



**Antwerp
Diamond Bank**

Diamond bankers. Since 1934.

Bankable Business Plan



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Preface

The world never stops evolving and we are all faced with the need to continuously reassess our position and our role within the diamond industry. Along with this development, business and financial risks will change and so will the requirements for finance, whether expressed in volume or in the exact format of financing. As such, “Planning“ has become the word of the day and that is why a business plan, which is simply a written outline of where a company is going, how it will get there and what it will look like once it gets there, is the preferred mode of communication between entrepreneurs and investors.

The objective of this ‘Bankable Business Plan’ guidebook is to take the mystery out of the business plan process and to provide you with a practical guideline to make you think strategically about your business and your future. We would like you to share with us the product of that intellectual exercise so that we, your Banker of Choice, can support you in that future.

Additionally, after reading this booklet, you should have a clear insight in ADB’s view on the diamond business and what we are looking for in a business plan.

We emphasize that this guidebook is for informative purposes only, and that we certainly do not want to force you to anything.

We are convinced that this exercise will improve the relationship with you, our customer, and that it will add strength to the programme of what we call the ‘Banker of Choice, a position that we want to earn.

Antwerp Diamondbank N.V.

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1. Introduction

Why would you dedicate many hours of your precious time developing a business plan for your company? After all, your business is running and you have a clear view on your vision and plans for the future.

Well, a business plan is not only an important means to attract financing, it can also be used as a key management tool to:

1. Promote relationships with joint venture partners, large customers and suppliers,
2. Provide strategic guidance, operating tactics and objectives,
3. Furnish a standard against which future business decisions and results can be judged, and
4. Evaluate strengths and weaknesses, and identify viable alternative strategies.

When utilized most efficiently, the same business plan, with a few modifications, can be used for all of these actions. As the business plan must provide you and other readers with a global strategic view, the plan must cover your business in its most complete way. If applicable, “group plans” are therefore preferred.

Despite the vast impact that a well-developed business plan will have on your company or on your group, some plans express the executive’s vision on the business rather poorly since preparation of the plan was delegated entirely to lower management or contracted out to a professional consulting firm.

An effective plan requires active involvement of you, the CEO, since only you have the necessary knowledge and competence to convey your own determination to succeed.

Of course, others from outside the company can deliver refreshing objective input. Upon your request, ADB will gladly provide you with guidance and general advice.

In ADB’s opinion, the outline below (sections 1.1. and 1.2.) covers your entire business in a logical order. We should add, however, that other forms might be more applicable for your company.

1.1. General structure of the plan

Title Page

Heading of the plan. We strongly recommend that you add a non-disclosure agreement to your business plan. This is a statement indicating that the information in the plan is proprietary and is not to be shared, copied, disclosed or otherwise compromised, unless you explicitly consent to it. For an example, we refer to annex 1.

Contents Page

A list of contents featuring page numbers and a list of appendices or addendums, allowing the reader to navigate the document easily.

Introduction Page

Introduction and purpose of the plan.

Main Body of the plan

Sections as required, vide infra.

Acknowledgements and bibliography/ Reference sources

Appendices

Additional information for reference and not central to the main presentation of the plan.

1.2. Main Body

Executive Summary

This is the most concise form of the business plan and will emphasize the plan's key points together with your company's unique competencies. You should try to capture the reader's attention with a sound company mission statement. As it is the most important part of the plan – first impressions are lasting impressions – we advise to prepare this section last.

Company description

This first full section of the plan should briefly summarize the company's history, its structure, business model, philosophy and the company goals.

Management and ownership

Management skills should be extensively focussed on as they represent one of most important aspects of your company. Your business logic may be impeccable; success will eventually be driven by the ability of the management team in place. The fact that a mediocre product with excellent management is almost always preferred to the opposite summarizes the importance of this section.

Market description

Detailed information on the market is indispensable for preparing an effective plan. It is recommended that you analyse the industry and highlight your target market, including recent evolutions and your perspective. You should position your business in the market and compare it to its most important competitors.

Marketing and Sales strategy

After making a description of the market, your business and the competition, you need to clarify how you intend to reach your target market, what your message will be when prospecting clients and which distribution channels will be used.

Products and operations

Describe your sources of supply, the operational stages in your production process, your stock strategy and your client base. Essential for the financial plan is to provide more information on the amount of suppliers credit received, on the amount of credit granted to clients and on the length of your production cycle.

If applicable, we recommend giving a clear insight in the flow of goods within your group.

Financial Plan

This chapter translates all previous sections into figures with the purpose to set out the financial implications of your strategy and to substantiate your financial requirements. You should remember that in the end, your main interest as well as that of a possible investor, is the return on investment that your company will generate.

Here, we will also unveil what has always been a black box for you: "How we at Antwerp DiamondBank think and determine the volume and the type of finance a diamond company, in our opinion, needs; and which highly valued, specific characteristics and ratios we cautiously follow up during the relationship".

1.3. A few tips

Before we start discussing each section thoroughly, first a few general guidelines for preparing a good business plan.

1. Define your objectives for producing a business plan.

Who is going to read the plan and what do you want them to do? Although the general structure of your business plan will always be more or less the same, you must provide your target reader with the specific information he is interested in. E.g. If you write a 'bankable BP', emphasis must lie on the financial section: What is the amount and the type of facility that you need, what are the funds needed for... All these elements need to be evidenced by the business plan.

2. Allocate enough time and resources to thoroughly research your business plan.

A business plan is only as good as the research that went into producing it, and thus it must be managed in the same way as all your other business projects.

For example:

- If you are dependant on a few suppliers or customers, you should look for financial statements of these companies
- If you made some assumptions in your plan with respect to your target market, this should be supported by independent, third-party data wherever possible.

3. Outline the key points that you want to make in each section before you start writing.

Review your outline to ensure that the sections are consistent with each other, that there is little duplication and that all the key issues have been addressed.

4. Be precise, clarify the focus and talk quantified.

Your business plan must be clear and loose statements should be avoided. E.g. If you expect that profit will increase by optimizing your manufacturing process, you must describe how much profit will be made and how the manufacturing process will be optimized.

5. Avoid the use of non-assertive language.

Be positive and definitive and avoid vague words such as probably, might...

6. Make sure your financial projections are realistic.

In particular in a bankable business plan, the financial section will be looked at thoroughly because it identifies your financing needs and shows the potential of your business. In addition, a good financial plan will give the reader the reassurance that you really understand your business. So be sure to test the plausibility of each of your assumptions. E.g. If your business grew with approximately 5% in each of the last 5 years, your business plan will lack credibility if you predict that your turnover will increase with 75% during the next year.

7. Separate important items from background information in order to keep the business plan concise and to make "less become more"!

E.g. Incorporate pictures, graphs, tables and data in your plan only when they really create an added value. Otherwise, refer to them in a footnote and attach them in an annex. Take the time to have your plan thoroughly reviewed. It is very useful to get feedback from others concerning the spelling, grammar, professional language, numbers that possibly do not add up, organization of the plan ...
Rewriting is the success to successful writing!

1.4. Objective

After having carefully read all the chapters of this Guidebook, you should have a clear view on what the reader will be looking for in a business plan and how you must prepare an 'ideal cut' plan that contains all the necessary information to give your company the prosperous future it deserves.

A business plan does obviously not guarantee a problem-free future, but in any case you will be able to anticipate a possible crisis situation and deal with it up front.

For your help, each chapter concludes with a listing of the fundamental questions that you should ask yourself as you complete each section. We advise that you add your own questions as you go along in order to be sure that the distinctive circumstances of your business are addressed adequately.

Furthermore, many chapters of this guidebook are illustrated by means of a fictitious example (the "*Gaimani group example*").

2. Executive summary

An executive summary is not a preface to or an abstract of the business plan. It is the condensed (max. three pages long) and powerful summary of your entire business plan and it includes all the information that you would cover in a five-minute interview.

As it is the first chapter that will be read by outsiders, it is therefore the most significant single section of the business plan.

This implies that the executive summary, although it comes first, should be finalized at the very final stage of the preparation of the (draft) business plan.

2.1. Contents

A well-written executive summary must include one or two paragraphs under each of the following headings:

1. Ideally the first paragraph must be a kind of mission statement that summarizes your company story and ideals in a few sentences so that the reader can immediately “visualize” or “see” your company, your business and your goals.
For an example, we refer to annex 2, illustration 1
2. A brief description on how and when the company was established, its current position and future strategy.
3. An overview of the management team and the roles they perform (make sure to include qualifications and experience of the team and possible important family ties within the diamond industry) and a short summary on key shareholders.
4. A brief description on the market and on how/ why you intend to anticipate/ react on developments in order to tackle your competitors.
5. A summary of your products and operations.
6. Key historical and forecasted financial data such as annual turnover, balance sheet total, bank facilities, rotations (inventory, suppliers and clients), solvency...
7. If you submit the business plan to strengthen a loan application, make sure to include an estimate of the funds you need, how the money will be used and what kind of guarantees, if any, can be proposed.

