Factoring Overview

Basics of Receivables Financing

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Introduction

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Agenda

What is factoring?
Types of factoring
Why do companies factor invoices?
Who qualifies for factoring?
What types of companies use factoring?
Case study
The cost of factoring
Benefits of factoring

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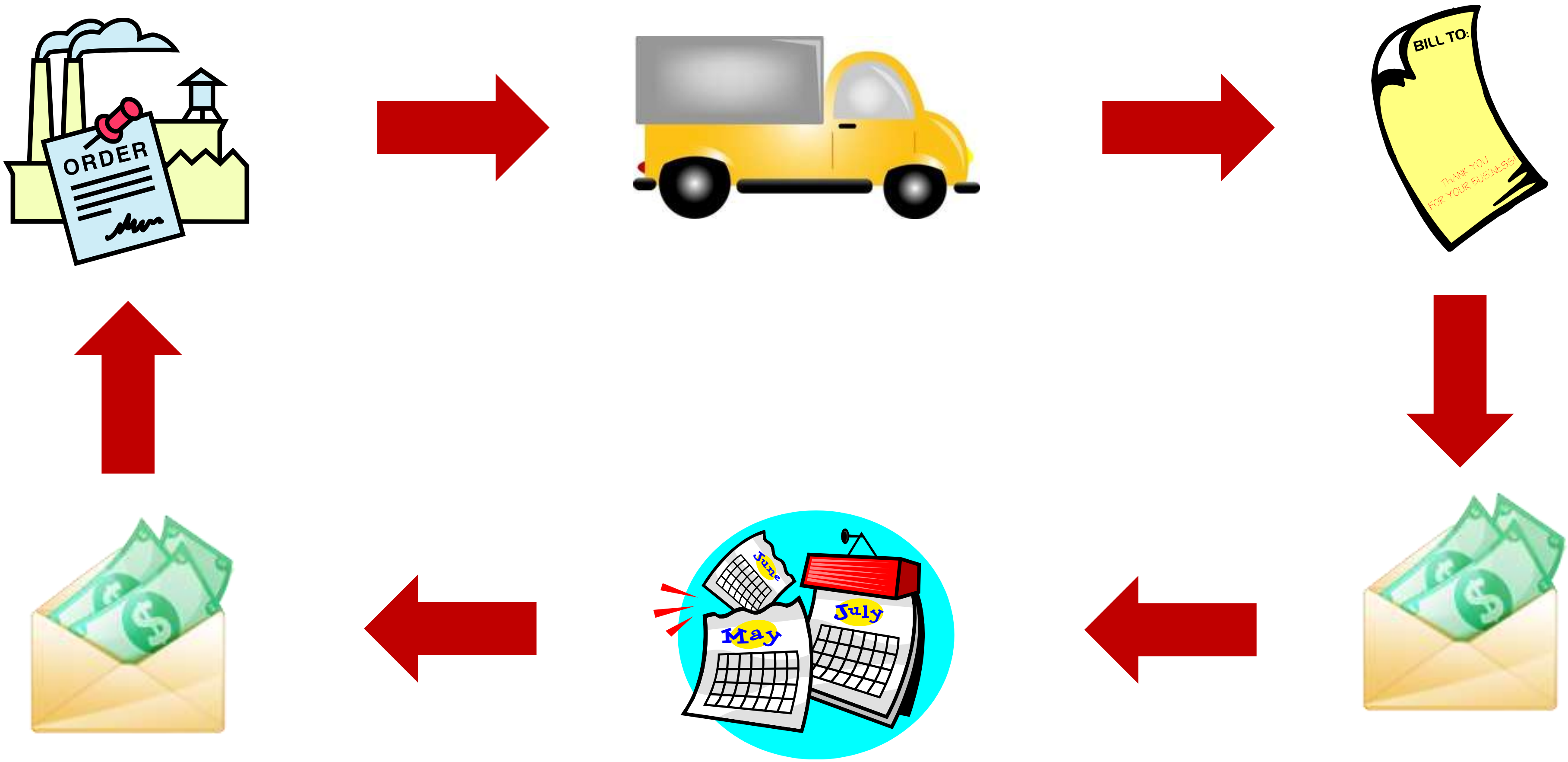
THE ALTERNATIVE BOARD

What is factoring?



