
Hot Topics Treasury Seminar

Supplier
financing

18 June, 2015



*Discover and unlock
your potential ...*

Program

1. A WCM Opportunity
2. The Concept
3. Business Case
4. Platforms
5. P2P Process Optimisation
6. Discussion



A Working Capital Management Opportunity

1



Setting the scene

Scarcity of liquidity



Liquidity is cheap, but scarce and banks are deleveraging

Stricter regulations



Basel III and regulation of FI's are constraining capital and lending

Economic pressure



Economic environment pressures profitability

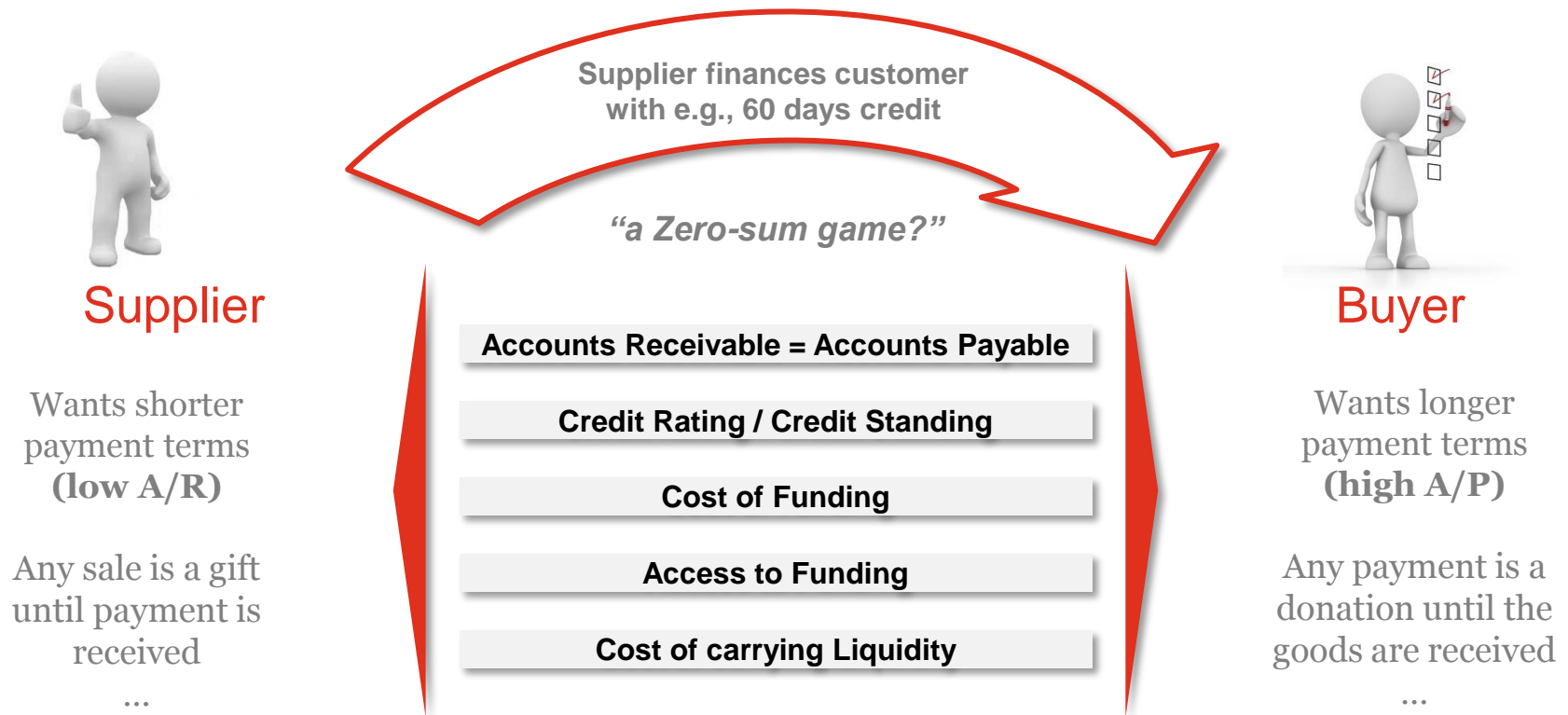
Credit terms



Long supplier credit terms is a hot topic

- Working capital management remains to the top of the corporate agenda
- Managers seeking ways to unlock funds trapped in the Cash Conversion Cycle
- EU Late Payment Directive
- Banks focusing more on flow and trade products