Try to restrict yourself in this executive summary to an abstract of the pertinent essentials of your business plan. Details will follow in the next chapters of the plan. In other words, keep it short, simple, BUT persuasive!

2.2. Fundamental Questions

Does your executive summary

1. Show that your business has been thoroughly planned?
2. Adequately address the specific characteristics of your business and the benefits offered by these characteristics?
3. Inform the reader on the company’s history, short term and long term goals and the critical success factors?
4. Show that you and your skilled management team are enthusiastic about the company?
5. Describe your knowledge of the diamond industry and specifically of your target market? (E.g. current size, domestic/ international, recent and projected growth, estimated market share...)
6. Clarify what the product is that you are selling (rough or polished diamonds, jewellery, low- or high-end goods, which type of cut...) and what the core elements are of your marketing strategy (own distribution channels, patents, licenses...)?
7. Include your key financial numbers **and** your present or future financial needs? How much (additional) finance do you think you need and what purpose do you need it for?

3. Company description

This chapter of your business plan should outline your company's background and business concept: any outsider who reads your plan will want to know about your company's story and mission first before he reads about products, markets, etc.

The company description will, to some extent, anticipate the information that will be provided in detail in subsequent sections and it therefore should be brief and direct. Some description of the market niche or of the competitive advantage the founders seek to exploit, is essential to convey a sense of the company's origins and destination. But the technological details or the evaluation of the market should be discussed in for later sections.

3.1. History and Evolution

Main items that have to be covered are:

- When was the company established? (This can also be a merger or a split)
- Who founded the company?
- What was the founder's vision and mission?
- What precisely was/is the company's product/ service? And in what way is it unique and distinctive?
- What have been the main accomplishments? But equally important, what have been the major failures and shortcomings, and what did the company learn out of them? You should not try to avoid an answer to this last question as every company has had its downturns.
- How did the intellectual property of your business evolve?
- Is your company part of or was the management capable to let your company grow to a worldwide group?
- If applicable, what are the roles of the different companies in your group?
- Historical (and present) data on sales, profits, carats sold, number of employees, and other important facts to build a case for your business.

We advise that you do not only cover all the above in a narrative format. You should try as well to visualise significant milestones on a timeline and present significant historical data in a graph.

3.2. Current situation: structure & ownership

After your summary of the company's past, you must present the reader with an overview on the company structure together with information on the ownership. If your business is part of a large group, we note that adding a chart can be very helpful.

The following items should feature in this section:

- Name of the shareholders together with the percentage of shareholding.
- Any special rights attached to the shareholding.
- Any debt or other assistance being given by a shareholder.
- Are the company's premises self-owned or leased?
- Legal form and date of incorporation of the company and subsidiaries.
- If a major shareholder is no key management officer, you should also provide the reader with more information on this person.
Management will be handled in the next chapter.

We note that if any of the shareholders are corporate bodies, a list of their shareholders is requested.

For an example, we refer to annex 2, illustration 2.

3.3. Current situation: business model

After having explained the history and the current structure of your company/group, you must now describe 'what exactly your business is'. In fact, you should provide a snapshot of where your company stands today.

This includes:

- Pointing out in which segment(s) the company is active today (e.g. polished manufacturer, rough trader...)
- A concise discussion on the existing product lines, together with their distinctive and unique characteristics (e.g. if you are a polished manufacturer, you should include a short comment on the manufacturing arrangements)
- A simple analysis of the techniques and technology you are using and an appraisal of the risks associated with it
- A realistic assessment of where your business stands in its industry and marketplace, together with its strengths and weaknesses.

3.4. Future strategy & goals

This section gives your reader an idea of where your company is heading. Both your vision and mission should be discussed; the latter somewhat more detailed.

Your vision defines your long-term dream. It should not necessarily be achievable. It may sound ridiculous to include such an item in a 'realistic' business plan, but the objective is for your vision to always be just slightly out of your reach. It is what you constantly strive to attain and it becomes your reason for being.

Your mission is what you intend to become or accomplish. It should be challenging but achievable. A well-written mission statement demonstrates that you understand your business, that you have defined your unique focus and are able to articulate your objectives concisely to yourself and others. What are you looking to accomplish over the next 1, 3, 5 and 10 years?

Relate these goals to the investment you seek so that potential investors understand why you need their money and what you intend to do with it. Explain the overall approach for reaching growth and profit goals in optimistic language, but make sure it is realistic. It is easy to make rosy projections about the future of your company, but it is harder to make them believable.

3.5. Fundamental questions

Does the company description exhibit:

- What business you are in?
- What your company's goals are?
- What the company's critical success factors are?
- What the company's past achievements and strengths are?
- What the company's past problems and weaknesses are?

4. Management

The people behind your business are the single most important success factor, as without a strong dedicated management team (and proprietors) no business will prosper in today's competitive environment.

For that reason, this section must give detailed information on the corporate organization, the key management officers and other human resource issues. Remember that a diamond banker not only invests in a business idea, but foremost in people.

4.1. Management

It is essential to unveil who manages the business and to give insight in the objectives of these people, and the company's decision-making and management philosophy.

In order to provide the reader with a clear view on the company's management structure, we advise to insert an organization chart. To keep the business plan comprehensive, you should then include a synopsis on the background and abilities of each of the key officers.

A complete and detailed resume is best presented in an annex, giving the necessary information on marital status, degrees obtained, working experience, professional memberships, family ties with other "diamond families", non-business related activities and so on. It should also include references to industry and business affiliations (e.g. from key suppliers and customers, previous employers, etc.).

It is important to remember that the skills, duties and responsibilities of each individual are not the only items to be designated; shortcomings in your management team must also be pointed out. If some important functional areas are not filled in (e.g. possibly the firm recently expanded and you are still searching qualified help; or an executive resigned), inform the reader on how this lack of skills will be dealt with. If possible, you should also provide information on the succession of the management team.

For an example, we refer to annex 3, illustration 3.

4.2. Other

Other important human resource issues not related to ownership or key management also need to be addressed, for instance:

- If the company does not have its own financial controller, the reader must be provided with more information on the CPA and how many times he comes in to take care of the books.
- Current number of employees (with location) and expected workforce, together with possible problems concerning the recruiting process.
- Are your employees involved in some sort of programs to develop their skills further?
- What is the compensation basis and level for your management and personnel?
- ...

4.3. Fundamental Questions

1. Does the section summarize who the owners / directors are and the degree of their control over the company and its business?
2. Does the section evidence that the team has the track record, experience and expertise to achieve goals and that management is qualified to lead the company?
3. Does the reader get confirmation that the interest and competence of the team members are complementary?
4. Is it clear what you and your team want out of the business and how ambitious you are for the business itself? Are management philosophy and corporate culture sufficiently explained?
5. Have management shortcomings been addressed?
6. Has the reader been informed about the corporate structure, the shareholding, the legal form and the special support given by a shareholder or manager?
7. Have all other important human resource issues been addressed?

5. Market description

Detailed information on the market is indispensable for the preparation of an effective plan. After all, the projected sales levels, based on the market research and analysis, directly influence the expected turnover, the marketing plan, the amount of debt and equity capital required... Market research defines the need for the product, helps to predict market share and identifies competition. It also provides direction for efficient use of advertising and promotional dollars, identifies problems and opportunities, and establishes benchmarks by which to measure progress and success.

Although an analysis of the market demands detailed qualitative and quantitative information, we note that the required research does not necessarily need to be expensive, nor does it suggest a complex process. More often, it concerns information that is available from published sources such as the World Wide Web (www.idexonline.com; www.tacyltd.com; ...) or trade magazines and journals.

It is clear that this section is not only meant to convince investors that you do understand the dynamics of your market, that you know where your customers are coming from and that there is a market for your product. More importantly, the market analysis will largely determine the company's strategy, projections and success.

5.1. Industry description

Ideally you should describe the market top-down.

This means that the discussion on the market should begin with an assessment of the diamond industry in general. This certainly should include an answer to the following questions:

- What are the most recent trends and evolutions of the diamond industry and what is the projected outlook?
- What are the size, maturity and competitive nature of the industry?
- How do economic and technological developments affect the industry?
- What is the industry's financial position and performance?
- Is the industry subject to close (government) regulation?

