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2015 Economic Forecast & Trends

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Five Financial Strategies Businesses Should Consider for 2015

Strong U.S. Dollar Among Factors Pushing Multinational Companies to Adopt Commercial Banking Strategies That Enhance Competitiveness

By Dan Wilson

As businesses in Southern California approach the New Year, CFOs and treasurers are assessing strategies to navigate a changing—and increasingly competitive—marketplace. The U.S. dollar continues to strengthen against other currencies, putting downward pressure on import prices and heightening competition among importers while creating currency risk. Speculation about the Federal Reserve raising interest rates also continues, and will likely result in interest rate volatility in the coming months.

How can your business manage these risks and navigate the changing landscape to gain an edge in the New Year? Here are five important strategies to help enhance your competitiveness in 2015:

1. MATCH YOUR INTERNATIONAL PRESENCE WITH YOUR BANK’S FOOTPRINT

Businesses in Southern California are increasingly pursuing new markets outside the U.S. For companies seeking to go abroad for the first time or looking to expand their existing international presence, ensuring your global footprint matches your commercial bank’s footprint is critical. Your commercial bank should have a presence wherever you operate globally—meaning wherever you have employees and facilities—whether it’s in Europe, Africa, Asia Pacific, or the Middle East. If your footprints don’t match, the lack of fit may hinder your growth momentum overseas. Working closely with a single bank that has a presence everywhere you operate around the world creates consistency, increases transparency, and improves economic efficiency for your business over the long term.

A banking provider with comprehensive global cash management capabilities is also imperative to help strengthen your business's liquidity management, risk management, and accounting controls, while facilitating your cross-border transactions. Bank of the West’s Global Cash Management team helps meet businesses’ treasury needs across international markets—giving them visibility over their cash, increasing their control, and helping optimize their working capital so they can deploy cash wherever they need to.

2. IMPORTERS: PAY IN FOREIGN CURRENCIES TO GAIN EXTRA BUYING POWER

Southern California is home to large ports that play a central role in U.S. economic activity. A strengthening dollar, along with the ongoing Eurozone slowdown, means foreign exporters are directing more supply to West Coast ports, particularly from Asia. This is creating a much more competitive market for logistics companies and any business involved in product distribution.

While U.S. importers have greater buying power as the dollar strengthens against all major currencies, they will need to pay for goods in the exporter’s foreign currency in order to maintain that advantage. If an importer pays for goods in dollars, it gives up that extra buying power by handing the exporter the stronger currency, which can then be converted to receive more local currency. Remember that it’s also standard practice for exporters to add an additional foreign exchange margin—sometimes as high as 10%—if they invoice you in dollars.

As a first step, importers in Southern California should ask foreign exporters to provide prices in their local currency. Once you receive an invoice in the foreign currency you can compare prices, securing current market pricing from a knowledgeable banking provider or FX advisor. After agreeing on a price you can lock an exchange rate, including:

- **Spot Values** Typically these payments settle 1–2 days from booking.
- **Forward Values** Typically these payments match your purchase order date. Most invoices are paid within 12 months or less, depending on the goods involved.

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An experienced commercial bank can recommend other hedging tools to help your business manage currency risk and benefit from a strengthening dollar. Bank of the West’s Capital Markets team works with clients to identify the best strategy for sending money overseas so companies can take full advantage of FX opportunities.

EXPORTERS: REVIEW TRADE STRATEGIES FOR OVERSEAS BUYERS TO BE MORE COMPETITIVE

On the flip side, the stronger U.S. dollar means exports—from technology products to scrap—leaving Southern California bound for other countries are becoming more costly. In this kind of environment, U.S. exporters’ default response is often to cut prices to keep sales uninterrupted. While no company likes to lose customers, reducing prices will result in lower profits.

To offset the strong dollar and gain a competitive edge over other U.S. exporters, suppliers selling overseas should consider trade strategies such as extending payment terms. Foreign buyers may be willing to pay a higher price—relative to a strong dollar—for the products, materials, or services they need if they can negotiate more favorable payment terms, particularly if liquidity tightens overseas or supply is disrupted. Bank of the West’s Global Trade Solutions team offers a unique asset purchasing solution on foreign high-quality or insured receivables that can increase a company’s competitiveness by extending more attractive credit terms to its buyers. This solution, which also applies to domestic transactions, allows the seller to accelerate its collection cycle, creating incremental liquidity with no disruption as generally both the collection flow and the accounting treatment remain unchanged.

