**In³ CAPITAL PARTNERS**

*International Project Finance & Business Development Consulting*

# Financial Model Instructions

**Goals and Context**

*Purpose*:  The financial model template and samples are designed to allow In3 personnel, Registered Affiliates and clients to create basic financial projections quickly and efficiently.

*Objective*:  The main goal is to help accelerate time-to-disbursement of capital through preparing a complete set of facts, analysis of those facts and disclosure of risks vs. benefits.

*Type of modeling*:  The template is an *annual* (yearly) model and may not capture all nuances of a project's operations (prepaid expenses, deferred income, etc.).  If items not captured in the model are critical to understanding the financial operation of a particular project or if it is important to show non-annual (e.g. quarterly or monthly) cash flows, the developer should provide a more detailed projection model that accurately captures their information.

The model is generally applicable for both new/greenfield projects and can also be adapted to accommodate existing/expansion projects, but note that there is another version of the model that is more applicable to projects with multiple years of operating history.  *If your project is an expansion of an existing operation, please ask your In3 contact for that version of the model.*

***How to Use the Financial Model Template***

- Users may fill in data on the "Assumptions" tab.  Cells where data may be entered are highlighted in green.  Entering data in other cells or changing formulas in non-highlighted cells could result in a malfunction of the model.  If the user is an experienced modeler and is comfortable with re-programming certain formulas, feel free.  However, if the user is not experienced and needs assistance with tailoring the model to fit the project, In3 may abe able to assist.  Contact your In3 representative to dicscuss those arrangements.

- The model is denominated in thousands of U.S. dollars.  Other currencies are best handled through built in conversion facility for "local" currencies, shown by year on the *Assumptions* tab, with one date to reflect estimated future exchange rates.  In some cases, currency risks may need to be explicitly addressed through hedging or insurance.  Ask your In3 contact if this is necessary for your particular host country.   See instructions below for handling ordinary conversion of revenues, controlled by Cells D8, E8 and F8 on the *Assumptions* tab.

## Detailed Instructions (at row or cell level) for entering data:

**DATE and COMPANY/PROJECT NAME**
1. *Start* tab, lines 6 and 13:  Enter the Company Name and start date, which is normally in the same calendar year loan is expected to close, that is, the current calendar year.
2. *Assumptions* Cells D1 & D2:  Starting Year and Company/Project name for which the projections are being made should appear here.

**REVENUES** – enter all **sources of revenue** on the *Assumptions* tab. In some cases, prior sales projection estimates can be merged with this model, then routed to the *Assumptions* tab.

1. Cells A5, A11, A17 and A23:  Enter the names of your products/lines of business/revenue categories.
2. Rows 6, 12, 18 and 24:  Enter projected units of product sold.
3. Rows 7, 13, 19 and 25:  Enter the average price per unit in the currency in which it is sold (either local currency or USD).
4. Cells D8, E8 and F8:  Enter 3 years of projected local currency/USD conversion rates.  If your sales are in USD, enter 1.00.

   NOTE:  Many lines of business may not have a consistent price/unit basis.  For example, a company that provides customized services to clients may have very different prices on each individual contract.  For the purposes of this model, please provide an *average* unit price that results in the proper projected revenue.  If individual units vary significantly from the average, please note that in any explanatory information that you provide with your model.

**OPERATING EXPENSES**

1. Row 33:  Enter the percentage of revenues required to cover the direct cost of products sold.
2. Cells A38 to A44:  Enter the names of <u>local</u> currency operating expenses.
3. Rows 38 to 43:  Enter estimated <u>local</u> currency operating expenses in thousands of local currency units. The model will convert them to USD using the exchange rates you provided in row 8.
4. Cells A49 to A53:  Enter the names of <u>USD</u> operating expenses.  Note:  some of the names may be the same as those in cells A38 to A44.  For instance, you may pay some salaries in local currency and some in USD.
5. Rows 49 to 53:  Enter estimated <u>USD</u> operating expenses denominated in thousands of USD.

   NOTE:  Be sure to put tangible, up-front costs into the Capital Expense (CapEx) cells below, <u>not</u> in the Operating Expenses above.  Intangible expenses, such as Financing or Legal fees, the cost of setting up the business (contracts, permits, development costs), etc., can be put in CapEx by setting the number of years Depreciation/Amortization to zero.  See Assumptions B157-B168.