Traditional financing of the supply chain



**Suppliers finance their customers based on their own credit:
Is this the only way to finance this supply chain?**

Supplier finance solutions

A definition

“Financial arrangements in the form of debt, equity or other contractual agreements used in collaboration by at least two supply chain partners (buyer and seller) and facilitated by the focal company with the aim to improve the overall financial performance and / or the stability of the supply chain”

Equity

- Take-over
- Joint venture
- Minority interest

Debt

- Loans
- Advance payments
- **Reverse factoring**
- Vendor leasing
- Convertibles

Other contractual agreements

- Profit/revenue sharing
- Risk sharing
- Buyer managed inventory
- Vendor managed inventory
- Dynamic discounting
- Options & futures

Supplier finance is often referred to as reversed factoring or approved payable finance

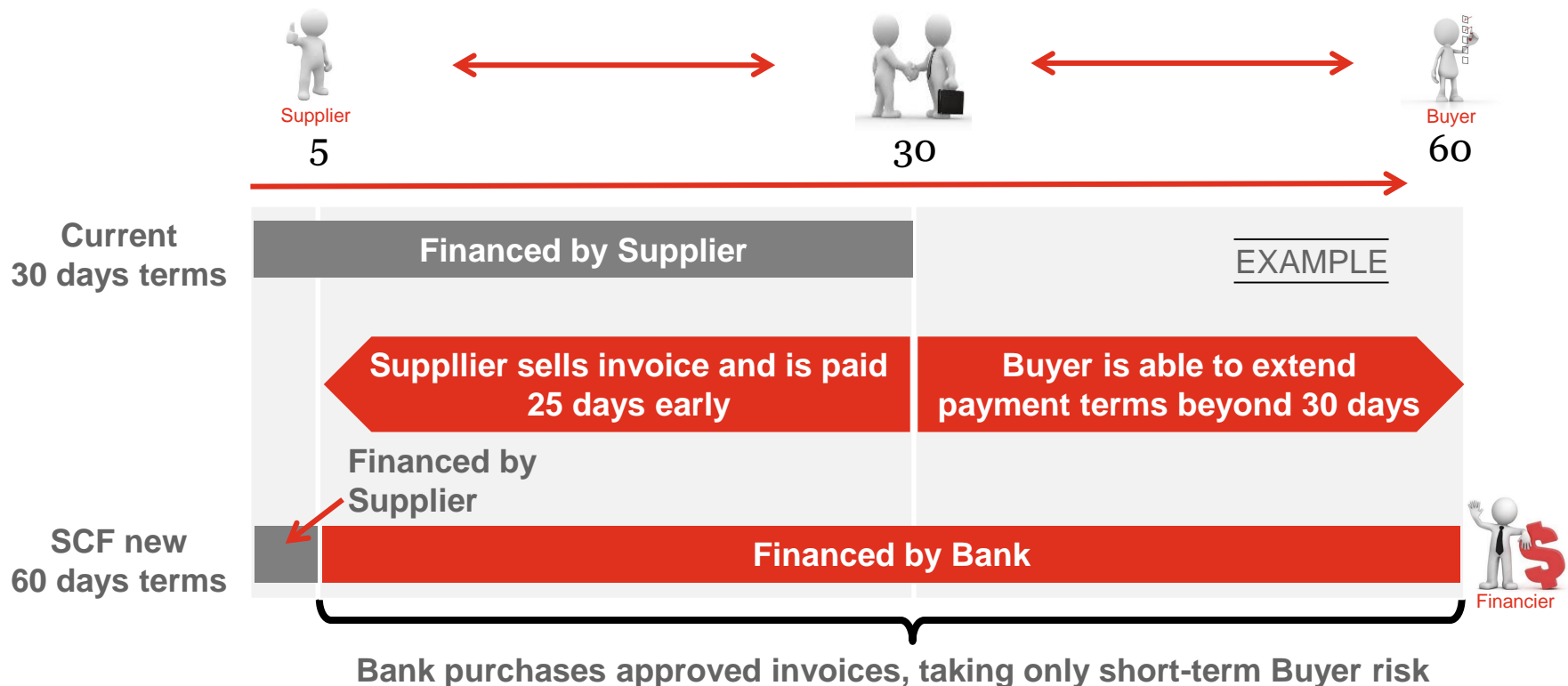
Supplier Finance: The concept

2

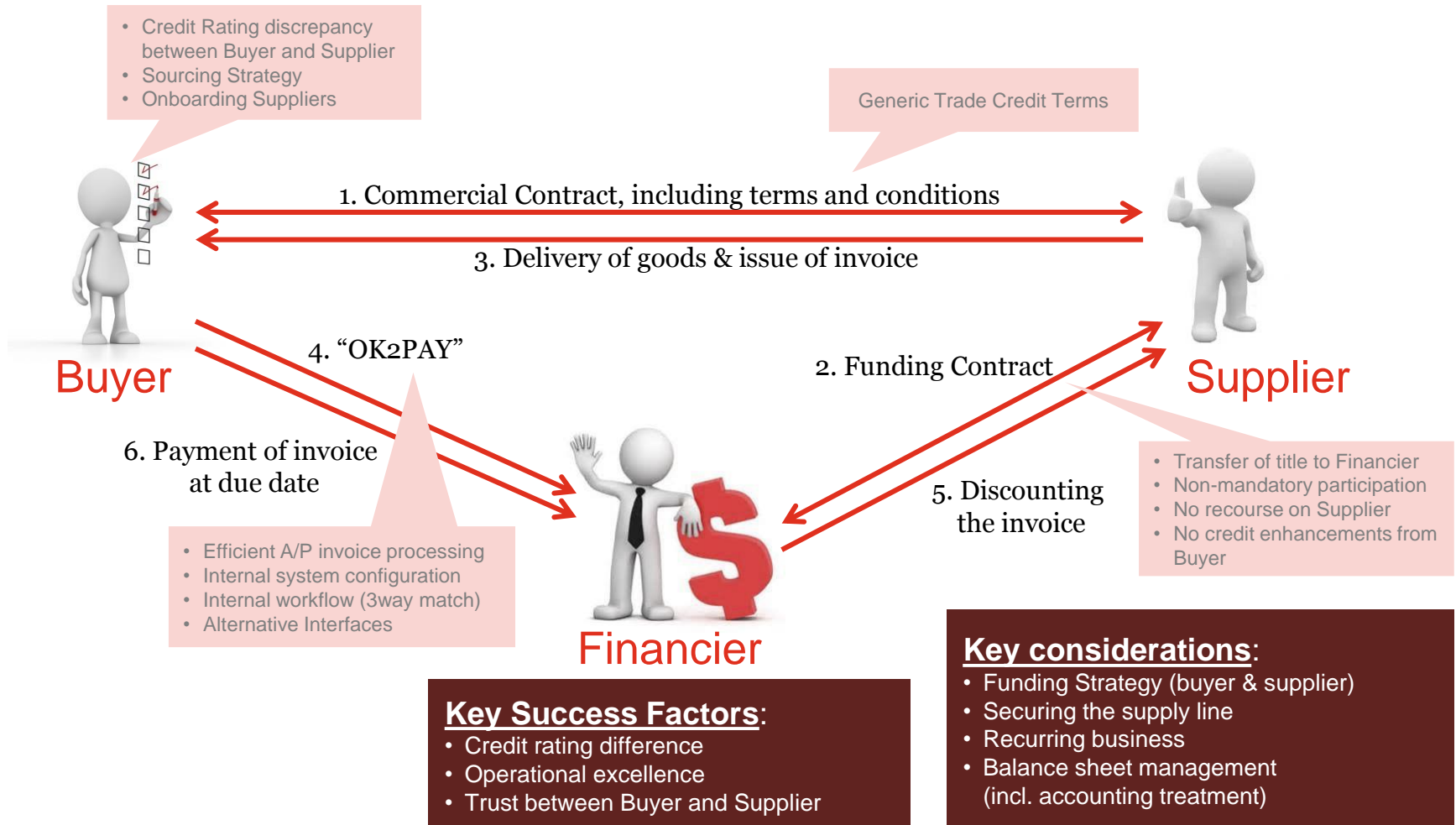


Supply Chain Financing (SCF) as a win-win solution

SCF gives efficient financing of the value chain, where both parties can reduce working capital against lower total costs



