

Preparing for Financial Close (Project Finance)



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What is Project Finance?

• We define project finance as the ability to raise funds to finance an economically viable capital project.

- ✓ Debt Capital
- ✓ Equity Capital

• The providers of these funds look to the cash flow (not Income Statement):

- ✓ To service their loans (payments)
- ✓ For a return on their invested equity (dividends)

Rich Dad's Guide To Investing

➤ Basic Rule Number Seven

➤ The most important issue here is **not** return **ON** investment. The most important issue is return **OF** investment. Security of capital is very important.

By Robert T. Kiyosaki

Cash on Cash Return!!!!

START UP STAGES FOR ADDED VALUE

- ☐ Initial meeting
- ☐ Organization formed
- ☐ Secure seed money
- ☐ Feasibility Study
 - ☐ Economic, market
 - ☐ Technical, financial
 - ☐ Management
- ☐ Develop Business plan
 - ☐ Operation plan
 - ☐ Marketing plan
 - ☐ Management plan
 - ☐ Financial plan
- ☐ Develop Prospectus private placement or public offering
- ☐ Equity procurement / Membership drive
- ☐ Annual meeting
- ☐ Finance project
- ☐ Hire manager
- ☐ Project construction
- ☐ Begin operation

COMPREHENSIVE BUSINESS PLAN

➤ *Markets*

- Who
- What
- How Much

➤ *Management*

- Board or Local Leadership
- Operational

➤ *Money*

- Capital
- Cash Flow



ITEMS TO CONSIDER WHEN PLANNING A VALUE-ADDED PROJECT

1. Total cost of plant, property and equipment (PP&E)
2. All pre-production, organizational and general operating funds through the end of construction
3. Beginning working capital, (cash to cover outflow of funds so you do not over draw your bank account)

- *Plan to have 40-60% equity*



Proving the Money

- ✓Balance Sheet
- ✓Income Statement
- ✓Statement of Cash Flows
- ✓Changes in Financial Statements



What does this tell us?



- **Profitability:** Ability to generate earnings/savings.
- **Liquidity:** Measures short-term cash flow ability.
- **Solvency:** Indicates long-term financial health and stability.
- **Efficiency/Coverage:** Suggests how well things are done.

KEYS TO SUCCESS



- ❖ Leadership - local investors, partners, project manager
- ❖ Excellent management
- ❖ Sound business and marketing plan
- ❖ Excellent risk management plan and execution - solid contracts
- ❖ Well capitalized to cushion unplanned adversity
- ❖ Communication with investors: frequent, open, honest
- ❖ Remember to focus on value of your stock, not just return to products committed
- ❖ Remember you are no longer a commodity or livestock producer, but an added value processor

"Running a company is easy when you don't know how, but very difficult when you do."

-Price Pritchett

Where do we go from here ?



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