JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Access to free trade agreements by small and medium sized businesses

QoN #1

CHAIR: Can we take a step back. Can you provide a summary of the products that you offer? And then I will ask you to focus on the product that you offer most commonly and provide an example of exactly how it has been applied to a client.

Response to QoN #1

The general categories that Efic's product offerings fall under are loans, bonds, guarantees and insurance.

Efic's loans fall under three broad categories:

1. **Small Business Export Loan (SBEL)** – A fast and easy online application process for businesses which need funds for export transaction[s]. The loan can be from $20k-$350k, and is available to businesses with an annual turnover of between $250k and $10m.
2. **Export Contract Loan (ECL)** – A flexible loan structure aligned to business cashflow that can be drawn for export-related transaction[s]. The loan can be upwards of $100k, and is available to businesses with an annual turnover of over $250k.
3. **Export Line of Credit (ELOC)** – A line of credit that can be drawn and repaid multiple times for export-related transaction[s] during the loan term. The loan can be upwards of $100k, and is available to businesses with an annual turnover of over $250k.

Efic offers a range of bonds, which typically take the form of Performance Bonds and Warranty Bonds.

- **Performance Bonds** give the buyer of a product or service assurance that if the exporter doesn't meet their obligations under a contract the buyer can call on the bond to reduce its losses.
- **Warranty Bonds** protect a buyer from loss if the exporter doesn't meet their contractual warranty obligations after the contract is completed.

- Efic can also offer **Advance Payment Bonds**, which provide a buyer with security for their advance payment under an export-related contract.

Bonds are available for businesses with an annual turnover of over $250k, and can be upwards of $100k.

Efic's guarantees generally fall under three product categories:

1. **Export Finance Guarantee (EFG)** – This can be provided to a bank to guarantee a loan to an overseas buyer to help them with the purchase of capital equipment or services from an Australian exporter. Our export finance guarantees can complement loans or guarantees provided by commercial banks, other export credit agencies and multilateral agencies for large overseas projects.
2. **Documentary Credit Guarantee (DCG)** – If a bank is unwilling to take on the risk of non-payment by providing a letter of credit to an exporter, Efic's documentary credit guarantee can help the exporter protect their export revenue and finance new export activity, by assuming the credit risk for the transaction.
3. **Working Capital Guarantee (WCG)** – A working capital guarantee can be provided to an exporter's bank if the exporter doesn't have the assets that are required as security to approve further working capital finance. Our guarantee provides security to the exporter's bank, allowing them to lend the exporter the additional working capital they need to finance an export contract, multiple export contracts with different buyers or to finance their involvement in an export related global supply chain.

As with bonds, Efic's guarantees can be upwards of $100k and are available to businesses with an annual turnover of over $250k.

By volume, Efic's most commonly provided product in FY17-18 was the Small Business Export Loan (SBEL). The products that accounted for the most value in FY17-18 were the various forms of bonds that Efic offers.

- Our SBEL is an unsecured loan solution with an easy online application and fast approvals for businesses with a turnover of more than $250K.
- If a business needs finance to support its export transactions, and its bank is unable to help, the loan could provide the company with the necessary funds to satisfy cashflow needs.

- A business must have a turnover of between $250K and $10 million and have been trading for at least 2 years to be eligible.

Lee Mathews Case Study

Since 2000, Lee has organically grown her business from a small store in Newport, to eight stores across Australia and an online store.

Stephen Rae, a Director at the company, explains that domestic growth was slow because there was a strong emphasis on ensuring the brand remained true to itself aesthetically and ethically while maintaining integrity.

Taking their first step to global growth, the business took their collection to Paris Fashion Week, hired a space and showcased their collection.

“Basically, we introduced ourselves to the world. We emailed people and sent out photographs of what we did. It was a ‘let’s have a look’ approach that lead to some very good interest right away,” explained Stephen.

They continued this approach for the year, gaining traction. The first international sale was to a UK department store which then lead to immediate traction in Japan.

“Our initial exports were at a level that we could finance ourselves. We have always been self-financed. In the last year and half we have seen some real acceleration in our export business. What began as 0% of our business is now projected to grow to 30% in a very short period of time,” said Stephen.

Stephen explained that it was clear export was going to work, however they would need to look at finance to support this growth.

“Historically we have not had financial support through the banks. The challenge is that many banks require security and this adds a level of complexity. We have a close relationship with our finance partner, however when you move in to the export side of things it becomes hard.

“Banks tend to focus solely on balance sheet, and if you’re a business that is growing and always reinvesting your money in your business and growth, then your balance sheet isn’t the best reflection of where you are in your business growth cycle,” explained Stephen.

This is where Efic comes into the picture.

Stephen initially met with Efic about finance support for a significant increase in orders from two of the largest international online clothing stores.

Initially, the business applied for a Small Business Export Loan which was approved against two purchase orders pre-shipment that supported the order delivery.

With extremely positive sales growth projected over the next year, Stephen worked with Efic to set up a $500k line of credit.

“This is a game changer for us. It was astonishing to me what an absolutely tremendous service Efic has provided. What an incredibly essential factor it is to our success and we frankly could not have done this without Efic. I want everybody to know it!” said Stephen.

More case studies of clients who have experienced success with Efic’s SBEL product can be found on our website.

QoN #2

CHAIR: Let's look at loans, then. You've mentioned at least three—the small business export loan, export contract loan and export line of credit. Which is the most common out of those three?