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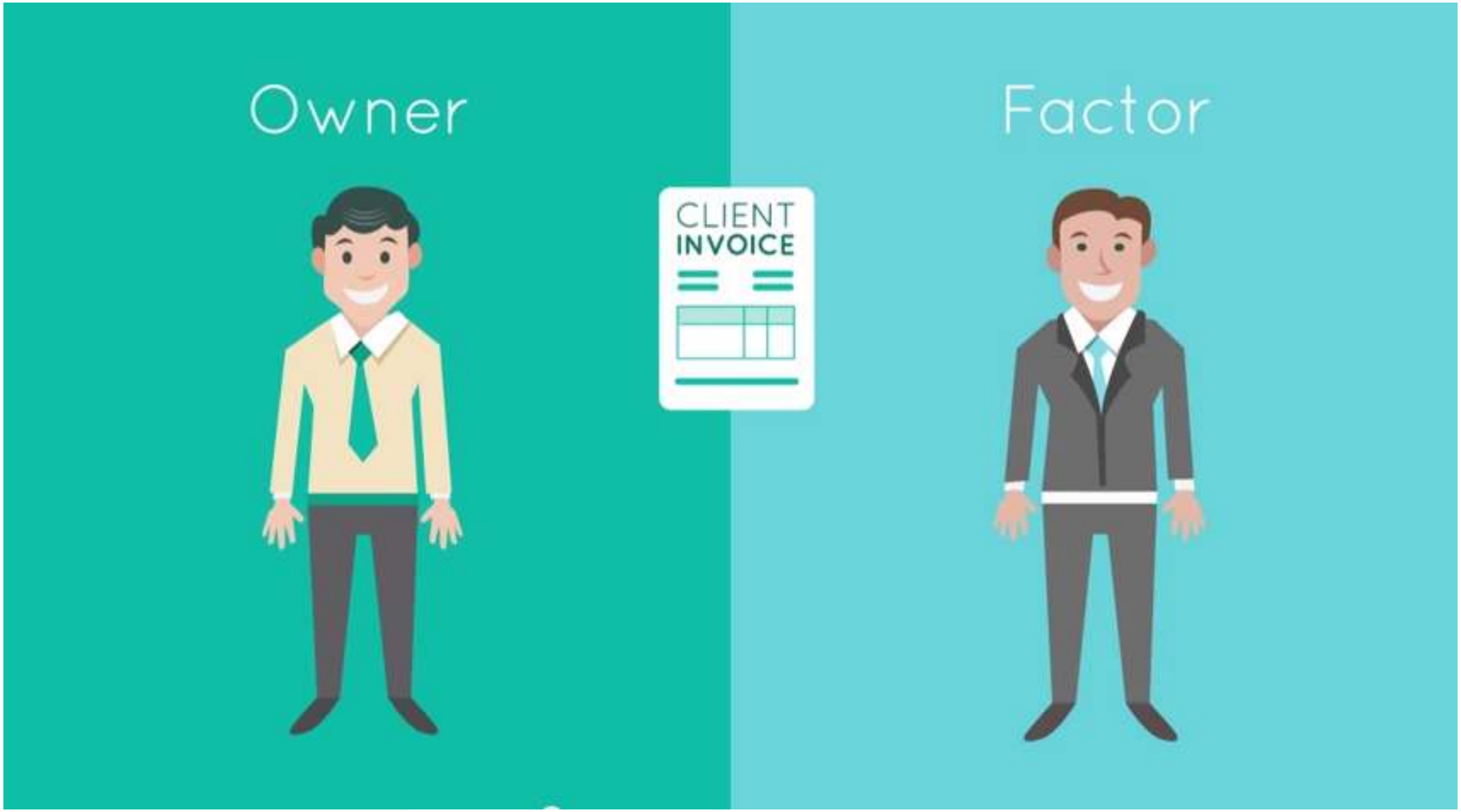

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What is factoring?