We recommend that you are not too specific here, as the industry section is meant to provide the reader with a general background and to introduce the discussion on your target market.

5.2. Target market(s) description

Afterwards, you should inform the reader about which market segment(s) you are aiming at and you must show that you understand the rationale of this segment and customer base.

5.2.1. Identifying the market(s)

Main items that have to be covered are:

- What is the geographical spread of the market?
- What kind of clients are you looking for in these market segments, how many potential clients do you have in these markets and what are their potential annual purchases (carat-wise & US\$-wise)?
- Are you already active in these geographical regions and what is your track record in these markets? What is your current market share of the target market and which market share do you project in the near future?
- Are there seasonal fluctuations, and if so which ones, why and to what an amount? (e.g. May be you need to build up your inventory level during a certain period since the purchasing cycle of customers is highly seasonal)
- What is the potential annual growth of the market for your product or service?
- What are the major factors affecting the growth (industry trends, economic trends, government policy, population shifts).

- What are the normal gross and net profit margins in this market? And how do these profit margins compare to the other market segments you are active in?
- What is a normal stock period for this market? And what is the amount of inventory that is normally on consignment with customers (and what are the terms)?
- What are your payment terms and are these payment terms respected?

5.2.2. Apprehending the market(s)

- What are the key trends and the anticipated changes within this target market?
- What are the major factors affecting the growth (industry trends, economic trends, government policy, population shifts).
- What are the key factors that drive your target customer's buying decisions? Price, quality, service, personal contact, or some combination of these factors?
- Do the customers in this market segment need specific products?
- Can you fill in these needs? And if yes, why?
- Is your strategy to enter a new market (segment) consistent with your other activities?

5.3. Competition

Outsiders will expect you to be well informed about your competitive environment. Do not make the mistake of stating that all your competitors are not profitable or that you have no competitors at all. If this would be the case, an outsider might logically assume that as a matter of fact there is no market for your product.

Unless you are in a monopoly position, your customers are always able to meet their needs in some manner with other companies, even though they may not be achieving the level of satisfaction or efficacy that your company's product provides. You must show in this section that you know your competitors and that you have the know-how, the knowledge, the organization and the strength to beat them if necessary.

You should address the following questions:

- Who are your existing and potential competitors, what is their size, and what is the structure of their organization?
- What are the competitors strengths (advantages) and weaknesses (disadvantages) with respect to:
 - Ability to satisfy customer needs
 - Market penetration
 - Track record and reputation

-
- Price
 - Product quality
 - Payment terms
 - Memo programs
 - Financial resources
 - ...
 - And how does your business compare with those competitors.

You might want to insert here a SWOT grid balance to give an overview of the strengths (e.g. In what is your company / product unique and distinctive) and weaknesses (e.g. Where is the company outperformed by its competitors?) and to compare them vis-à-vis the opportunities and threats. As the SWOT analysis provides some useful strategic information, this should quite nicely link in with chapter 6.

For a description on how to perform a SWOT analysis, we refer to annex 3.

5.4. Fundamental questions

1. What, in simple terms, are the key features of the market under consideration?
2. Who owns the market shares and to which extent?
3. What kind of dynamics are present and what does the existing culture look like?
4. What are the regional and global issues?
5. Which market segments and what extent of market growth exist?
6. What is the size of your market by both revenue and number of companies?
7. Discuss the characteristics of this industry such as growth trends, units sold or employment.
8. What factors are influencing growth or decline in your industry?
9. What have been the trends in previous years?
10. What trends are expected in the coming years? (include supporting research)
11. What are the barriers to enter your industry? How many companies are expected to enter your industry in the future?
12. Which government regulations affect your industry and your business?

6. Marketing and Sales strategy

After the extensive description of the market, the identification of the market-segments your business is in (or would like to be in) and the evaluation of the competition, it is now time to cover how you plan to get your products to your buyers and which strategies you will chose to help accomplish this task. After all, a successful business is a business that creates and keeps customers by providing better value for those customers than the competition.

Although a bankable business plan is not the place to develop a full blown marketing plan, you should include a brief chapter in your business plan in which you formulate your strategy on your product, pricing, promotion, and sales and distribution.

6.1. Product

- What are the most important features of your product?
- How will your product or service benefit the customer?
- Is your business involved in research & development to prepare a newer, better product? And what are the costs associated with it?
- Is your business involved in “branded products”? (The value of brands in today’s environment is phenomenal. Brands have the power of instant sales; they convey a message of confidence, quality and reliability to their target market.)

6.2. Pricing

- How do you set your target prices? (cost plus or demand based)
- What are your gross and net profit margins
- How volatile are the prices in your market segment(s)?
- How would you respond to unexpected price fluctuations?

6.3. Promotion

- Do you focus on B2B or B2C marketing, or are you involved in both?
- Which marketing vehicles do you use to get your message across? (E.g. advertising, descriptive product brochures, public relations, sampling programs, internet...)
- Are these marketing vehicles consistent with your image and how do they relate to the ways in which your clients operate?
- And... what is the impact on your cash flow and how do you intend to finance these campaigns?

6.4. Sales and Distribution

- What are the distribution channels that already exist or will be used by your company? Will you only use the company’s own sales force, or will you also sell through independent distributors? Do you sell a large amount via your affiliated companies? And which incentives do these people receive (commissions e.g.)?
- How efficient are your distribution channels? Try to evaluate each distribution method as to cost, coverage and performance.
- What is the geographical coverage of your sales? Do you run memo programs? How important are they? How many returns do you have? Why are goods returned?
- What is the average \$/ct. of sold goods?
- What is your “ideal inventory level”, taking into consideration your average sales? Why?

6.5. Fundamental Questions

1. How are you positioning your product?
2. How do you set your pricing to penetrate the market, maintain market position and produce profits?
3. Describe the mix of marketing media that you will use to help promote your product or service.
4. Which distribution channels are you using and which selling methods are appropriate for each channel?

7. Products and operations

This chapter of the business plan should concisely describe your complete business cycle process from supplier to customer. You need to keep it simple and accessible by focussing on the key issues and avoiding excessive detailed descriptions of the processes involved in the business operations. As a matter of fact, you should summarize your operations in short. If you are part of a group, descriptions should be given for all affiliated companies so that the reader gets a clear insight in current and expected inter-group flows. Reviewing this chapter thoroughly, and in particular the rotations, is highly recommendable, as the information presented will be the basis for the application of ADB's credit model which ADB uses to determine 'justified' credit need.

For an extensive example, we refer to annex 2, illustration 4.

7.1. Type of activity and goods

We advise to start this section by breaking up, percentage wise, the different types of your company's activity such as dealing in rough goods, dealing in polished, manufacturing jewellery, etc
Afterwards, you should inform the reader into more detail about the categories of goods the company is dealing in, such as average size (carat), cut, colour, clarity and the price range.

You certainly need to include whether a change in activity or in type of goods is projected in the near future, together with a short comment on the (main) drivers.

7.2. Suppliers, inventory and customers

7.2.1. Suppliers

Key points that certainly need to be covered are:

- Where does the company purchase its diamonds (the local market or import)?
- Who are the company's main suppliers?
- What is the current and projected suppliers' rotation? And what is the rationale for the projection?

Additionally, you must consider including a comment on:

- The different types of goods that you receive from your different suppliers
- Your degree of dependence on any singular resource and the availability of alternative back-up sources
- Relevant information (market information, latest financial statements...) on important suppliers. Try to include here a very brief summary, and attach the more extensive documents in annex.

7.2.2. Inventory/Stocks

Key points that certainly need to be covered are:

- What is the composition of the company's stocks (rough diamonds, polished diamonds, jewellery...)?
- Where is your inventory located (on premises, on consignment, WIP with outsiders...)?
- What is the current and projected stock rotation? And what is the rationale for the projection?

Additionally, you should consider including a comment on:

- Whether your insurance policy adequately covers the company's entire inventory at all times
- Whether the (current/projected) inventory rotation

reflects the 'ideal inventory level', taking into consideration the average sales

- Whether there are any critical production and/or operational stages at which problems might occur
- How the flow of goods is controlled and if adequate IT support is present
- What the manufacturing costs are and whether there would be an impact on requirements if the business would grow.

7.2.3. Clients

Key points that certainly need to be covered are:

- To whom does the company sell its goods (local or export)?
- Who are the company's main clients?
- Is the company involved in certain memo/consignment programs? And to what an extent the memo goods are they eventually sold?
- What is the maximum credit per client given at any time?
- Which payment terms do you grant to your customers? And are these respected?
- What is the current and projected client's rotation? And what is the rationale for the projection?

