



Introduction to Co-op Financing

SCA Webinar

Introduction to Capitalization

by

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Agenda

- Introductions – What are you hoping to gain from the session?
- Capital Needs
- Types of Capital
- Sources of Capital
- Obtaining Capital
- Capital Management
- Case Studies

Definition

- Securing the means to obtain the assets and resources required to develop and operate your co-operative for the long term.

Capital Needs (1)

- Start-up Requirements
 - Organizational development & incorporation costs
 - Business planning costs
 - Asset acquisition
 - Introductory marketing costs
 - Prepaid expenses
 - Accumulated cash deficit generated by operations before cash generated exceeds cash outlays on a ongoing basis.

Capital Needs (2)

- Growth and Expansion
 - Increasing accounts receivable
 - Increasing inventory
 - Equipment purchases
 - Facilities expansions
 - New market promotion costs

Capital Needs (3)

- The Unforeseen
 - Major equipment breakdown
 - Major new customer
 - Major fluctuation in value (currency) of export sales or import inventory purchases
 - Significant economic downturn
 - Cost overruns

Types of Capital (1)

- Equity
 - Members Shares
 - Member Loans
 - Preferred Shares
 - Grants
 - Sweat Equity
 - Retained Earnings

Types of Capital (2)

- Debt
 - Mortgages
 - Term Loans
 - Leases
 - Bonds
 - Lines of Credit
 - Supplier Credit
 - Customer Advances
 - Deferred Expenses

Types of Capital (3)

- Contingent
 - Insurance policies
 - Warranties
 - Performance Bond

Sources of Capital

The Matching Principle

- The source of capital used to meet the needs of the co-op should match the type of need being met.
- Fixed assets with term debt
- Major Contract – performance bond
- Raw materials – supplier credit or line of credit
- Expansion – retained earnings and/or other as appropriate

Obtaining Capital (1)

- Understand your co-op's capital needs
- Develop a business plan that presents your needs, targets appropriate resources and demonstrates the co-op's capacity to repay and provide the required return to the financing resources.

Obtaining Capital (2)

- Management – Demonstrate good management
- Governance – Demonstrate clear roles authority and accountability
- Transparency – Be prepared to share all relevant information

Co-op Regulators

- A specific government department or agency (which one depends on jurisdiction)
- Administers the Co-op Act which provides capital options and types of securities exemptions available (jurisdiction specific)
- Receives and approves incorporation documents that state the capital structure
- In some jurisdictions approves the offering documents when required

Securities Commissions

- Regulates the offering of securities for sale to the public including those of co-operatives
- Administers any exemptions available to co-ops (jurisdiction specific) & the National Instrument (general exemptions)
- Determines requirements for prospectus and offering documents
- Receives and approves same

Capital Management

- Profitability
- Accounts Receivable/Payable (Credit)
- Member Equity Management
- Long Term Debt
- Budgeting

Profits Are Essential to Meet the Capital Requirement of the Co-op

- Profit is required for the viability of the Co-op.
- Each year the Co-op has cash disbursements which must be made from the following sources:
 - The Co-op's profits,
 - Members' investments, or.
 - Increased borrowings (new loans).
- Since the capacity for members to invest and for the Co-op to borrow are limited, the money must come from profits.

Summary

- Know your capital needs
- Identify sources available
- Match sources with appropriate uses
- Conform with securities regulations
- Focus on profitability
- Have a ongoing capital plan
- Monitor and manage capital plan

Raising Capital Case Studies

- Careforce Home Care Worker Co-op
- Aron Theatre Co-op
- Other Cases

Careforce Home Care Worker Co-op

- Worker Co-op Conversion/Buyout
- Successful 20 year home health care old business
- Bought-out by the employees who formed worker co-op

Capitalization Elements

- Member equity
 - Accrued through a wage deduction
 - Special agreement with credit union for any member to borrow up to \$2,500 for the member's share capital, loan payments deducted from wages and paid directly by the co-op to the CU
 - Personal savings
- Vendor Financing

Capitalization Elements

- Grant from CDI Research and Innovation Program (in-direct)
- Grant CDI AS from CWCF
- Grant from Carrot Cache (for training)
- Term loan and Line of Credit secured from CU using the provincial loan guarantee program
- Term Loan from Canadian Alternative Investment Co-op
- Term Loan from Tenacity Works Fund (CWCF)

Aron Theatre Co-op

- Community based conversion buyout
- Landmark community theatre showing first run films
- Bought-out by a community based (consumer) non-profit co-op

Capitalization Elements

- Member Loans/Bonds
- Grant CDI ICP (Organizational development & BP)
- Vendor Financing Mortgage
- Vendor Second Mortgage (5 yrs.)
- CS Community Foundation
- In-kind contributions

Other Cases

- Just Us! Coffee Roasters – Investment Co-op, Shared Interest (Fair Trade Financing Organization)
- Fort Good Hope Co-op (NWT) Local Aboriginal Community Development Corporation Investment in Building

Your Examples

- Questions
- Comments
- Discussion