Factoring Overview
Basics of Receivables Financing

Jim DiCamillo
RMP Capital Corp.
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
What is factoring?
What is factoring?
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.
Types of factoring

**MATURITY FACTORING**
- Non-recourse
- Factor takes credit risk
- Small number of large factors
- *Company needs to manage risk*

**ADVANCE FACTORING**
- Recourse
- Client is on hook for uncollected invoices
- Many entrepreneurial factoring companies
- *Company needs access to cash*
Why companies factor?

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

FACTORS:
- Bank Loan
- ABL
- Factoring
- Mezz + Equity

RISK:
- Cost
- Firefox

BRANDS:
- RMP Capital Corp.
- TAB

TAGLINE:
- We Make Funding Your Business Easier
Who qualifies for factoring?

<table>
<thead>
<tr>
<th>FINANCIAL STATEMENTS + CASH FLOW</th>
<th>INVOICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral</td>
<td>Collateral</td>
</tr>
<tr>
<td>Management</td>
<td>Management</td>
</tr>
<tr>
<td>Leverage</td>
<td>Leverage</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>Cash Flow</td>
</tr>
</tbody>
</table>

- Bank Loan
- Factoring

[Logo: RMP Capital Corp.]
[Logo: TAB The Alternative Board]
## Who uses factoring?

<table>
<thead>
<tr>
<th>PAST</th>
<th>CURRENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industries</td>
<td></td>
</tr>
<tr>
<td>Garment-trade</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Housewares</td>
<td>Wholesalers</td>
</tr>
<tr>
<td></td>
<td>Transportation</td>
</tr>
<tr>
<td></td>
<td>Professional/technical services</td>
</tr>
<tr>
<td></td>
<td>Administrative/support services</td>
</tr>
<tr>
<td></td>
<td>Staffing</td>
</tr>
<tr>
<td>Use of factoring</td>
<td></td>
</tr>
<tr>
<td>Financial hardship</td>
<td></td>
</tr>
<tr>
<td>Risk mitigation (traditional factoring)</td>
<td>Growth-stage companies</td>
</tr>
<tr>
<td></td>
<td>Seasonal companies</td>
</tr>
</tbody>
</table>
### Case Study

**BEFORE**
- Borrowing ability capped, lack of fixed assets
- Rapidly expanding business
- Needed capital to fund growth
- Internal receivables administration issues
- Invoice collection period exceeded 90-days
- Bad debt losses nearly 10% of revenues

**AFTER**
- Approved for bank line in 2013
- Sales increased 46%
- Strong back office with good processes
- Invoice collection period decreased 48-days
- Bad debt losses below 3%
## Case Study

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual revenue</td>
<td>4.4 MM</td>
<td>4.9 MM</td>
<td>5.6 MM</td>
<td>6.0 MM</td>
<td>6.5 MM</td>
<td>7.2 MM</td>
</tr>
<tr>
<td>Days Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding</td>
<td>97 days</td>
<td>77 days</td>
<td>60 days</td>
<td>55 days</td>
<td>51 days</td>
<td>49 days</td>
</tr>
<tr>
<td>Bad debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expense</td>
<td>41 K</td>
<td>43 K</td>
<td>40 K</td>
<td>34 K</td>
<td>31 K</td>
<td>27 K</td>
</tr>
</tbody>
</table>
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?

<table>
<thead>
<tr>
<th></th>
<th>Before</th>
<th>After</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>100,000</td>
<td>500,000</td>
<td>Sales increase 400%</td>
</tr>
<tr>
<td>COGS</td>
<td>70,000</td>
<td>350,000</td>
<td>COGS constant at 70%</td>
</tr>
<tr>
<td>GP</td>
<td>30,000</td>
<td>150,000</td>
<td>Overhead proportionally constant</td>
</tr>
<tr>
<td>OH</td>
<td>20,000</td>
<td>100,000</td>
<td>Estimated fees at 2.0%/30d, collected at 60-days</td>
</tr>
<tr>
<td>Op Income</td>
<td>10,000</td>
<td>50,000</td>
<td>Net income increases by 200%</td>
</tr>
<tr>
<td>Fees</td>
<td>-</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>10,000</td>
<td>30,000</td>
<td></td>
</tr>
</tbody>
</table>
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?
Thank you

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