Additionally, you should consider including a comment on:

- The different types of goods that you sell to your different clients; e.g. Do you sell specific (branded) goods to some customers?
- Your degree of dependence on any specific customer and availability of alternative back-up clients
- Relevant information (market information, latest financial statements, etc) on important customers. Include a summary in this section, but add detailed information in annex.

7.3. Fundamental questions

1. Did you describe your business cycle (from supplier to customer) completely, yet without excessive details?
2. Did you pay enough attention to the projection of rotations?
3. Do you project a change in activity or in type of goods in the near future?
4. How do you control the flow of goods?
5. Is your inventory at all times adequately covered by your insurance policy?
6. Does inventory rotation reflect your 'ideal inventory level' taking into account your average sales?
7. Did you focus on customer and supplier concentrations? And on eventual dependencies?

8. Financial Information

Analysis of past financial performance and the development of financial pro forma's or projections is a vital aspect of your business plan. It is important that you take the time to thoroughly research and motivate your projections so that they will be as realistic as possible. Be liberal with your expenses and conservative with your revenues. It is much better if your financial surprises are pleasant ones. You must also bear in mind that your financial projections are the result of your strategic planning and that each and every number mentioned has to be supported with credible data, presented in other sections of the business plan. If you are applying for a loan, than these financial requirements must be substantiated by these same projections.

This chapter will start with a description of what must be included in your financial plan. Afterwards we will unveil what our thoughts are at ADB, and how we determine the volume and the type of finance a diamond company, in our opinion, needs.

8.1. Assumptions

Throughout the previous chapters, you have analysed your company and your market and you have decided on your strategy. In this section, you should include a list of significant assumptions, used in any individual section or throughout the financial projections that are:

- Material to the projected amounts
- Especially sensitive to variations
- Deviating from historical trends

Pointing out these assumptions, and motivating them, is essential as the projected balance sheet, income statement and cash flow statements are based upon the same assumptions. And we note that one of the key aspects of financial analysis is internal consistency.

8.2. Financial Analysis

The typical business plan time frame covers five years: historical figures of the last two years (preferably audited) and a realistic midterm (three years) forecast. Forecasting beyond five years is considered too speculative in order to be of much use. For the first forecasted year, income statements, balance sheets and cash flow statements are to be prepared on at least a quarterly (but we advise on a monthly) basis; thereafter they can be shown on a quarterly or semi-annual basis. Nevertheless, we advise to keep the detailed financial data in an appendix, and to include in the business plan only a summary of, for instance, the annual figures (e.g. the December 31 figures).

You should also include the results of a sensitivity analysis in this section since the reliability of your forecast is dependent upon how accurate your assumptions turn out to be. In preparing this analysis, you should identify the most critical assumptions that you used and then determine what the impact would be if those assumptions were changed.

In 9 out of 10 cases, the projected sales will be the most critical assumption. You could then discuss what the situation would look like when the projected growth would not be 10%, but 5% for instance.

When your company is part of a group, we note that the financial analysis should not be limited to one sole company. In fact, a **'group financial analysis'** is indispensable since only this gives a proper view on the actual financial strength and on the implications of your strategy. Ideally, you should perform an analysis of all group-related companies (balance sheets, income statements and cash flow

statements) and then eliminate all inter-company transactions, in order to present a clean consolidated/combined statement. Again, only the annual consolidated statements (2 years historical, 3 years forecasted) should be presented in the business plan, while details should be attached in an annex.

The templates attached in annex 4 provide a summary of the main items of the balance sheet, the income statement, the cash flow statement and the ratio analysis in a well-structured way. If they are accompanied by your comments where necessary, you will provide the reader with the financial information he or she is interested in. E.g. when subordinations show up on the balance sheet, you should provide the reader with information and financial statements of the subordinating party. We note that these templates are of course no 'golden standards', as they can and should be adapted based upon your own specific situation.

Although these templates may seem complicated to you, we note that formulas are added where necessary.

Additionally, the templates are illustrated for Gaimani NY Inc. in annex 2, illustration 5.

8.3. If applicable: the funding request.

If you seek a credit facility, or an increase of your existing credit facilities, your banker would expect you to include a funding request in your business plan where you state:

- What your current total amount of credit facilities is
- How much money you additionally need
- When you need the facility
- If you require a seasonal line
- How you will use the funds
- What kind of guarantees and securities can be offered

Your application must obviously be consistent with the financial projections. However, you must also allow some room for flexibility, so that small deviations from your plan will not lead to a liquidity problem.

You may also want to take the items below into account, as your 'Banker of Choice' will unveil a corner of its credit policy.

8.3.1. 'Economically justified credit need'.

ADB's credit policy is based on 'asset conversion lending' or in other words: the financing of the business cycle of a diamond company.

That is why your bankable business plan should give sufficient information to allow determining:

- Your company's position in the 'Diamond pipeline'
- Your economically justified credit need taking into account the market conform standards for the related market segment(s) you are in.

In particular the following details are essential:

- All your company's sub-activities and the projected turnover figures for each sub-activity (rough dealing and/or manufacturing and/or dealing in polished and/or jewellery manufacturing)
- The length of the business cycle of each of these sub-activities.

Based upon the information provided, ADB calculates working capital need and average bank finance need by using its 'diamond credit model'.

The rationale is as follows:

- Starting from the expected annual turnover, the credit model first calculates the different financing needs (inventory and accounts receivable) of each of your sub-activities, based on the expected cycle duration (number of days)
- From this estimate are then:
Deducted: 1. Suppliers credit
2. Equity (capital + subordinated loans)
3. Credits granted by other banks and
4. Other significant debts
Make sure to only deduct once subordinated A/P
Added: Other significant assets (e.g. offices)
- The result of this calculation is the net remaining average credit need that has to be filled in and for which an ADB credit line can be requested. Of course, possible seasonal effects and credit needs must be taken into account too.

It will be verified whether your forecasts are conform market business cycles, and again, we note that it is very important to be realistic as we will very cautiously follow-up your projections.

For an example, we refer to annex 2, illustration 6.

8.3.2. Other key items ADB will focus on

Of course, when evaluating a request for funding, we concentrate on various financial indicators such as:

- Expected debit rotation
- Inventory should be financed with equity and suppliers credit, not with bank credit
- Profitability & Liquidity
- ...

Nevertheless, we want to emphasize the following 3 key items:

1. If your company is part of a group, we will pay at least as much attention to the group's financial situation as to the company that requests a facility.
2. Rather than looking at the situation at a certain point in time, we focus on evolutions.
3. To comply with the minimum solvency requirement, ADB is sometimes requested to take into account subordinations (loans or accounts payable) from several entities when calculating the solvency level.
The main reason is that often the financial (group) structure is organized (or will be organized) through several entities in different countries.
Before ADB starts to consider this request, we want to make clear that, in the end, these subordinated amounts must originate from a company's equity or from subordinated loans due from private persons.

We also note that considering subordinations received as an addition to the company's own equity, implicates that subordinations given should be considered as a decrease in the company's equity.

In fact, we calculate solvency as follows:

$$\frac{\text{Equity} + \text{Subordinations received} - \text{Subordinations given}}{\text{Total Assets} - \text{Subordinations given}}$$

Total Assets – Subordinations given

As such, you must provide your banker with insight in the financial situation of the subordinating party, if subordinations originate from a holding or a trade related company. And this to show that the financial structure of the subordinating party can support the subordination.

Finally, you should also provide ADB with a satisfactory reasoning on the 'economic reality' of these subordinations (or in other words, what is the link with the subordinating party and why does this party want to subordinate an amount).

For instance, assume the following situation:

Company 1 and 2 are both affiliated HK companies selling exclusively to their Antwerp affiliate X.

To improve the solvency of the Antwerp company, this company needs a subordination of \$ 5 million.

It must be clear that company 1 cannot subordinate \$ 5 million to the Antwerp affiliate, although company 1 itself has \$ 4 million equity and a current solvency level of 20%. Since the solvency level of company 1 after the subordination equals to $(4-5)/(20-5)$ or -6.67% . Company 2 can clearly support a \$ 5 million subordination since it still has a sound solvency level of $(4+6-5)/(20-5)$ or 33.33% after the

subordination. A satisfactory answer on the economic reality can be that the HK company 2, affiliated through family ties, is an important supplier of Antwerp company X.

