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**The
Who – What – When – Where – How
Of
CONTRACT MONETIZATION FINANCE**



A White Paper Summary for Referral Agents

Monetize Your Client Contracts

Ever have a really superior customer who wants your equipment and asks you to include a service agreement for 3 or more years, maintenance, etc? Leasing companies typically cringe at the thought of wrapping all this into a contract, but we have a way to do it, and it's called Monetizing. Simply put, it's the ability to allow the Vendor to present an *all inclusive* quote to the customer, wrapping in all these items into one comprehensive Contract.

Our bank would put together a comprehensive, proprietary usage/management agreement encompassing both the service and equipment portions of the 'Contract'. The bank bills the customer for the total Contract payment, directing payment to a lockbox where it is then bifurcated and the non-tangible, service portion of the Contract forwarded back to the Vendor on a monthly basis.

Benefit to the Vendor

Vendor gets paid (at a minimum) for the equipment cost upfront

Negates the need for the Vendor to bill the customer on a monthly basis

Customer pays one full Contract payment monthly

Terms are as long as the Service Contract

By wrapping equipment and service, etc. as one lump sum monthly fee to the customer, equipment discounting is held to a minimum

Qualifications

Customer must be investment grade and/or Bond rated

The relationship must have a service contract and equipment component

Transaction must be \$1,000,000 or over

Simple Flow of Events

Before quoting the customer, contact us so that we can see if the customer qualifies. (if not, we can always consider a lease on the equipment)

Vendor works up his equipment and service costs

Our lender will submit a Proposal and Language into a Quote

If accepted, our lender will work with you/us and your customer to put the documents together.

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Clarifications Regarding Contract Finance

- Percentage of working capital we can fund is dependent upon the valuation we can attach to the equipment and any value-add the provider of the service or the service and equipment may bring to the collateral. In many cases we will ultimately structure the transaction as a refinance or a sale-lease-back. Where we can, we will also treat the provider as the vendor of the equipment. These structures may add significant value that can be utilized as working capital. The exact amount of working capital is really determined on a case by case basis.
- We must have a **Guaranteed Payment** for a **Specific Period of Time** from an *investment grade end user*. The contract must be assignable, as well as the payment stream, for a specified period of time. (2-15 years)
- We can do Sale-Lease-Backs with this program so long as the lender is satisfied with the investment grade quality of the end user. Sale-lease-backs can be added to provide the necessary component of equipment in a Contract Finance scenario.
- Another variation of Contract Finance is to have a provider buy back the equipment currently on the investment grade customer's books; then, enter into a service agreement with the investment grade customer. Large companies normally want use of the asset and not ownership.
- The more the service resembles a commodity the harder it is to put together as a Contract Finance transaction. Commodities such as coal, electricity, oil, gas, gold, etc. have well defined spot markets that fluctuate based on a number of variables. The well organized commodity markets allow investment grade end users to procure commodities without entering into special agreements. Having said that, it should be noted that the power of a relationship between the service provider and end user may be enough to swing the deal.
- We cannot fund a Sub-Contractor's contract with a general contractor when the general contractor has a contractual relationship with an investment grade end user. The service provider has to have a direct contract with the investment grade end user.
- Short-term contracts are more difficult to put together. The shorter the term of the contract, the higher the IRR is to the service provider. Our lender's minimum on term is 12 months, and a 24 month minimum is preferred.

Where can you find Contract Finance Deals?



Please review the following list of suggestions:

- CPAs
- Commercial Loan Officers
- Investment Bankers
- Private Equity Groups
- Merchant Bankers
- Venture Capital Firms.
- Vendors
- Service Providers
- Manufacturers
- IT Consultants

Investment Bankers

Let's take a moment to focus on investment banking firms. These companies' portfolio customers and potential customers come to the investment bankers in search of capital in the form of equity. Equity is expensive-substantially more expensive in our current economic climate. According to Business Week, private equity firms raised only a third as much equity in '09 as in '08. This dearth of equity makes contract financing the perfect augmentation partner for the investment-banking firm.

Private Equity & Venture Capital Groups

These differ from investment bankers because they are normally the source of equity. The larger firms raise money in a fund, which usually invests in particular industries. As with the investment bankers, their availability of funds has shrunk dramatically since 2008. Contract financing can provide a substitution for their portfolio clients or prospective clients that are looking for infusions of capital to fulfill a contract.

Merchant Bankers:

Merchant bankers are similar to investment banks, private equity and venture capital firms; however, they normally loan money with an equity or ownership kicker. Brokers have brought us a couple of transactions originated by merchant bankers.
bankers.

CPAs & Commercial Loan Officers:

These are two very logical sources for Contract Financing customers. The first place that a firm will go when they need funds to fulfill a major contract is their banker or their CPA.

Vendors, Service Providers, Manufacturers & IT Consultants:

Depending on the product or services sold, these sources may be in constant contact negotiations with new or existing customers. The key here is to look for entities that provide service and equipment, or provide a service for which equipment.

We've prepared an adaptation of our original Contract Finance power point for you to pass on to private equity groups, investment bankers, merchant bankers and venture capital firms. We'll have another version for CPAs and commercial loan officers shortly.

There are literally thousands of companies here in the U.S. that have existing contracts, or are negotiating new contracts with large investment grade end users. Every lead type we've listed can be a source of repeat business.

Have you ASKED your clients WHY they are in need of financing, what happens if they don't get it, what is it worth? You've heard us say it before, and it's worth repeating again; **ASK** is the most important word in the universe. We believe that the essence of this maxim is that opportunities exist in places where others fail to see them, or where they refuse to ask.