Supplier financing – the basics

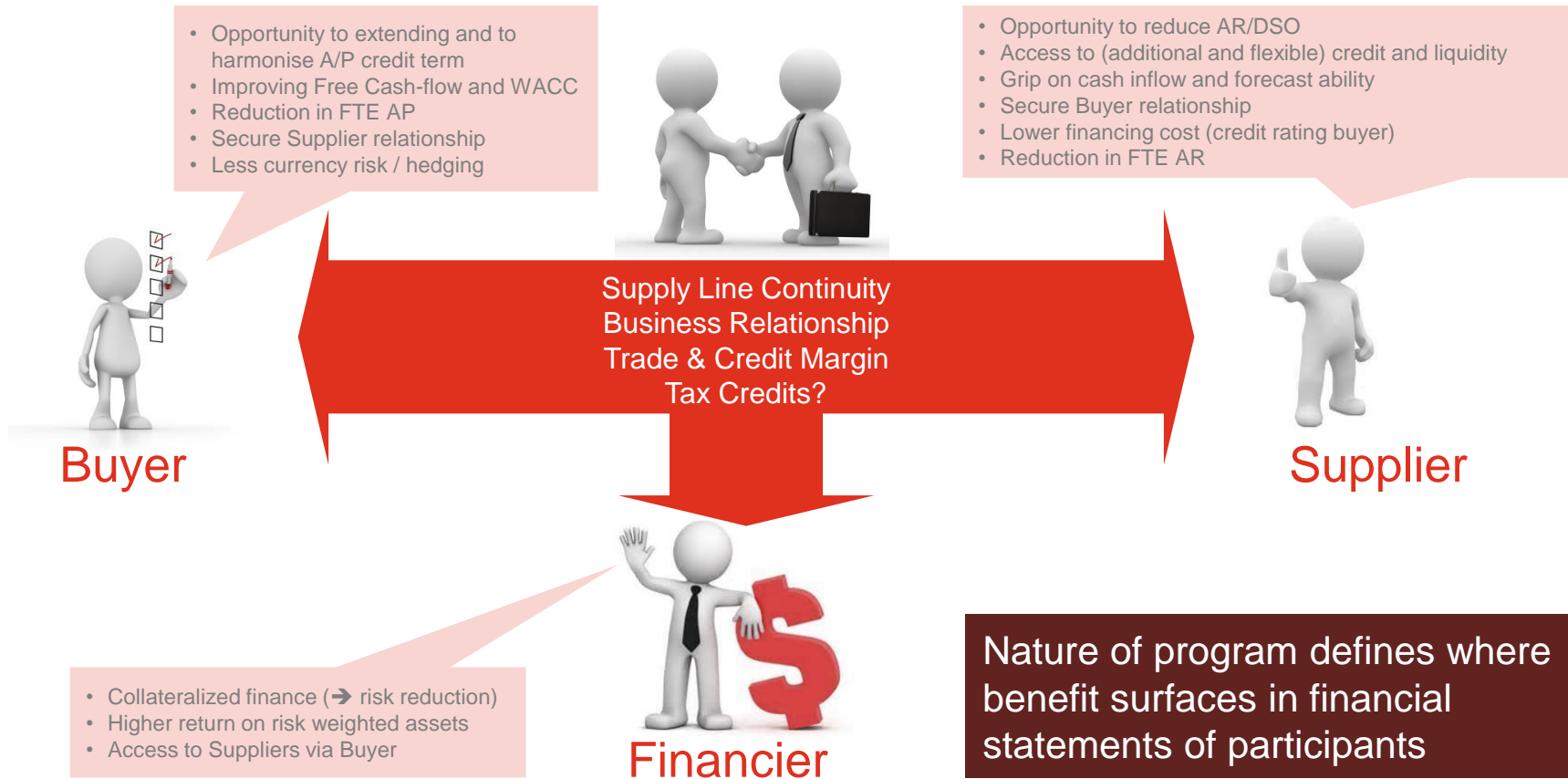


Business case

3



Supplier financing – distributing the benefit



SCF; Balance Sheet Management & Cost of Capital



Buyer

LT Assets	Equity
Inventory	LT Funding
A/R	ST Funding
Cash	A/P

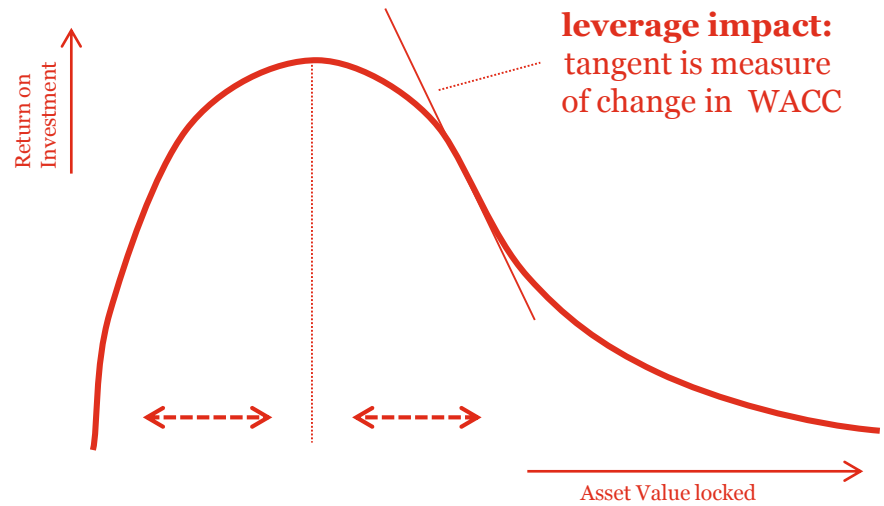
- Accounting
- DPO
- Free Cashflow
- Other fin.ratio's
- WACC



Supplier

LT Assets	Equity
Inventory	LT Funding
A/R	ST Funding
Cash	A/P

- DSO
- Return on Assets
- Balance Sheet Total
- Savability
- WACC



SCF program benefits - important to focus on key attention points

Potential disadvantages & risks?

- **Bank risk** in case of single bank programmes
- **'Lock-in' effect** with single provider models
- **Risk of reclassification** of trade payables as bank loans
- Potential **utilization of the credit lines** with the financial institutions
- **Risk of legal liability** for over financing of suppliers in certain countries in case of supplier bankruptcy