In 000 €	Company 1	Company 2
Assets		
Accounts receivable	8.000	8.000
Inventory	12.000	12.000
Total Assets	20.000	20.000
Liabilities		
Equity	4.000	4.000
Accounts payable	9.000	6.000
Banks	7.000	3.000
Total Liabilities	20.000	20.000

8.4. Fundamental questions

1. Did you clearly state what your key assumptions are? And did you apply them consistently?
2. Does the financial plan include two year historical and three year forecasted balance sheets, income statements and cash flow statements?
3. Did you perform a ratio analysis?
4. Did you perform a sensitivity analysis?
5. Are group financials provided, if applicable?
6. How much capital do you need, over what period of time and how will the funds be used?
7. Did you take into account possible seasonal needs?

9. Attachments

Annex 1: Example of a cover sheet

LOGO (if any)

COMPANY NAME

BUSINESS PLAN

Date

Control Copy Number: _____ Issued to: _____

Statement of confidentiality

This document is confidential and has been made available to the individual to whom it is addressed strictly on the understanding that its contents will not be disclosed or discussed with any third parties except for the individual's own professional advisors. Prospective investors are advised to verify all material facts. This plan is strictly for information only and projections in the plan have been compiled for illustrative purposes. The eventual outcome may be more or less favourable than that portrayed.

Annex 2: The Gaimani example

Illustration 1 Example of a mission statement

The Gaimani Group is a vertically and horizontally integrated family business that was established more than 40 years ago in Antwerp.

The group is a major DTC sightholder in Antwerp since 1978; it has its own polished & jewellery manufacturing factories in Mumbai, China and Antwerp and it has sales offices in Antwerp, the United States of America, Hong Kong, China and Japan.

Our main objectives are to increase our sales in Antwerp, Hong Kong, the United States and Japan with 5% every year; on top of that, we want to become, within the next three years, the largest supplier of commercial large goods to retail stores in the People's Republic of China by increasing our market share in that region from 5% to 12%.

Illustration 2 Example of a group structure presentation

On the next page you will find a chart which gives a clear insight in group structure, ownership and main activities of the different companies of the Gaimani group.

We highlight the fact that you need to describe the ownership of all group companies, including the ownership of an eventual ultimate (holding) company, as otherwise the reader does not obtain all the information required.

Imagine the chart below without the information on the shareholders of Gaimani Holding S.A. (Lux)... You would quite rightly have the feeling that the most important part is missing.

Specific items related to group structure and ownership could be as such:

1. In 1997, Gaimani Far East Inc. acquired 99% of voting rights and 50% of ownership shares of Zedong Jewelry Ltd, which was then renamed Gaimani China Ltd. Mr. Zedong and Gaimani Far East Inc. agreed a price of \$2.5MM USD, which will be paid equally over 10 years. It must be noted that all shares will return to Mr. Zedong if Gaimani Far East misses an annual payment. Up till now, all payments have been duly made.
2. Concerning the ownership of the subsidiaries, the strategy of the Gaimani family was twofold:
 1. Original managers / shareholders needed to remain in the business (as they have the necessary knowledge of the market);
 2. The Gaimani group nevertheless wanted overall control over its subsidiaries.This is clearly reflected in the chart on the next page: the Gaimani family has absolute control through the voting rights, but original shareholders still own a significant percentage of ownership shares.
3. Mr. A. Janssen Jr., aged 22, is the son of Mr. A. Janssen, Mr. J. Gaimani's brother-in-law. Upon obtaining his engineering degree at the university of Leuven, he will become involved in the day to day business of Gaimani China Ltd.

Group Structure

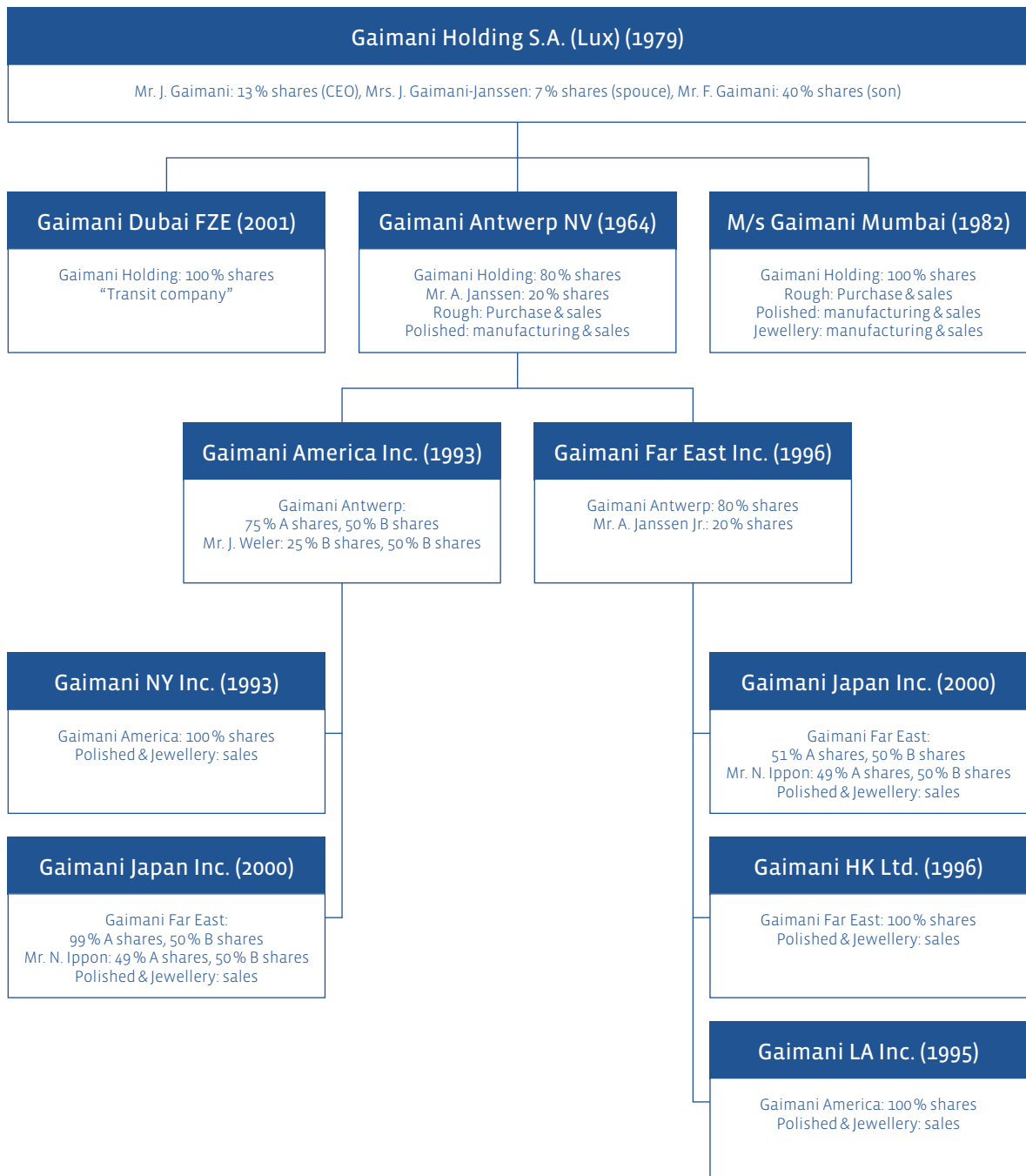
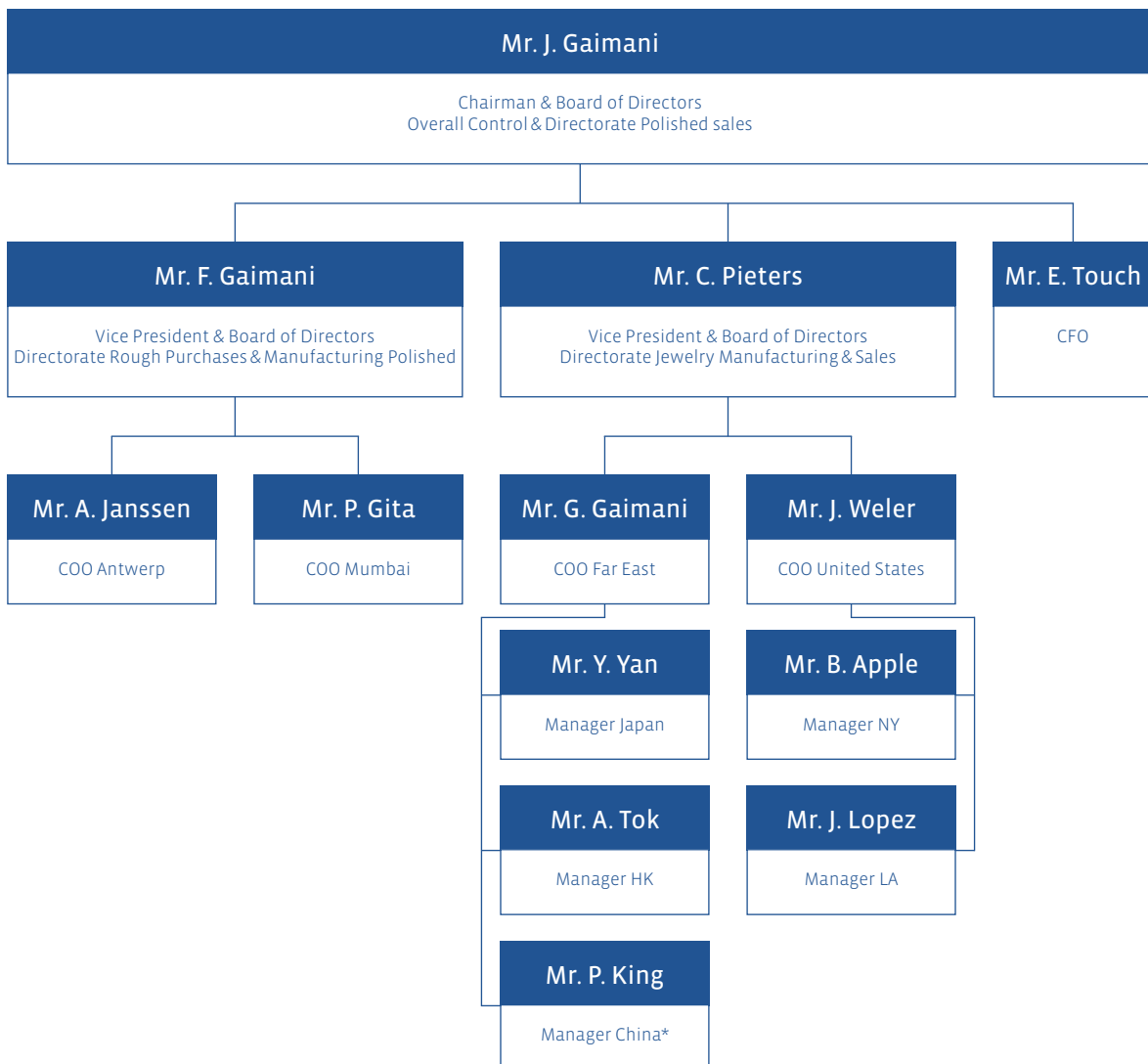


