



Summary - March 24, 2010 CWCF Tele-learning Session - Finance

Agenda

1. Introduction
2. Peter Hough, CWCF
3. John Brouwer, Planet Bean
4. Questions and Answers

1. Introduction

Participants were asked to introduce themselves and what their particular interest in the Financing tele-learning session was.

Krista Ma - Cortez Natural Food Co-op. Looking to expand.

Sandra Mark - Vancouver Island Heritage Food Services Co-op. Looking to get co-op up and running.

Chris Diplock - Vancouver Renewable Energy Co-op. Exploring financing options to expand into the lower mainland.

Summer Myer - Yellowknife Glass Recyclers. How to issue RRSP eligible shares?

David Wilson and Hazel Corcoran – CWCF.

Melinda Zytaruk - Fourth Pig. Looking to expand.

Reba Plummer - Urbane Cyclist. Exploring whether it is affordable to buy a building.

John Brouwer - Planet Bean.

Vicente Urquizu - La Tierra. Looking to invest in bigger equipment and move into a larger place.

Debbie Raine – Care Force Home Care. Exploring financing options for expansion.

Peter Hough - CWCF.

Patricia Wong - Multicultural Health Brokers.

2. Peter Hough - Financial Officer, CWCF. Presenter #1

About: Has over 25 years of experience in co-op development. Currently is the CWCF Financial Officer and manages the CWCF loan fund 'Tenacity Works'.

How you are going to be evaluated by those who may lend you money or who may be investing with you?

Preliminary questions. How does your project make sense? Why do you want the money? What are you going to do with the money? How is the money going to benefit your co-op? Will the money generate more cash for your business? Most important, are your members committed to the co-op and how is that demonstrated? This is the content you will provide in your lending request.

Need your house in order with the 5 general areas of assessment. 1. Finance and employment 2. Co-op members 3. Management. Key reason why businesses fail. Need an effective management system. What

are the controls and who is accountable for what? 4. Marketing. Need to be able to demonstrate that there is demand for your good or service. 5. General. What are the risk factors?

What lenders will look at?

1. Are you profitable? When are you going to be profitable? The longer it takes the more difficult it is to get finances.
2. Debt. How much do you owe?
3. Equity is what is left over when assets are subtracted from liabilities. Represents how much has been invested in the co-op. Also represents your success. If you are profitable your equity will be increasing.
4. Cash available to service debt. How much cash is generated from your business after operating expenses that is available to pay debt?
5. Current ratio. How much of your sales is going to be received in the short term? Is this amount going to allow you to be able to pay short term bills?
6. Commitment. CWCF looks for at least a 15% investment by members. Members need to be taking risks with their own money if they are going to ask money from other people.

Especially when looking for funding from the government, they want to know about employment creation. Are you getting people re-employed? How many jobs are created for the amount of funding that you are looking for?

Membership. Many lenders will not know what a co-op is, especially a worker co-op. Demonstrate the commitment and experience of members. What is your track record as a co-op? Show what you learned from a negative experience. Do not hide negative experience. When building relationships with lenders, transparency and trust is crucial.

Lenders want to know who did your business plan and do you understand it? Need to be able to defend it. Be actively involved in the development of the business plan, even if working with a developer. Important in terms of building credibility and demonstrating that you know what you are doing.

Need to understand the co-op side. Create clear goals to deliver to members. How do your co-op values relate to your business and its success? Note that this not as important to conventional lenders, as it is to say the CWCF.

Credit history. CWCF will check co-op's credit history. For co-op start ups, CWCF will check individual's credit history.

Management. Create a very clear management plan and organization. Explain how the organization is run and why it will be effective. Some worker co-ops have a traditional heirarchy. Others have a flat management structure, where everyone is on the management team. Regardless of your structure, have a designated spokesperson for lenders to deal with.

Management experience. Include your resumes. Explain the backgrounds of your members and why you have the skills to carryout the proposal. Do you have a mentor or professional service arrangement to help with the accounting system or in areas that you have little experience? Is it ad hoc or ongoing help?

It comes down to how well you understand the business. Know your competitors, direct competitors (similar project) and indirect competitors (cola, instead of coffee). What is the niche? What differentiates you from your competitors that will make you successful? What are the key success factors that you will be tracking to show progress?

Marketing. Be clear what your product is. How are you pricing your product and what is the rationale behind the price? What kind of market are you in? What kind of market share do you need? What is the size of the customer base? Less risky to invest in growing markets. More difficult is a market that has reached its peak because you are going to have to steal customers away from competitors.

3. John Brouwer - Planet Bean, Finance Manager. Presenter #2

About: Has decades of experience helping start up co-ops, in addition to helping develop existing co-ops.

Finances is one of the biggest challenges in the worker co-op sector. Have to work with what financing is out there.