Platforms

4



Platforms

Model	Examples (Not all-inclusive)	Strengths / Weaknesses
Bank Captive	<ul style="list-style-type: none"> • Citi • ING • Deutsche Bank 	<ul style="list-style-type: none"> 😊 Relatively Simple 😊 Cost Efficient 😞 Complex On-boarding 😞 Small Suppliers Excluded
Non-Bank Captive	<ul style="list-style-type: none"> • GE Capital • Siemens Financial 	<ul style="list-style-type: none"> 😊 Relatively Simple 😞 Limited Reach
Peer to Peer	<ul style="list-style-type: none"> • Receivables Exchange 	<ul style="list-style-type: none"> 😊 Diversified Funding 😞 Low Maturity
Technology Platform	<ul style="list-style-type: none"> • OB10/Tungsten • Ariba • Tradeshift • Taulia • PrimeRevenue • Pro Quidity • Oxygen (EPD) • Flinqer (EPD) 	<ul style="list-style-type: none"> 😊 Often multi-bank 😊 Adaptable to large/small 😐 Can be cost efficient 😐 Variable maturity 😐 Variable network strength

Platforms

Illustrative example of a technology platform

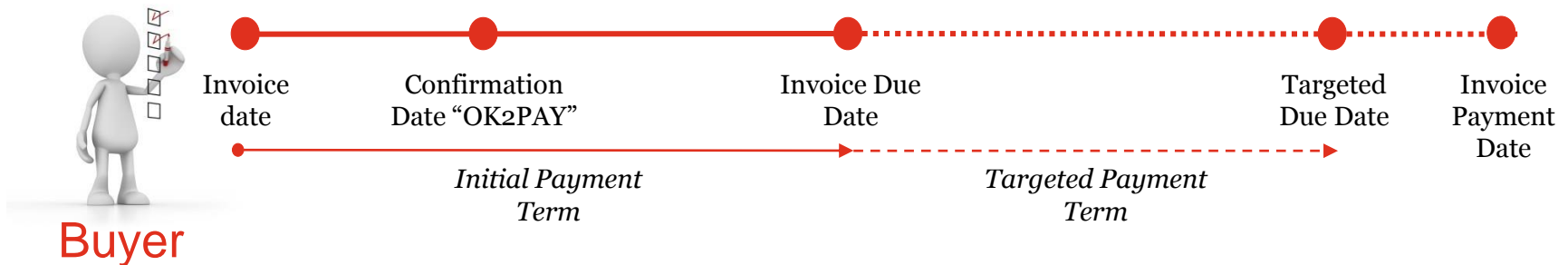


P2P process optimisation

5



Successful SCF is embedded in an integrated Procure-to-Pay framework



Procure to Pay cash strategy and policy

1. Invoice Process Optimization

- Improved invoice process timing
- Earlier confirmation date
- Improved discrepancy management
- Longer SCF finance period for suppliers

2. Payment term Enhancement

- Company PtP cash strategy and approach
- Optimized payment terms period
- Standardized and aligned payment terms