Illustration 3
Example of the management presentation

The Gaimani diamond group is a family-owned and operated business. The work is organized by function, and the business is carried out in a logical and organized structure. The work environment is characterized by hard work, respect and a family structure. The key people of the group are shown in the chart below.

Management Structure



* As China is the target market for the future, Mr. J. Gaimani closely monitors Mr. King.

A synopsis on each key member follows next. E.g. for Mr. Jonathan Gaimani:

Jonathan Gaimani, 67, Belgian citizen.
Chairman and Chief Executive Officer, 13% shares of Gaimani Holding S.A.

After obtaining his economics degree at the University of Antwerp, Jonathan Gaimani learned the diamond business in his uncle's well-known company, Incredible Rock, where he built up extensive experience in buying rough diamonds and polishing. At the age of 27, he founded Gaimani NV (Antwerp) together with his brother-in-law Mr. A Janssen.

Through his close family ties with the 'Incredible Rock' company, and thanks to careful evaluation of the market and the ability of being patient until the right opportunity presented itself, Mr. Gaimani was able to turn his rough trading, Antwerp company into a worldwide, vertically and horizontally integrated group with a current turnover of \$ 265 million. Mr. Gaimani expects that no large acquisitions will be made in the next few years, but that growth in turnover will be realized by expanding the activities of the Antwerp, US and Far East companies (China in particular).

Although Mr. Gaimani decided several years ago to hand-over most of his company's shares to his two children by gift, he plans to maintain overall responsibility for operations of the company for approximately 3 years. Afterwards, his son and current Vice President, Mr. F. Gaimani, will succeed him as CEO in the family business. Nevertheless, Jonathan plans to remain involved in the business as a counsellor.

A detailed resume (to be presented in annex) on Jonathan Gaimani could be presented as such:

Date: 28/02/2005

Personal details

Name	Gaimani
Surname	Jonathan
Date of birth	23/03/1937
Nationality	Belgian
Full residential address	Hertendreef 37, 2630 Wilrijk
Is your residential property rented or owned	Owned
Married, single or divorced	Married with Elisabeth Janssen since 1958
Number of dependants, including spouse	1
Number of children and their ages	2: Frederick, aged 44 and Mary, aged 42

Employment Details

Highest educational qualification achieved	Economics degree
Date of achievement	University of Antwerp, 1960
Career history details	1. Incredible Rock N.V. 1960-1964 (uncle's company): 1960-1962: Purchasing rough diamonds 1963-1964: Polishing diamonds 2. Gaimani N.V. (1964-...) Co-founder
Business related memberships	Antwerpsche Diamantkring Diamant club van Antwerpen

Financial Details

General information

Annual Income (previous year)	€ 175.000
Are any of your tax obligations past due	No
Are there any suits or legal actions pending against you?	No
Are you a guarantor, co-maker or endorser for any debt of an individual, partnership or corporation?	Yes, Guarantor of full bank debt of Gaimani Antwerp NV and Guarantor of full bank debt of Gaimani HK Ltd.
Have you or any company you were involved in filed bankruptcy?	No

Assets

Fixed property (address & market value)	Hertendreef 37, 2630 Wilrijk (co-owned with spouse) / Market value: € 3.000.000 Meir 85, 2000 Antwerpen / Market value: € 4.250.000 Zeedijk 126, 8300 Knokke (co-owned with spouse) / Market value: € 750.000
Cash in banks	KBC: € 25.000
Non-readily marketable securities	13% shares of Gaimani Holding S.A., Net book value: € 4.251.263
Readily marketable securities	1. 2.500 shares of Inbev @ € 28,87 / Market value per 28/02/2005: € 72.175 2. 5.000 shares of Omega Pharma @ € 38,12 / Market value per 28/02/2005: € 190.600
Other assets	No significant value

Liabilities

Mortgage debt	Meir 85, 2000 Antwerpen: € 1.650.000
---------------	--------------------------------------

Loans payable to	1. Gaimani Holding S.A.: € 150,000 2. KBC Bank: € 75,000
Other liabilities	No significant value

References

	Mr. U. Mehta (CEO Incredible Rock), 03/216.25.68
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Illustration 4 Example of 'Products and Operations' representation for Gaimani NY Inc.

4.1. Type of goods and activity

4.1.1. Type of activity

Dealing in rough	0% of activity
Dealing in polished	60% of activity
Dealing in jewelry	35% of activity
Manufacturing polished	0% of activity
Manufacturing jewelry	5% of activity

4.1.2. Type of goods

Carats	½ pointers up to 5 carats; majority ranges from 0.4 to 3 carats
Cuts	Round & princess
Colours	I and better
Clarity	I2 and better
Price range	€100 - €5000/Ct(*)

(*) real figures

Change in activity or goods projected?

	No
Rationale	Current (loyal) client base of Gaimani NY has requested this kind of activity for 3 years now and the company's management targets the same sort of clients to realize steady growth. Since business performs well, no change is projected.

4.2. Suppliers, inventory and customers

4.2.1. Suppliers

In US	0%
Import	100%
Origin	Antwerp (30%), Mumbai (30%), Dubai (25%) and Hong Kong (15%)

Major suppliers 90% of supplies originate from affiliates: Gaimani Antwerp (20%), Gaimani Mumbai (30%), Gaimani Dubai (25%) and Gaimani HK (15%)
Other: Incredible Rock Antwerp (5%); Euro Lily (5%)

Supplier's rotation	60-120 days; open with affiliates
Average # days	167 (both jewellery and polished)
Projected # days	145 (both jewellery and polished)
Rationale for projection	The requested bank facility will be used both to finance the branded jewellery line 'Gaimonds are forever' and to decrease suppliers credit with approximately 20 days. The Gaimani group will keep supporting its US division heavily, which is evidenced by an expected suppliers credit of 145 days.

It must be noted that, for Gaimani NY Inc., a discussion on the degree of dependence on several suppliers together with relevant information on these companies is not necessary since 90% of goods originate from affiliates. And affiliated group companies are described elsewhere in the business plan.

However, when discussing the situation of Gaimani Antwerp NV, emphasis on this item is necessary as the company is a DTC sightholder. As such there will be a significant concentration of supplies from the DTC.

