive for the client

### Factoring

- A type of sales commission transaction combined with working capital lending to the client, where the bank or factoring company (the factor) purchases the client’s receivables by paying 70%-90% of the amount immediately and the rest of the amount (minus a commission fee) when the customer pays for the goods. A simple way of adding to working capital when the supplier is happy with the buyer but has no influence on the latter’s payment discipline.
- The arrangement may be with or without recourse to the client.
- In arrangements with recourse, the advantage for the supplier is that it receives the money immediately, not after 60-270 days.
- Has the simplest requirements for the company’s financial position

### Success factors

- Having in the customer’s portfolio buyers where bank limits already exist or have been approved (usually major retail chains)
- The debtor’s agreement to work under the factoring arrangement

### Forfaiting – long-term credit for cross-border transactions with tangible products

- Assignment of claim by the exporter of any tangible product to a financial agent (company or bank), which in turn extends credit to the buyer
- Can be initiated by the exporter or the importer (in the latter case it is a variety of import credit)
- Used when the exporter is not ready to grant the buyer a deferral (e.g. in light of country risks) or needs liquidity and wants to sell all or part of the debt
- The market is undeveloped; few banks and organisations use forfaiting, and many of them interpret it differently
- The main difficulty for the growth of forfaiting in Russia and for Russian exporters is the Law on foreign currency regulation and control (export transactions must be paid for abroad)
- Take a long time to arrange

### Success factors

- For the importer: financial statements transparent to the foreign investor, and the possibility of obtaining guarantees from export credit agencies or other international institutions
- For the exporter: exporting to a country with risks acceptable to the forfaiter, and the importer’s readiness to work under such an arrangement
### Forfaiting – long-term credit for cross-border transactions with tangible products

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Success factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• All risks are transferred from the exporter to the forfaire</td>
<td>• Apply only to export/import operations involving the supply of tangible products, not to those involving the provision of services</td>
<td>• Involvement of international professional consultants</td>
</tr>
<tr>
<td>• Forfaiting securities are promissory notes and bills of exchange accepted by the importer. In developed countries there is a secondary market for such securities</td>
<td>• The term of the loan to the supplier is directly linked to the subject of the contract (e.g. purchasing raw materials with payment spaced out over 5 years is not possible)</td>
<td>• Thorough preliminary analysis of the feasibility of the transaction</td>
</tr>
<tr>
<td>• May be used for supplies both from abroad and from Russia and the CIS</td>
<td>• Terms of up to 8 years (depending on the object)</td>
<td>• Preparation of internal systems and staff training</td>
</tr>
<tr>
<td>• The markets have not reopened since the financial crisis of 2009</td>
<td></td>
<td>• High transparency over assets positions to be securitized</td>
</tr>
</tbody>
</table>

### Securitisation

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Success factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The possibility of attracting “cheaper” capital market funds for an extended period for banks, leasing companies, and commercial real estate owners (in some cases the credit rating of the securitised securities may be higher than sovereign rating)</td>
<td>• The need for a credit rating</td>
<td></td>
</tr>
<tr>
<td>• The ability to meet capital adequacy requirements (for banks) and to increase ROE</td>
<td>• Strict requirements on assets, the contractual base and IT systems</td>
<td></td>
</tr>
<tr>
<td>• The possibility of diversifying the investor base</td>
<td>• The impossibility of clearly defining the interest rate before raising financing</td>
<td></td>
</tr>
<tr>
<td>• Process of gaining credit rating for securitized assets reflects well on company also due to need for thorough analysis and procedures.</td>
<td>• Heavy dependence on the market</td>
<td></td>
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<td></td>
<td></td>
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</table>
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