NOTIFICATION

Factor notifies Account Debtor of invoice assignment and revised payment instructions in writing via letter

VERIFICATION

Factor verifies invoice amount to ensure invoice is payable as stated with no offsets or disputes

ADVANCE

Factor advances money to Client, less the reserve amount

Factor follows the invoice through to collection

COLLECTION

Upon collection, Factor remits the reserve amount, less fees, to Client

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Types of factoring

MATURITY FACTORING	ADVANCE FACTORING
Non-recourse	Recourse
Factor takes credit risk	Client is on hook for uncollected invoices
Small number of large factors	Many entrepreneurial factoring companies
Company needs to manage risk	***Company needs access to cash***

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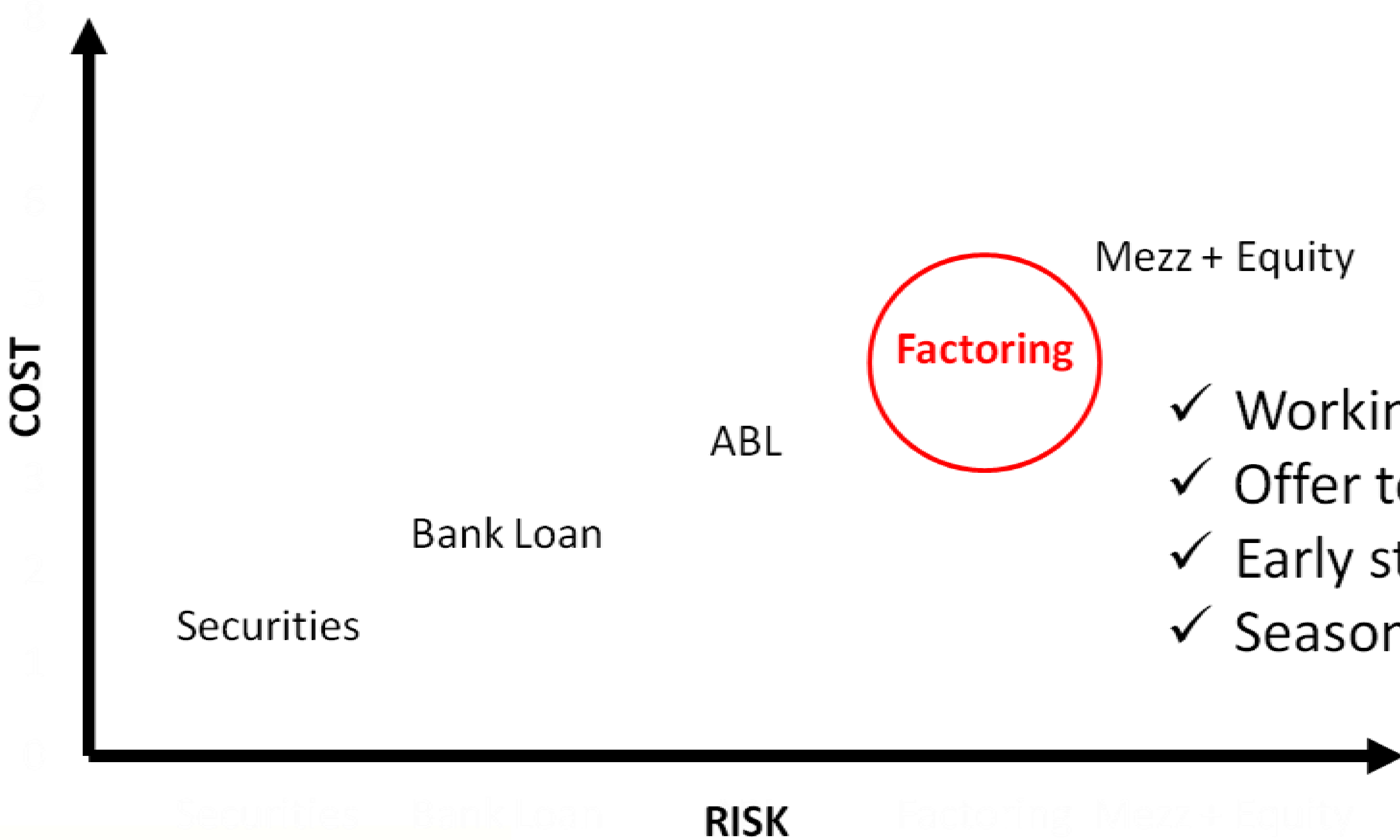
Why companies factor?