GUARD AGAINST POTENTIAL INTEREST RATE VOLATILITY

With U.S. job growth steady and the unemployment rate improving, many economists including Bank of the West Chief Economist Scott Anderson expect the Federal Reserve will begin hiking short-term interest rates as early as the third quarter of 2015. Actively managing exposure in a volatile interest rate environment can help reduce one of the expense uncertainties of running your business. Bank of the West’s Interest Rate Risk team works closely with businesses to understand their unique operating environment and considers economic and market conditions before building and delivering prudent interest rate hedging strategies.

EXPLORE INNOVATIVE WAYS TO MEET CFO TARGETS

The technical targets of CFOs are becoming increasingly aggressive. Often CFOs outgrow traditional financial control and require more innovative thinking, especially when considering global implications and common pain points such as international cash management and supply chain management. CFOs often focus on trying to improve their company’s cash conversion cycle—how quickly their company gets paid. The ultimate goal is to accelerate payments that the business is owed while pushing back the money the business needs to pay as long as possible. Whether this calculation puts a company in a position or negative territories often depends on the industry. Efficient retailers, for instance, can be in the positive single digits when it comes to the cash conversion cycle, while high-volume, tech-based companies can have double-digit negative numbers.

Operations and CFO targets can determine, among other things, whether the business spends cash, how much it borrows, and whether stock is issued. Prioritizing, balancing, and achieving CFO targets are crucial to having a successful year. Bank of the West’s Commercial Banking Group works closely with growing businesses to deliver solutions—including innovative global supply chain and cash management strategies—to help them meet and exceed targets.

Just like personal New Year’s resolutions, business resolutions should be specific, realistic, and ambitious. If your business uses the five strategies we outline here, we think you’ll look forward to many happy returns.

Dan Wilson is an Executive Vice President at Bank of the West, leading the Southern California Commercial Banking team. Dan joined Bank of the West in 1976 and has developed a premier team in Southern California focused on relationship banking with an emphasis on driving the long-term growth of mid-market companies. Bank of the West’s Commercial Banking Group meets the rapidly changing needs of growing businesses with annual revenues of $25 million and higher. As part of BNP Paribas’s global network of 75 countries and more than 185,000 employees worldwide, Bank of the West offers clients a new phase of growth, whether they operate locally, nationally or internationally.

Certain interest rate risk products are subject to market risk and may result in possible financial loss. Always consult your tax professional.
OUR GLOBAL BANKING COMES WITH LOCAL ATTENTION.

We know that as your business grows, its financial requirements do, too. Our Commercial Banking Group is here to help you tackle the challenges your business faces every day. Our local bankers deliver responsive and personalized service backed by the global resources of one of the world's largest financial groups.

To learn more contact Dan Wilton, EVP, Southern California Commercial Banking (949) 797-1941

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VEDC: A Uniquely Positioned Resource for Small Businesses

VEDC is a leading non-profit small business lender that is changing the way small business owners access capital, making it more available, sustainable and impactful. As a certified Community Development Financial Institution (CDFI), VEDC’s mission is to help create jobs and promote economic development in under-served communities. They provide loan and micro-financing options to small businesses, particularly those owned by women and minorities, that don’t qualify for traditional bank financing.

From their headquarters in the Greater Los Angeles area, VEDC has supported small business owners for 38 years with the goal of creating and sustaining jobs and businesses by providing high-quality small business development services. Founded in 1976, the organization’s mission has expanded to include the financial assistance and development needs of entrepreneurs conducting business in low to moderate-income communities.

VEDC believes that the major barrier for today’s small business is access to capital. Without adequate financing, many small businesses are prevented from thriving. That is why VEDC focuses its efforts on lending and guiding small businesses to achieve growth and sustainability. Their interest is to get loan funds in the hands of minority and low-income borrowers so that businesses can be created, maintained, and expanded.

In fact, VEDC has been instrumental in helping to create job opportunities in underserved areas for those who want to improve their financial standards and build stronger communities. The organization has assisted more than 98,000 businesses in creating and retaining over 27,000 jobs, opening up 1,700 new businesses, and graduating more than 3,100 individuals from the Entrepreneurial Training Program. VEDC has also provided more than $360,000,000 in direct and guaranteed lending to small businesses. Historically, 75% of VEDC’s clients are located in low- to moderate-income areas and 65% have been minority and women entrepreneurs.