   If there are certain operating expenses that are being incurred in the pre-operating (i.e. construction/startup period), and those expenses are being counted as part of the project cost, do not enter them in this section.  Those "development" expenses should be capitalized and entered into the CAPITAL COSTS section described below.

**CAPITAL EXPENSES**

1. Cells A59 to A69:  Enter project capital cost line items.  May include hard asset costs (i.e. building, equipment, furniture, computers) and soft asset costs (i.e. licenses, development costs, legal expenses) incurred in construction/establishment of the project.
2. Rows 59 to 69:  Enter capital cost amounts in thousands of USD.

   NOTE:  If you are capitalizing senior debt interest/fees during construction and start-up working capital as project costs, do not enter them in this section.  Interest/fees and working capital are calculated in later sections.

**SENIOR DEBT** – this section reflects use of Senior Debt, but can be applied to any long-term loans.  It does <u>not</u> require the traditional arrangement of a lien against operating assets.

1.  Cell D76 or line 95 (if distributions will span more than 1 year):  Enter the amount of the loan or other source(s) of senior debt, denominated in thousands of USD($000).

2.  Cell D77:  Enter the base interest rate (i.e. the cost of funds).  Some lenders use the US Treasury rates, while others use short-term LIBOR or EUROBOR instead.  The U.S. Treasury Department shown at [http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield](http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield) or short-term LIBOR or EUROBOR.  Please discuss with your In3 contact to get the appropriate, estimated rate.

3.  Cell D78:  Enter the interest risk spread.  In3 Capital's partners charge a spread above the base interest rate to cover credit risk, presently 2.5%, thus total (Cell D79) of **3% fixed** (despite the fact that LIBOR and US Treasury rates are variable and depend on the loan tenor).  If not In3's in-house partners, discuss the estimated potential spread with your In3 contact to get the appropriate rate.

4.  Cells D80 and D81:  A standard commitment fee for institutional lenders like US DFC is 0.50% per annum on undrawn amounts.  The standard DFC facility fee (paid up front) is 1%.  Under certain circumstances, these fees may be adjusted, such as when they can be taken out of loan proceeds, or avoided entirely.  Discuss with your In3 contact.

5.  Cells D82 and D83:  Enter the proposed term of the loan (in months) and any grace on principal repayment (in months).  For instance, a five-year loan with a grace period of 1 year would be entered as 60 months and 12 months, respectively.

6.  Cell D84:  Enter the number of payments you will make per year – enter the number 4 for quarterly or the number 2 for semi-annual.   Semi-annual is typical of In3 CGP, but our partners can be flexible, and there is no pre-payment penalty.

7.  Cell D85:  Enter the estimated date of the first loan disbursement.  This date must be in the same calendar year as the calendar year listed in Cell D1.  **Do not use either January 1 or December 31 as a disbursement date.**

8.  Cell D89: For project finance purposes, we will always use Straight-line, so leave it as "1".

9.  Row 95:  Enter proposed loan disbursements (denominated in thousands of USD) on an annual basis (i.e. if you expect more than one disbursement in a particular year, add them together and put all in one year).  Note that the *CapDraws* tab allocates on a monthly basis.

> **WARNING:**  There are complex formulas in rows 86 through 92 that will automatically calculate the number and timing of principal repayments.  These formulas may require that the "Tookpak" add-in be active in earlier versions of MS Excel.  If you are unable to activate the Toolpak add-in (see directions at the beginning of these instructions), then the formulas in these rows should be erased, and the repayment schedule in row 98 should be entered manually.

**OTHER CAPITAL TO BE RAISED –** ask your In3 representative to use any of rows 103 - 133

**EQUITY TRACKING and RECONCILIATION of RETAINED EARNINGS**

1.  Row 140:  Enter new cash equity funding denominated in thousands of USD

2.  Cell D140:  Enter cumulative amount of equity already contributed to the project denominated in thousands of USD.  Include a footnote to the business plan's financing section to accommodate any prior equity contributions included in D140.

3.  Row 145:  Enter the percentage of net income that will be paid out in dividends or "distributions" (also called "profit sharing" or "gain sharing" when with employees or other stakeholders).  Be mindful of the fact that many lenders do not allow borrowers to pay dividends until the project is established (has completed construction and is operating) and that, in general, may restrict dividend payments to 50% of net income (or requires payments over that amount to trigger an equal amount of loan pre-payment).