- ✓ Working capital
- ✓ Offer terms
- ✓ Early stage growth
- ✓ Seasonal businesses

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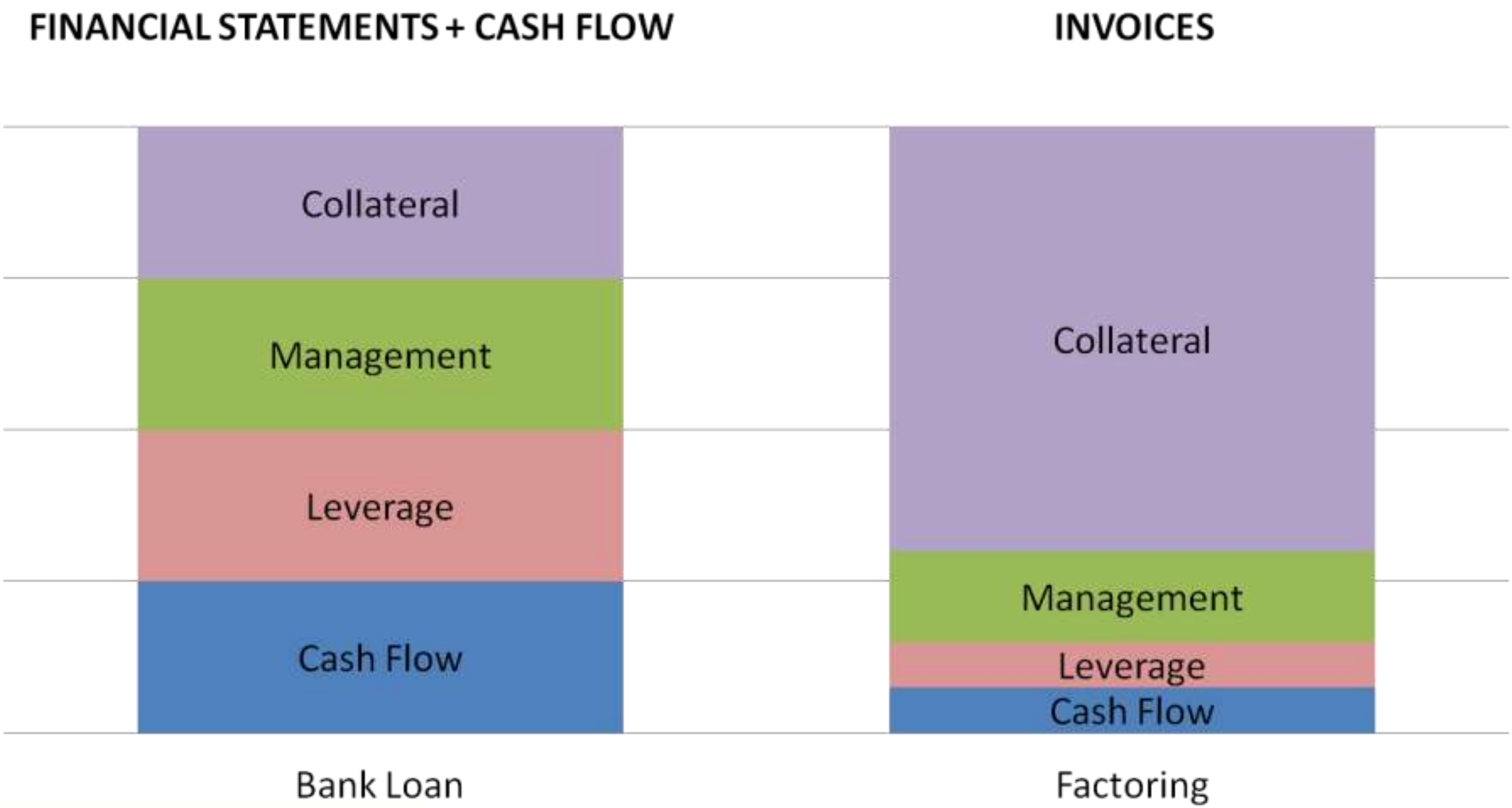
Who qualifies for factoring?