Growing a worker co-op. Early on need to determine how much money you need to assess the amount of financing is required. Some have a great business plan, but hit a brick wall in getting financing. Many initiatives would have been better off focusing on the financing possibilities at the beginning, rather than at the end.

Practical suggestions. Apply for financing before you need the money. In the early stages do an assessment on banking institutions that may lead to you down the road. If you have an account with a credit union already, you may have more success, but you may have to go to a traditional bank. Some credit unions are not very involved in the business lending sector.

Develop a credit history for your business. Get a \$5,000 line of credit even if you don't need the money. Back it up with a GIC to build a credit history.

The money that you can generally get from credit unions and banks needs to be secured by existing assets that you own, also known as asset based financing. Secured assets decrease the risk for lending institutions. For example, if you do not pay, the bank will seize your house. Generally you can get cash up to about 60% to 70% of what the asset is worth. It is very difficult to get an unsecured loan, especially in the start up phase.

The big challenge is getting working capital to pay your operating bills before your sales come in. To do this you need to build equity by generating positive cash flow. Once this happens it is more likely to get financing.

How do you get equity? Sweat equity often doesn't count for traditional banks. Social investment funds on their own are often too small to be helpful, often you need much more. What is useful is leveraging these small amounts to obtain additional financing. Social investment funds can also be used as a loan guarantee to obtain a larger loan from a bank or credit union.

Worker co-ops have been fairly successful with obtaining equity from solidarity investors, people who want to invest \$5,000 to \$10,000 in your co-op. To tap into this you need to work your network. Make

sure that you conform to security regulation, which differs from province to province. This can be a significant source of equity for your co-op, in addition to improving your debt equity ratio, something lending institutions like.

Take advantage of trade credit when purchasing materials from a supplier. You should be able to get 30 days to pay say \$5,000. This can be put towards working capital for your business. This is essentially an interest free or low interest loan.

Government programs. This area has really dried up. If they are out there at all they are usually on some kind of a matching basis. You have to leverage this with other financing, like your own equity and social investments. Be careful of government funding. Make sure they are not a hindrance, a high amount of paper work. Other limitations are on how government funds can be used. Sometimes you have to turn yourself into a pretzel. Make sure though that you are still pointing in the right direction. Community Futures doesn't work for us, but for others it can be very helpful especially if banks and credit unions are not lending to you. At Community Futures you can obtain loans up to \$75,000.

Expansion capital. There is a small business lending federal government program. Having a loan guarantee by the government can be very helpful in obtaining other financing. Note though that banks in this program only look at cash flow that existing business can cover, rather than the projections of new business that the financing will create.

4. Questions and Answers

Peter - Co-op shares are eligible for RRSP investment. CWCF can set up a contract to put your co-op shares into a self directed RRSP. You need to work with a certified accountant (CMA and CA) to confirm that the shares are eligible. The advantage is that you can sell current investments in your RRSP and buy shares in your co-op. The co-op increases their cash. The downside is that if your co-op does not succeed, the shares are worthless.

Hazel - Tenacity Works gives out loans from \$15,000 to \$50,000 available. CWCF also has a document on how to obtain financing.

Q: Matthew (YGR) - Can you take a preferred share and convert it into an RRSP? A: Peter - Yes, you make a contribution in kind that the CWCF can help facilitate.

Q: Melinda - Are there limitations on bonds being eligible for RRSPs? A: Peter - More restrictions on bonds, than shares. Need to further investigate this.

Q: Summer - Is it fraudulent to leverage financing from one project to another? A: John - Need to know more details. Peter - Lenders need to know where the rest of the money is coming from and what it is being used for.

Q: Matthew - Is the creation of a local currency a means of raising capital. A: Hazel - Time consuming to get it going, there are legalities, and you need to promote it. It is a big undertaking. David - There is a local currency here called Calgary Dollars. You can obtain loans, but you need to find people to accept it

as payment. This can be difficult, especially in communities where many goods are not local because suppliers outside your community will not accept a local currency.

Q: Krista - We raised money through a pre buy program, but it is not formalized and is essentially a loan. When they purchase products it comes off their tab. A: Peter - If just borrowing from members then this doesn't run into securities issues. John - It depends. In Ontario, as long as the number of individuals (borrowers) is below 35 and \$200,000, there is no need for security regulations. Hazel- Suggests to find a lawyer or a developer in your area with knowledge of co-ops.

Q: Krista - Looking for free funding to purchase hard assets. A; Peter - No, there is little money for hard assets. Virtually nothing. Co-operators, Carrot Cache, CWCF have small grants.

Q: Krista - What is a decent interest rate? A: Peter - CWCF's loan fund interest is 8%. Banks will be the cheapest. Banks need security though.

Comment: Sandra - Finding financing is very difficult. Would recommend to put this in red ink, explore financing options while starting out. Peter - Discuss with bankers and lenders to explore financing options before asking for money.