4.2.2. Stock

Composition of stock	60% Polished diamonds 40% Jewellery
Location of stock	45% on premises 50% on consignment 5% WIP with outsiders
Rotation of stock	
Average # days	165 (polished 145, jewellery 195)
Projected # days	165 (polished 145, jewellery 195)
Rationale for projection	Stock rotation is expected to remain status quo.

Additionally, you could inform the reader that Gaimani NY Inc. has an insurance policy of € 30 MM, which is more than sufficient to cover the expected average inventory level of € 22,6MM.

4.2.3. Clients

In US	100%
Major clients	Tiffany's and other top 50 domestic retail chains including Zale Corp, Sears Roebuck, Whitehall Jewellers, Wal Mart, Sterling and Helzberg

Export	0%
Consignment/memo programs	80%
Terms	0-120 days (on average 90 days)
UCC filings on consignments	On clients with merchandise in excess of € 100M
% finally sold	80%
% returns	20%
# of clients	35
# of active clients	24
Max credit/client given at any time	Tiffany's € 10MM, Other € 5MM
Concentration of risk	For 2003, the top 5 clients represented 93 % of total sales as follows: Tiffany's: 51 % Zale Corp: 14 % Sears Roebuck: 11 % Whitehall Jewellers: 10 % Wal Mart: 7 %
Client's rotation	60-150 days
Average # days	115 (Polished 110, Jewellery 123)
Projected #days	105 (Polished 100, Jewellery 113)
Rationale for projection	Taking into account that the major retailers have the goods up to 120 days on consignment, they pay relatively fast when the consigned good are converted into an invoice. Nevertheless, the company projects a further decrease with 10 days in client's credit to 105 days by expanding the sales to smaller companies who will be granted only 60-days terms.

A more detailed explanation on the degree of dependence on the current customer base, together with more relevant information on these companies, can be presented as in the table below:

Customer (in million €)	2003 Total Gaimani NY Sales	Average Gaimani NY A/R open	T/O of customer (2003)	Total assets of customer (2003)	Equity of customer (2003)	Net income of customer (2003)	Remarks
Tiffany's	31,15	7,75	1.587,30	1.897,62	1.165,08	171,43	
Zales	9,1	4	1.755,56	1.026,98	517,46	-32,22	
Sears Roebuck	7,15	3,15	32.638,10	22.002,38	5.080,16	2.696,03	
Whitehall	6,5	3,5	273,81	227,78	84,13	-6,90	
Wall Mart	4,55	1,90	203.435,71	83.263,49	34.621,43	7.032,54	

Table: Customer overview for the Gaimani example (1€ = 1,26 \$ per 31.12.2003)

Obviously, you should always fill in the remarks section. For example, for Wal Mart, one item that you can mention is that Standard & Poor's rates this company as "AA". This means that, according to this institution, Wal Mart has a very strong capacity to meet its financial commitments.

Illustration 5
2 year balance sheet, income statement, cash flow statement and ratio analysis of Gaimani NY Inc.

5.1. Balance sheet

	Formula	31/12/2004 000 €	31/12/2004 %	31/12/2005 000 €	31/12/2005 %
Long term Assets					
Property and Equipment	B1	450	1%	500	1%
Other assets > 1 year	B2	0	0%	0	0%
Current Assets					
Other assets > 1 year	B3	25	0%	0	0%
Accounts receivable > 1 year	B4	14.992	40%	14.411	38%
Inventory					
Rough	B5	0	0%	0	0%
Polished	B6	11.322	30%	11.918	32%
Jewelry	B7	10.151	27%	10.685	28%
Other	B8	0	0%	0	0%
Cash/Deposits	B9	233	1%	0	0%
Total Assets (TA)	B10=Sum (B11:B9)	37.172	100%	37.514	100%
Equity					
Paid in capital	B11	750	2%	1.000	3%
Retained earnings	B12	7.500	20%	8.000	21%
Subordinations					
Non-trade related	B13	0	0%	0	0%
Accounts payable	B14	2.000	5%	2.000	5%
Long term Liabilities					
Other	B15	1.250	3%	1.000	3%
Banks	B16	0	0%	0	0%
Current Liabilities					
Accounts payable	B17	19.733	53%	17.863	48%
Other Debts	B18	0	0%	0	0%
Banks	B19	5.939	16%	7.651	20%
Total Liabilities and Equity	B20=Sum (B11:B19)	37.172	100%	37.514	100%

5.2. Income statement

000 €	Formula	31/12/2004	31/12/2005
Sales			
Rough	I1	0	0
Polished	I2	28.500	30.000
Jewellery	I3	19.000	20.000
Total sales	I4 = I1 + I2 + I3	47.500	50.000
Cost of goods sold			
Rough	I5	0	0
Polished	I6	26.505	27.900
Jewellery	I7	15.960	16.800
Total Cost of goods sold	I8 = I5 + I6 + I7	42.465	44.700
Gross profit	I8 = I5 + I6 + I7	5.035	5.300
Gross profit %	I10 = I9 / I4	10,60 %	10,60 %
Operating expenses			
Selling	I11	2.125	2.230
General & Administrative	I12	1.700	1.750
Financial (excl. interests)	I13	25	25
Earnings before interests and taxes	I14 = I9 + I11 - I12 - I13	1.185	1.295
Interest expense	I15	297	383
Pre-tax income	I16 = I14 - I15	888	912
Provision for taxes	I17	302	310
Net income	I8 = I6 - I7	586	602

5.3. Cash flow statement

	Formula	31/12/2005
Cash flows from operating activities		
Net income (loss)	C1 = I18	602
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities		
Depreciation and amortization	C2	50
(Increase) decrease in:		
Accounts receivable	C3 = B4 ⁿ - B4	581
Inventory	C4 = Sum(B ⁿ 5:B ⁿ 8) - Sum(B5:B8)	-1.130
Other current assets	C5 = B ⁿ 3 - B3	25
(Increase) decrease in:		
Accounts payable	C6 = (B14 + B17) - (B14 + B ⁿ 17)	-1.870
Other current liabilities	C7 = B18 - B ⁿ 18	0
Net cash (used in) provided by operating activities	C8 = Sum(C1 : C7)	-1.743
Net cash (used in) investing activities	C9 = (Bⁿ1 + Bⁿ2) - (B1 + B2) - C2	-100

	Formula	31/12/2005
Cash flows from financing activities		
Capital contribution	$C10 = B11 \cdot B^{n11}$	250
(Distributions to shareholders)	$C11 = B12 \cdot B^{n12} \cdot C1$	-102
Other liabilities	$C12 = (B13 + B15) \cdot (B^{n13} + B^{n15})$	-250
Net borrowing on line of credit	$C13 = (B16 + B19) \cdot (B^{n16} + B^{n19})$	1.712
Net cash provided by (used in) financing activities	$C14 = C10 + C11 + C12 + C13$	1.610
Net increase in cash	$C15 = B9 \cdot B^{n9} = C8 + C9 + C14$	-233

5.4. Ration analysis

	Formula	31/12/2004	31/12/2005
Liquidity	$R1 = \text{Sum}(B3:B9) / \text{Sum}(B17:B19)$	1,43	1,43
Acid Test	$R2 = B3 + B3 + B9) / \text{Sum}(B17:B19)$	0,59	0,59
Rotation Stock	$R3 = \text{Sum}(B5:B8) / 14 * 365$	165	165
Rotation Clients	$R4 = B4 / 14 * 365$	115	105
Rotation Suppliers	$R5 = \text{Sum}(B14 + B17) / 14 * 365$	167	145
Turnover/Assets	$R6 = 14 / B10$	1,28	1,33
Rent.: Profit/Turnover	$R7 = I18 / I4$	1%	1%
Rent.: Profit/Equity	$R8 = I18 / (B11 + B12)$	7%	7%
Solvency: Equity/TA	$R9 = (B11 + B12) / B10$	22%	24%
Idem	$R10 = (B11 + B12 + B13 + B14 \cdot B21) / (B10 \cdot B21)$	28%	29%

* incl. subordinated loans

General remark concerning the formulas:

X" must be read as X during the previous period: E.g. When discussing annual figures and if X is property and equipment on 31.12.2005, then X" is property and equipment on 31.12.2004.

Noteworthy items (also applicable on illustration 5)

- Debit rotation is expected to amount to 6,54 (50.000/7.651), which is sufficient, taking into account the company's activity (60% polished dealing and 40% jewellery dealing).
- Gaimani NY Inc. is profitable.
- Inventory is financed with capital and suppliers credit, and not with bank credit.
- Although balance sheet total is rather high compared to turnover, solvency excluding subordinations is still expected to amount to 24%. Taking into account the subordination of €2MM, solvency is expected to amount to 29%.
Of course, more information is necessary on the subordinating party.
- The ratio analysis clearly shows that client's and supplier's rotation is expected to improve.
- We underline that this analysis of Gaimani NY Inc. is not sufficient to get a clear view on the financial performance of the Gaimani group, and that as such a consolidated group analysis remains indispensable.