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Who uses factoring?

	PAST	CURRENT
Industries	Garment-trade Housewares	Manufacturing Wholesalers Transportation Professional/technical services Administrative/support services Staffing
Use of factoring	Financial hardship Risk mitigation (traditional factoring)	Growth-stage companies Seasonal companies

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Case Study

BEFORE	AFTER
Borrowing ability capped, lack of fixed assets	Approved for bank line in 2013
Rapidly expanding business	Sales increased 46%
Needed capital to fund growth	
Internal receivables administration issues	Strong back office with good processes
Invoice collection period exceeded 90-days	Invoice collection period decreased 48-days
Bad debt losses nearly 10% of revenues	Bad debt losses below 3%

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Case Study

	2007	2008	2009	2010	2011	2012
Annual revenue	4.4 MM	4.9 MM	5.6 MM	6.0 MM	6.5 MM	**7.2 MM**
Days Sales Outstanding	97 days	77 days	60 days	55 days	51 days	**49 days**
Bad debt expense	41 K	43 K	40 K	34 K	31 K	**27 K**

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What does it cost?

Factoring costs

- Can widely vary based upon several criteria
- Should be viewed as opportunity costs

Factoring fees are typically structured as follows:

- Initial fee for the first 30-days following advance in which the invoice is unpaid
- After the initial 30-day period, fees charged on a daily basis or every 10/15/30 days

What does it cost?

	Before	After	
Sales	100,000	500,000	Sales increase 400%
COGS	70,000	350,000	COGS constant at 70%
GP	30,000	150,000	
OH	20,000	100,000	Overhead proportionally constant
Op Income	10,000	50,000	
Fees	-	20,000	Estimated fees at 2.0%/30d, collected at 60-days
Net Income	**10,000**	**30,000**	Net income increases by 200%

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Benefits of factoring

BAD DEBT REDUCTION

- Factors ensure that customers are creditworthy
- Factors have access to various databases showing payment trends of customers

REDUCED DAYS TO COLLECT

- Factors best practices help Clients’ back office and can reduce days to collect
- Servicing is customer-friendly and typically not intrusive to the relationship

Benefits of factoring

ADMINISTRATION

- Detailed reporting and support can allow Clients to repurpose employees time to other functions