If financing is needed to provide a service and/or service & product to their clients they may qualify for CONTRACT FINANCING. The Credit Decision is based on the strength of the end user and the contract with the service provider.

By now you know that our Contract Financing product has a few basic, and necessary, components –

- An investment-grade end user
- Stipulated minimum payments and equipment required for performance.

Now, we can turn our focus to where these elements can be applied in Contract Financing. Service Contracts, where a vendor or service provider needs equipment, and sometimes working capital, to fulfill their contract to provide some type of unique service to their customer, are the most common source for Contract Finance.

WE DO MORE THAN JUST SERVICE CONTRACTS!

We also extend this product into other contracts as well; for example, Distribution Agreements, Production Contracts and Product Purchases – to name a few - are also viable sources for Contract Financing.

Even with these different types of contracts, the basic components remain the same. The end user is still an investment-grade company; there will still be a minimum payment or quantity supplied; and there is still equipment necessary to fulfill the contractual obligation.

Asking the appropriate questions will help to indentify your customer as a candidate for this program, even when they have a contract that is not a traditional Service Contract.

If you are willing to ask some additional questions, we are able to assist you and your customers with their Contract Financing needs. A missed opportunity is always taken by somebody else who knows how to ask and is capable of listening.

KEY TO GETTING THE DEAL,



THE IDEAL PROVIDER

We must have at least three essential components to a Contract Finance transaction.

1. The Provider must have a contract with an Investment Grade End User –
2. The contract can be structured to stipulate a minimum monthly payment from the Investment Grade End User to the Provider –
3. There must be a component of equipment needed to fulfill the contract – these are the most basic elements that must be present for a transaction to be successful. Think of this as the foundation of Contract Finance.

What else can you do to increase the probability of closing the deal?

Focus on the Provider.

Let's discuss three Provider characteristics that have the most influence on the transaction: ► Product, ► Financial condition/Credit worthiness and ► The Relationship.

- **Product:** Disruptive Technology. We didn't coin the term (we'll give Clayton Christensen his due credit), but we will repeat it over and over again. A Disruptive Technology is a term describing an innovation that improves a product or service in a way that the market does not anticipate. Often, the innovative technology creates an entirely new market! This is where we want to be. The Provider has a much stronger position for negotiations when the End User cannot simply pick up the phone book and find a suitable replacement. The Ideal Provider has a product that the End User recognizes as part of their competitive advantage in the market place – either by lowering costs, increasing revenues or expanding their market share.
- **Financial Condition/Credit Worthiness:** A major advantage of our Contract Finance product is that we are able to provide financing to companies that typically don't meet traditional underwriting standards. In fact, Contract Finance is more useful to companies that are not sufficiently strong enough to obtain "easy money" elsewhere, or fund the deal internally; however, we also know from experience that rate is not normally a deal point. The product is designed as a substitution for equity, which can be very costly and intrusive on company management. This substitution for equity is a very attractive feature even for strong Providers; AS WE CAN GET THE TRANSACTION OFF-BALANCE SHEET.
- **Relationship:** Ultimately, the End User and the Provider are going to come to a consensus that the Contract Financing structure is advantageous to both parties. From inception to completion, this process takes a lot of negotiation, compromise and business trust. We have found that the relationship between the End User and the Provider has a significant amount of influence on the outcome. This relationship is based upon the business trust that the Provider has been able to build with the End User. Of course, having a great product goes a long way to building a lasting relationship as well!

FAQ

Q. Who should I focus on contacting?

A. Any manufacturer, vendor or service provider who provides a service under contract & utilizes some equipment to provide the service.

Q. How does it work?

A. Each transaction is a custom product designed to meet the needs of the vendor/service provider and their end user.

Q. Does the Vendor/Service Provider need to have good credit or substantial time in business?

A. Underwriting focuses on the credit worthiness of the end user for whom the services are being provided.

Q. What qualifies a deal?

A. End user should be near investment grade or investment grade & exhibit a S&P bond rating of BB or better.

Q. How much commission can I make?

A. Up to 2% of the funded amount.

Q. What is the rate?

A. From the end users perspective, this is not a product with an inherent "rate". Their contract is a contract for services. Payment for those services is an expense. As they are not financing equipment, nor do they have ownership in the equipment, there is no traditional "financing costs".

Q. How much will we advance?

A. The advance amount is wholly contingent upon what the end user will agree to pay. It may cover just the equipment or possibly additional working capital for the service provider.

Q. When is this most likely to work?

A. When there is a unique service or product being provided or when there is an excellent existing relationship between the two parties.

Q. Why would the end user agree to Monetizing terms?

A. To facilitate receipt of necessary or unique services.

Contract Financing Questionnaire

(Minimum of \$1,000,000)



Smart Finance Options, Inc. AUTHORIZED AGENT

Submitting a Contract Finance deal is as SIMPLE AS **A-B-C** (and **D**)

******What we need to know to start working on a Contract Finance deal:

****A.** What industry is your customer/provider in and what service do they provide? (Include contact info)

****B.** To whom do they provide service and what is the term of the contract? (Include contact info AND a copy of the contract)

****C.** How much funding (equipment and/or working capital) is the provider seeking?

****D.** A brief transaction summary addressing the above points will enable us to determine whether the transaction may fit within the Contract Finance/Monetization "box". (Use an extra sheet if necessary)

Review Program Requirements

- Minimum Deal Size \$1 Million
- Customer investment grade or near investment
- End User/Obligor must be bond rated BB or better
- Service Contract must have a component of equipment
- This program is not for ongoing service maintenance contracts