Mr Pacey: The online loan product would be. That's more of a high-volume one.

CHAIR: Would you know what proportion of your clients would opt for that small-business export loan, either on a client basis or on your transaction basis, if that's the most common product you have.

Mr Pacey: Perhaps I can take the exact numbers on notice.

Response to QoN #2

On a client basis, 45.6% of Efic’s clients in FY17-18 received SBELs.

In terms of transactions, which can occur multiple times for the same client in a year if they apply or draw down on a facility more than once, SBELs accounted for 32.7% of the transactions processed by Efic in FY17-18 (see table in appendix).

QoN #3

CHAIR: It would be good if you can. Maybe if you can give us a case study—an example, obviously respecting the required confidentiality of clients—on the small business export loan and how that has worked.

Mr Pacey: It's probably best that I take that on notice if I could. I can talk to an export contract loan customer, Cassegrain, if you'd like.

CHAIR: Okay.

Mr Pacey: Cassegrain is a Port Macquarie based winery. It is a company which has a banking relationship. It is exporting to China and Japan. The wine industry is one with a long working-capital cycle, and under its contracts it sought Efic support to meet those requirements. We provided them with a half-a-million dollar export contract loan to finance their requirements

CHAIR: Thank you. You can put that in your submission. I understand that you will provide an example at a later date on the small business export loan.

Mr Pacey: Yes.

Response to QoN #3

CASSEGRAIN CASE STUDY

Cassegrain is a multi-award winning winemaking company based in Port Macquarie, NSW, which is growing its exports to Japan and China in response to high demand.

Cassegrain produces a large range of wines, doing everything from crushing the grapes through to bottling and distributing the wines.

Having established the business in 1984, Cassegrain started exporting in 1987 in response to specific demand from a Japanese buyer. Since then, the company has been successfully exporting its wines to Europe, UK, North America and Asia for a number of years. Japan remains its main export market, representing around three quarters of its export products.

Currently, exports represent 30 per cent of Cassegrain’s sales but the company is aiming to increase that to 70 per cent in five years’ time.

Growing exports

Faced with growing demand from buyers in Japan and China, Cassegrain was worried about matching product supply to the purchase orders it was receiving.

The wine industry has a significant lag phase, as the harvest cycle doesn't necessarily align with demand for product and the lead time from production to supply can vary significantly. For the higher quality wines, the grapes mature in barrels prior to bottling and distribution, meaning a longer lead time on the product supply. This means that Cassegrain has to invest in manufacturing its wines before receiving orders, to have sufficient product to fulfil a contract when it comes in.

In order to realise its potential growth in Japan and China, Cassegrain needed working capital to pay suppliers and keep production running smoothly.

"With the support of Efic, and boosted by the free trade agreements recently signed with Japan and China, we're anticipating that our exports will double over the next two years. John Cassegrain, Sole Director, Cassegrain."

Financial support

We provided Cassegrain with a A$500,000 Export Contract Loan to enable the company to deliver on its growing export contracts in Japan and China by investing in its manufacturing capacity.

An Export Contract Loan is a direct loan available to SME exporters to provide working capital finance for a specific export-related contract.

"Cassegrain is a great Australian success story receiving significant overseas interest and our support will ensure that they can deliver on a wide range of export contracts", Efic's Colin George commented.

QoN #4

CHAIR: If you can provide details on how many for the last financial year, by those different categories, that would be helpful.

Mr Pacey: Yes.

Response to QoN #4

Efic's response is attached as an appendix at the end of this document.

QoN #5

CHAIR: Can you provide an example of where a company has been knocked back by Efic?

Mr Pacey: Speaking more generally, what we sometimes see is that a customer may be at a stage in their development, in their life cycle, where it's more appropriate that they're funded by equity rather than debt.

Company X

A company's application for financing was declined by Efic for two reasons that are not uncommon.

Company better suited by equity financing

The financial situation of Company X indicated a need for equity financing instead of debt financing. The company was still operating at a loss while its expenses were increasing, with a cash shortfall projected several months and key financials indicating a high risk of an inability to meet repayments.

Issues relating to a key contract

The risk associated with the company's financials was also driven by significant changes in a key contract that secured repayment of Efic's financing. Uncertainty over the contract raised doubts about the company's cashflow and its ability to repay a loan.

Because of these two issues it was determined that the company would be better suited by seeking equity finance, rather than debt finance from Efic.

Appendix

Response to QoN #4

Efic Products Offered to SMEs in FY17-18

Product	CSPF businesses supported	SME businesses supported	CSPF transactions	SME transactions	CSPF value	SME value
Bond	0	21	0	81	$0	$79,381,773
DCG	0	1	0	1	$0	$2,055,352
Direct Loan	1	0	1	0	$9,936,589	$0
ECL	0	35	0	38	$0	$39,196,956
ELOC	0	25	0	27	$0	$22,953,680
EWCG	0	15	0	17	$0	$18,811,910
ODI	0	1	0	1	$0	$1,000,000
SBEL	0	73	0	83	$0	$11,614,604
RPA	1	1	4	1	$9,205,716	$85,921
Total *	2	172	5	249	$19,142,305	$175,100,196

*Total clients supported for CSPF and SME is 160 but adds to 174 in table above because a client may use multiple products or in the case of ADB be a client of both CSPF and SME.