VEDC also sponsors the San Fernando Valley Financial Development Corporation (SFV-FDC) a not-for-profit corporation that provides a wide range of business services. SFV-FDC’s mission is to help small businesses in the San Fernando Valley area to succeed in business with access to consulting and training to business owners and VEDC loan clients as part of an ongoing strategy focused on job creation and growth.

ECONOMIC DEVELOPMENT KEY PLAYER PROFILE

The California Loan Guarantee Program enables a small business to obtain a term loan or line of credit when it cannot otherwise qualify for a loan. The program provides a lender with the necessary security, in the form of a guarantee, to approve a loan or line of credit. The SBA 504 Loan Program is an alternative form of financing created to provide financing at a low cost, fixed rate financing for small businesses looking to purchase real estate, machinery or equipment. These programs enable business owners to continue expanding and growing their businesses.

VEDC’s expanding portfolio is comprised of community-based loan funds in Los Angeles, Chicago, San Francisco, Las Vegas, Reno, Salt Lake City and the New York Tri-State area. For more information visit www.vedc.org.

Los Angeles Emerges as a Top Global Destination for Chinese Investment

Chinese capital infusion in L.A. nearly doubles in 2014

By LEWIS C. HORNE

With some of the largest commercial real estate deals of the past two years involving major Chinese investment firms - names largely unknown here but ubiquitous in Asia - the Los Angeles market is at the forefront of what is expected to be major influx of Asian capital over the next several years. In 2014 alone, Los Angeles saw a 141 percent increase in Chinese investment compared to 2013. With high-profile deals in 2013 and 2014 command- ing record pricing and totaling close to $1 billion — including Dalian Wanda Group’s purchase of 9990 Wilshire, Shenzhen Hazer Group-purchase of the Luxe Hotel, Shanghai Greenland Group’s acquisition of Metropolis, and Oceanwide’s acquisition of Fig Central — Los Angeles has become one of the most talked about destinations for Chinese investment. This boom in activity is fueling much discussion and debate about what driving this trend and how major new players will alter the commercial real estate landscape here.

Recently, I had the opportunity to join the Asian Trade Mission with Mayor Eric Garcetti and a delegation leaders organized by Los Angeles County, Economic Development Corporation (LEADC), Los Angeles Business Council (LABC) and Los Angeles Area Chamber of Commerce. Over the course of our 12-day trip, we visited a number of cities in China and throughout Asia, during which we met with key gov- ernment and business leaders and gained valuable insights into the social, political and economic drivers that are fueling foreign investment of Chinese capital.

We also created deeper economic ties to promote inter- national trade, tourism and investment in Los Angeles, delivering the message that Los Angeles is ready, willing and able to do business with the Pacific Rim.

One of the most interesting insights from the trip is how fast China has grown. Some of the largest cities we visited have grown in the last 30 years. In a very short amount of time, this country has developed and innovated to a level of sophistication that has taken most countries more than 200 years to achieve. And yet their deep, rich cultural history remains core to their modern society. That said, a desire for diversification and insulation from possible economic instability are causing more and more Chinese capital - including government sponsored-entities, high-net-worth individuals, and institutional investors such as banks, corporate pension funds and insurance funds - to look to viable markets for steady growth outside of China. Today, Los Angeles has emerged as one of the top global destinations for these savvy investors.

Consider these eye-opening statistics:

- Since January 2007, total investment activity in U.S. commercial real estate from mainland China totaled approximately $10.5 billion. Of that total, $8.2 bil- lion – 78.1 percent – has been invested in the last two years alone, illustrating the growing appetite for U.S. properties.

The Chinese appear to have a major pref- erence for primary gateway cities across the U.S., specifically larger, more stable markets like New York, Los Angeles, San Francisco and Chicago. These four markets accounted for 95.4 percent of the total investment activity since January 2013.

- Between 2007 and 2013, Chinese investment per- centage in the Los Angeles metro area averaged only 9.6 percent of the U.S. total, but in 2014 it grew to 15.0 percent. This equates to a significant rise in total investment value from an average of $105 mil- lion per year between 2007 and 2013 to $968 mil- lion in 2014.