Illustration 6 ADB's credit model applied to Gaimani NY Inc.

Taking into account the figures shown in chapter 7 and assuming a turnover of € 50MM, Gaimani NY Inc. has an average credit need of € 7.651M.

ooo €	Poished Diamonds 60 %	Jewelry 40 %	Total
Turnover			
Amount	0	20.000	50.000
Receivables			
Amount	28.500	6.192	14.411
# Days	19.000	113	105
+ Stock			
Amount	47.500	10.685	22.603
# Days	0	195	165
- Suppliers			
Amount	26.505	7.945	19.863
# Days	15.960	145	145
= Need for financing	42.465	8.932	17.151
- Capital	5.035	3.600	9.000
+ Fixed Aseets	2.125	200	500
- Credits with other banks	1.700	0	0
- Other Lt Debts	25	400	1.000
Average Credit Need	1.185	5.132	7.651

Annex 3 How to perform a SWOT analysis?

A SWOT analysis (an analysis of your strengths, weaknesses, opportunities and threats) allows you to create a strategic situational balance sheet for your company. In the analysis, you bring together all the internal factors, including your company's strengths and weaknesses. You then weigh these factors against the external forces that you have identified, such as the opportunities or threats that your company faces due to competitive forces or trends in your business environment. The way these factors balance out is an indication for what your company should do.

3.1. Simple rules for a successful SWOT analysis

- Be realistic about the strengths and weaknesses of your organization.
- Analysis should distinguish where your company is today and where it could be in the future.
- Be specific and avoid grey areas.
- Always analyse in context to your competition i.e. better or worse than your competition.
- Keep your SWOT analysis short and simple. Avoid complexity and over-analysis.

3.2. Apply this procedure to complete the SWOT analysis grid

1. Divide your company's strengths into 2 groups, based on whether they are associated with potential opportunities or with latent threats.
2. Divide all weaknesses the same way – one group associated with opportunities, the other with threats.
3. Construct a grid with four quadrants.
4. Place your company's strengths and weaknesses, paired with industry opportunities or threats, in one of the four boxes. (see grid below)

SWOT Analysis

	Internal		
External	Capitalise on these	Improve these	Opportunities
	Monitor these	Eliminate these	Threats
	Strengths	Weaknesses	

The SWOT analysis provides some very useful strategic guidance. Most of it is common sense. First, fix what is broken. Next, make the most of the business opportunities that you see out there.

You should try to address the following steps in your business plan:

1. Eliminate any company weaknesses that you identify in areas in which you face serious threats from your competitors or unfavourable trends in changing business environment.
2. Capitalise on any business opportunities that you discover where your company has real strengths.
3. Work on improving any weaknesses that you identify in areas that may contain potential business opportunities.
4. Monitor business areas in which you are strong today so that you will not be surprised by any latent threats that may appear.

Annex 4: Templates

balance sheet, income statement, cash flow statement & ratio analysis

4.1. Balance sheet template

	Formula	Historical -2 ooo € %	Historical -1 ooo € %	Projected +1 ooo € %	Projected +2 ooo € %	Projected +3 ooo € %
Long term Assets						
Property and Equipment	B1	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Other assets > 1 year	B2	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Current Assets						
Other assets > 1 year	B3	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Accounts receivable > 1 year	B4	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Inventory						
Rough	B5	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Polished	B6	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Jewelry	B7	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Other	B8	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Cash/Deposits	B9	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Total Assets (TA)	B10=Sum (B11:B9)	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Equity						
Paid in capital	B11	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Retained earnings	B12	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Subordinations						
Non-trade related	B13	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Accounts payable	B14	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Long term Liabilities						
Other	B15	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Banks	B16	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Current Liabilities						
Accounts payable	B17	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Other Debts	B18	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Banks	B19	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!
Total Liabilities and Equity	B20=Sum (B11:B19)	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!	0 #DIV/o!

4.2. Income statement template

ooo €	Formula	Historical -2	Historical -1	Projected +1	Projected +2	Projected +3
Sales						
Rough	I1	0	0	0	0	0
Polished	I2	0	0	0	0	0
Jewellery	I3	0	0	0	0	0
Total sales	I4 = I1 + I2 + I3	0	0	0	0	0
Cost of goods sold						
Rough	I5	0	0	0	0	0
Polished	I6	0	0	0	0	0
Jewellery	I7	0	0	0	0	0
Total Cost of goods sold	I8 = I5 + I6 + I7	0	0	0	0	0
Gross profit	I9 = I4 - I8	0	0	0	0	0
Gross profit %	I10 = I9 / I4	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Operating expenses						
Selling	I11	0	0	0	0	0
General & Administrative	I12	0	0	0	0	0
Financial (excl. interests)	I13	0	0	0	0	0
Earnings before interests and taxes	I4 = I1 + I2 + I3	0	0	0	0	0
Interest expense	I15	0	0	0	0	0
Pre-tax income	I16 = I14 - I15	0	0	0	0	0
Provision for taxes	I17	0	0	0	0	0
Net income	I18 = I16 - I17	0	0	0	0	0

4.3. Cash flow statement template

ooo €	Formula	Historical -1	Projected +1	Projected +2	Projected +3
Cash flows from operating activities					
Net income (loss)	C1 = I18	0	0	0	0
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities					
Depreciation and amortization	C2	0	0	0	0
(Increase) decrease in:					
Accounts receivable	C3 = B4 ⁿ - B4	0	0	0	0
Inventory	C4 = Sum(B ⁿ 5: B ⁿ 8) - Sum(B5: B8)	0	0	0	0
Other current assets	C5 = B ⁿ 3 - B3	0	0	0	0
(Increase) decrease in:					
Accounts payable	C6 = (B14 + B17) - (B14 + B ⁿ 17)	0	0	0	0
Other current liabilities	C7 = B18 - B ⁿ 18	0	0	0	0
Net cash (used in) provided by operating activities	C8 = Sum(C1: C7)	0	0	0	0
Net cash (used in) investing activities	C9 = (Bⁿ1 + Bⁿ2) - (B1 + B2) - C2	0	0	0	0

ooo €	Formula	Historical -1	Projected +1	Projected +2	Projected +3
Cash flows from financing activities					
Capital contribution	$C10 = B11 - B^{n11}$	0	0	0	0
(Distributions to shareholders)	$C11 = B12 - B^{n12} - C1$	0	0	0	0
Other liabilities	$C12 = (B13 + B15) - (B^{n13} + B^{n15})$	0	0	0	0
Net borrowing on line of credit	$C13 = (B16 + B19) - (B^{n16} + B^{n19})$	0	0	0	0
Net cash provided by (used in) financing activities	$C14 = C10 + C11 + C12 + C13$	0	0	0	0
Net increase in cash	$C15 = B9 - B^{n9} = C8 + C9 + C14$	0	0	0	0

- Note that the template is not able to automatically generate a cash flow statement for the period Historical -2 since the cash flow statement needs data from the current and past period. If you want to generate a cash flow statement for the period Historical -2, you will have to include in the balance sheet and income statement a period Historical -3.
- Xⁿ must be read as X during the previous period.

4.4. Ratio analysis template

Ratio's	Formula	Historical -2	Historical -1	Projected +1	Projected +2	Projected +3
Liquidity	$R1 = \text{Sum}(B3:B9) / \text{Sum}(B17:B19)$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Acid Test	$R2 = B3 + B3 + B9 / \text{Sum}(B17:B19)$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Rotation Stock	$R3 = \text{Sum}(B5:B8) / 14 * 365$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Rotation Clients	$R4 = B4 / 14 * 365$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Rotation Suppliers	$R5 = \text{Sum}(B14 + B17) / 14 * 365$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Turnover / Assets	$R6 = 14 / B10$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Rent.: Profit / Turnover	$R7 = I18 / I4$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Rent.: Profit / Equity	$R8 = I18 / (B11 + B12)$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Solvency: Equity / TA	$R9 = (B11 + B12) / B10$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!
Idem*	$R10 = (B11 + B12 + B13 + B14 - B21) / (B10 - B21)$	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!	#DIV/o!

* incl. subordinated loans

The liquidity ratio measures the company's ability to pay current liabilities with current assets as they become due.

The acid test is similar to the liquidity ratio, but does not take into account the amount of inventory as this is the least readable current asset. Concluding, the acid test is more stringent than the liquidity ratio.