Note:  This version of our model is generally utilized by "greenfield" projects that do not have a prior equity investment (Item 2 above is equal to or close to zero).  If you are modeling an expansion project with existing equity and assets, then the balance sheet will need to be adjusted to accommodate the assets (or the "expansion" version of In3's model should be used).

**INCOME TAX**
*   Row 151:  Enter estimated profit tax rate.  This is an "all in" tax rate that applies to net earnings after depreciation and interest.  Default is 25%

**DEPRECIATION/AMORTIZATION**
1.  Cell D155:  Enter the year in which depreciation of project assets will begin.  Usually assumed to be the current or next calendar year, or the year they are first used.
2.  Cells B158 - B168:  Enter the number of years over which each asset will depreciate. Zero indicates an item is in fact not depreciable.

**BALANCE SHEET ITEMS**
1.  Row 172:  Enter the number of days of receivables that you estimate will be carried on the balance sheet at the end of each year.  NOTE:  The receivables account on the balance sheet is calculated by multiplying the number of days of receivables by the average daily revenue of the business.  It represents the number of days of revenue that customers owe to the project company at any one time.  If customers pay the project company cash at the time of the transaction, receivables may be very low or zero.  If the project company allows customers to pay over time, receivables will be higher.  Moreover, if the local market is such that many customers are likely to pay late, a higher amount of receivables days should be estimated.

2.  Row 173:  Enter the number of days of inventory that you estimate will be carried on the balance sheet at the end of each year.  NOTE:  The inventory account on the balance sheet is calculated by multiplying the number of days of inventory by the average daily cost of goods sold.  It represents the number of days of product that you have in stock at any one time.

    NOTE:  Both receivables and inventories are considered "uses of cash" because they represent output that the project company has provided to customers or has stocked but for which it has not yet been paid.  During the start-up phase, these may be considered project costs.

3.  Row 174:  Enter the number of days of payables that you estimate will be carried on the balance sheet at the end of each year.  NOTE:  The payables account on the balance sheet is calculated by multiplying the number of days of payables by the average daily costs (both direct and overhead) of the business.  It represents the number of days of cost that the project company owes to its vendors, labor, etc. at any one time.  If vendors have provided the company with relatively generous payment terms, the days of payables will be larger.

NOTE: Payables are considered a "source of cash" because they represent goods or services that the project company has received but not yet paid for. Payables are subtracted from the sum of receivables and inventory for the purpose of calculating the net project cost attributable to working capital requirements.

4. Row 175: Enter the number of months of debt service require the project company to place in a restricted cash account. In many cases, lenders require the project company to keep a cash reserve that would cover debt service during temporary cash shortages. Please discuss the potential size of such a reserve with your In3 contact.

**GENERATION OF FINANCIAL PROJECTIONS**

Once the user has entered all the assumptions on the *Assumptions* tab, the model will generate financial projections, including:

1. **Income** statement

2. **PPT Income** – can be used to create a summary, annualized, projected Income Statement for presentation purposes

3. **Balance** sheet – check that it reconciles to zero, row 55

4. Direct (UCA) **CashFlow** statement – Note that Ending Cash, Line 42, must remain positive (above zero) for each year during the life of the loan.

5. **SourcesUses** statement – this chart is meant for presentation as part of the proposal for funding or loan application. It is somewhat subjective what should be included in up-front "project" costs. By default, this tab includes all Capital Expenses, initial working capital (derived from the *CashFlow* tab row 102), initial debt service reserve, Interest/Fees During Construction and initial cash balance (as "Contingency", row 20) in the Uses of Funds summary, though this may not be appropriate for your particular project. Please check this tab carefully to determine if any adjustments need to be made, and discuss your conclusions with your In3 representative.

6. **Allo PPT** can be used to generate a graph or chart showing how expense items are allocated

7. **CapDraws –** can be used to allocate each year's expense during the availability period of the equity/debt capital invested on a monthly schedule. In3's in-house capital provider prefers as close to even monthly draws as possible, allowing for the actual cash requirements of the project's development and construction schedule.

8. Various **Ratios** used by lenders to determine funding requirements and limits.