While historically Chinese investors have preferred core office product due to the stability and consistent returns, we’ve seen a shift to more of the largest transactions in Los Angeles have involved high-profile, mixed-use development sites. Ground-up development opportunities are gaining favor with Chinese investors and they are committing to a growing number of multibillion-dollar developments across the U.S. Many of the largest Chinese developers have had great suc- cess both in mainland China and in secondary markets such as London and Australia. These developers, having acquired a taste for hotel and for-sale condominium projects, have a desire to replicate that success in the U.S. with luxury offerings. Additionally, activity is not just limited to develop- ers and investors-occupiers are also looking for office and industrial space in the U.S. including Los Angeles. In the case of large developers, many firms have estab- lished U.S. based offices to house team operations as they search for available sites and supervise construc- tion activities. Other types of occupiers are looking at the U.S. for the same reason as investors – opportunity. The overarching trends of Chinese investment and increased occupier activity have only gained moment- um since the onset of 2014, and are rapidly gaining steam. This trend is expected to continue, and as more Chinese developers and investors plant their flag in U.S. soil, a geographic clustering effect will likely con- tinue to grow in key U.S. markets, and particularly in Los Angeles.

Lewis C. Horne is CBRE’s President of Greater Los Angeles and Orange County.
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For every client, advantage is delivering the broadest, deepest reach and resources any real estate company offers. Transforming property into prosperity, square feet into strong portfolios, scale into global strength. All in service of exceptional outcomes that build real business advantage. Let us put our actionable perspectives, global reach and powerful connections to work for your business.

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Turkey currently flourishes from an impressive surge in trade, tourism, and culture. Istanbul, the largest city in the European part of Turkey, is a major global city that is home to many international corporations. Much like modern day Los Angeles, Istanbul is a prominent hub for trade and commerce, with its location at the crossroads of Europe and Asia. It has changed the market landscape in such a way that Turkey has been growing exponentially for years, and it is expected to continue this growth.

Perhaps the most relevant reality of globalization, is that countries that previously were unknown or underrated have been tapped to promote their products and services worldwide. Advancements in commerce and technology have increased the visibility of these countries, and they have been able to address issues important to small businesses. In 2012, according to EU data, Turkey out-performed 25 EU countries with its debt/gdp ratio and 14 EU countries in terms of unemployment rate. Furthermore, according to the World Bank, as of 2012, after Russia, Germany, England and France, Turkey has the 5th largest labor force among the European countries.

Turkey offers foreign investors a young and dynamic population, a qualified and competitive labor force, low tax rates and incentives, a liberal investment climate in an open domestic market, and a central location between Europe and Asia. Turkey’s robust economic figures indicate golden opportunities for investors in areas such as tourism, construction, technical consultancy, contracting, and commercial services. The required time to start a business is 6 days in Turkey. Thirty-eight out of the world’s top 250 contracting companies are Turkish. Also, Turkey ranks only behind China in terms of the number of top contracting companies. With 45,000 trucks and 1,420 companies, Turkey currently maintains Europe’s largest truck fleet. The country also operates 52 airports and 76 ports. In 2013, the country oversaw almost 1.2 million flights in 2013 with 2.6 million tons in freight and 149.5 million passengers. The total length of divided highways in Turkey will soon reach 15 thousand kilometers, and high-speed railway projects are rapidly under way.

In the field of energy, Turkey aims to achieve the following targets by 2030:

- Make complete use of its potential of indigenous coal and hydro resources,
- Make maximum use of renewable resources,
- Incorporate nuclear energy into electricity generation,
- and Secure rapid and continuous improvement in energy efficiency.

Turkey continues to undergo the EU membership screening process, 178 trade representatives from the ministry are serving in 130 countries, 160 locations and 6 offices abroad. Indeed, Turkey is serious about its intent to trade and connect with countries any way it can.

In conclusion, we know that as globalization abounds, we must look for and tap hidden areas of economic opportunity. From my perspective, the economic relationship between Turkey and Los Angeles continues to thrive, and can only prosper in the future.
GIVE YOUR BUSINESS WINGS

Turkish Corporate Club provides exclusive benefits to businesses and their employees all around the world. Every business, big or small, can access special fares and can rebook or change routes on any flight without incurring any penalties. Employees can collect miles on every flight and enjoy a generous baggage allowance, even in Economy Class. Turkish Corporate Club, the custom tailored benefit program from Turkish Airlines, offers you nothing but the best for your needs.