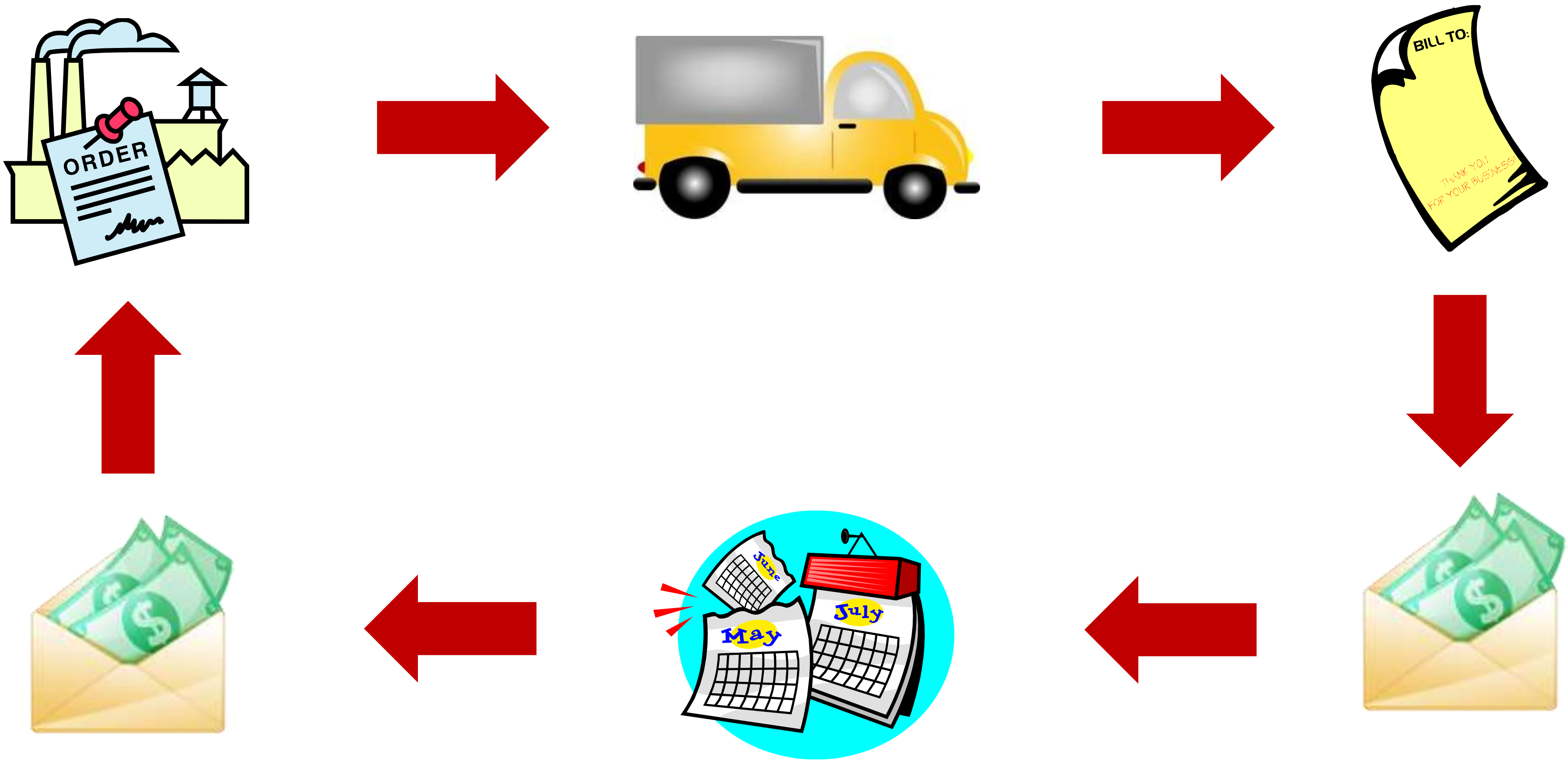
FLEXIBLE & DEPENDABLE

- By focusing primarily on the quality of the Account Debtor factors can provide flexibility without long approval processes for seasonal and growth stage businesses

KEEP WHAT IS YOURS

- Factoring does not require the customer to give up equity in their company while providing a strong flow of cash into the business

What is factoring?



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