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M argaret R. Peterson, PhD, is president of Dignity Health-California Hospital Medical Center, which is a 318-bed acute care hospital serving downtown Los Angeles. She also serves as a member of the Los Angeles County Emergency Medical Services Commission.

How has the Affordable Care Act and Covered California impacted hospitals?

Dr. Peterson: When Health Reform became law and insurance cards were issued to so many people who never had health insurance before, providers knew our emergency departments would be inundated because this would be consumers’ first point of contact with a health care provider. This past year, the low income health plans were rolled into Medi-Cal, which is the state’s insurance program serving low-income families, seniors, persons with disabilities, children in foster care, pregnant women, and certain low-income adults. In addition, the Medi-Cal plans were expanded to incorporate the number of people who were going to access health care. In theory, what makes this work is offering health care services in a very coordinated fashion where all of these people are going to be assigned to a ‘medical home,’ meaning they’d be assigned to a primary care physician or a medical group with multiple physicians.

How has assigning a medical home to patients worked thus far?

Dr. Peterson: From the outset, these medical homes have not been equipped to handle the tremendous influx of people seeking health care services through Covered California and the Medi-Cal programs, so in many cases access is limited and they’re coming to hospital emergency departments for care. For 20, 30 or even 40 years, these people didn’t have any kind of care other than what they were able to get from their neighbor or pharmacist. They were showing up with some major chronic illnesses and problems with a 150% to 300% cost on the reimbursement dollar to address these chronic illnesses. So it’s been very expensive to care for this population. In time, we believe some of this will change because providers are incentivized based on having these patients not use expensive health care services such as those provided in hospitals, which tend to be the most expensive element in the health care world. Eventually, the health care system will become more efficient with providing wellness care to these patients, so when this occurs it will impact us in a different way.

How have services evolved at California Hospital to meet community needs?

Dr. Peterson: California Hospital has been serving Los Angeles for 128 years and has evolved to provide an interesting array of high quality services, especially during the past decade. We are the busiest private Trauma Center in Los Angeles County and treat people with a variety of traumatic injuries, including injuries from auto accidents, heart attacks and violent crimes. We serve a younger population driven by our large obstetrics program where we deliver 350 new babies each month. We have incredible physicians simply because of the trauma program which requires us to have highly skilled specialists who not only care for trauma patients, but these specialists also provide care to any surgical patient who comes through our doors. One of our newest programs is our dynamic Los Angeles Center for Women’s Health, which is an outpatient center dedicated to women and offers a variety of services including mammography and ultrasound, all in a comfortable environment.

What are the biggest challenges facing California Hospital in the coming years?

Dr. Peterson: A big part of what we have to do is to create a solid foundation, determine who we are serving and what we need to do to meet the needs of our community. Our highly skilled specialists will continue to play a huge part in the programs we offer. We want to be the best in our business, and when you talk about being the best in healthcare it’s really about looking at the outcomes. Much of how we will be judged and how we will be reimbursed for care going forward will be based on statistical data from our outcomes, including what happens to that patient once they enter your health system, and in what condition they exit your health system. We can’t stop at the exit door. We have to think about what’s going to happen when they leave us because we don’t want them coming back to us within 30 days, which is another value measure that the federal government is using to evaluate hospital performance and quality of care. We need to continue to strengthen the outcomes we have on a day-to-day basis. Serving the needs of the community is absolutely key to our success and achieving our overall goal of being the best downtown hospital ving the residents Los Angeles.

As an accounting firm, we love numbers.

Here are a few of our favorites.

101 Years in business
96 Countries served
(Through Praxity, ABLL)
33 Industries served
10 California offices
4.8 Staff to partner ratio

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“From the get-go, writing my business plan, approaching investors and researching my location I have had this faith and belief that VEDC and the SBA were going to see the value and viability of my business and they did.”

Mari Niaii, Owner Sweet Bar Bakery

“The financial hurdle to get this location open was great. We went to 4 banks and were turned away every time. For us, finding VEDC and having access to funding made all the difference in getting the store open.”

Greg Horos, Co-owner Local

“VEDC’s loan helped keep us alive for kids. The loan helped set up a retail front for Palette Station through remodeling, merchandising, purchasing furniture, and art supplies.”

Raymond G. Kubit, CEO Palette Station


Contact us and find out how we can help.

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