3. Supply Chain Finance Availability

- SCF provider
- SCF platform
- Optimum SCF finance conditions for suppliers

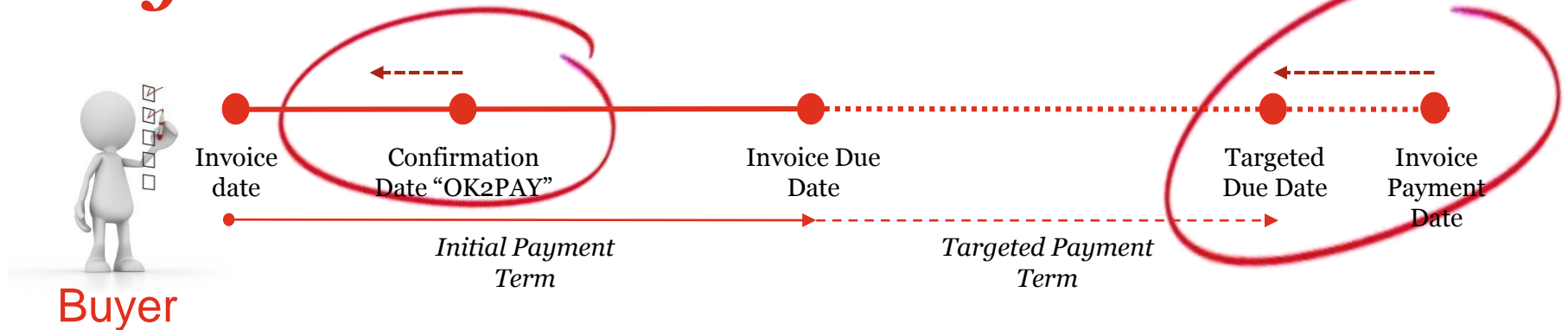
4. Optimized supplier payment cycles

- Integrated with PtP Cash strategy
- Aligned to standard payment terms
- Optimizing both DPO and actual cash days

Metrics and KPIs

SCF is an effective tool to support the payment term extension program, but it needs to be considered within the end-to-end P-to-P process cycle

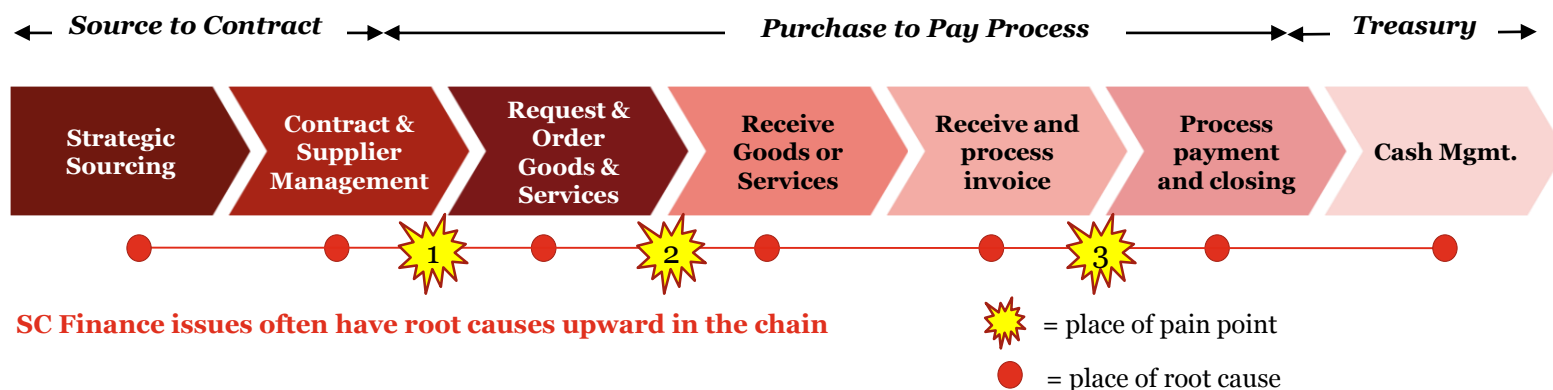
Operational excellence required from Buyer



- “OK2PAY” clearly identifiable workflow step at 3-way match (order, goods receipt, invoice), confirming liability towards Suppliers as per invoice
- The closer to invoice date the more benefit Supplier can get from SF-program
- Purchasing Company
 - Centralisation and tax consideration vs. application support
- Payment discipline is expected by Financier
- ➔ Application landscape supporting invoice and payment processing is key success factor
- ➔ SF does fit very well with the concept of financial share services

Supplier Finance Readiness

A Supplier Finance Readiness check is recommended as several bottlenecks can hamper the source-to-pay process prior to actual payment.



Example bottlenecks:

1. Inefficiencies in the roll out to suppliers (e.g. onboarding of selected suppliers)
 2. Poor quality of Purchase Orders and 'goods receipt' process (resulting in invoice approval delays)
 3. Long approval time for invoice
- ... and many other bottlenecks can occur due to a non optimal process

Discussions

6



Key take away & discussion

Supplier Finance:

- ✓ Can create substantial benefit across the supply chain
- ✓ Can be an alternative for bank credit lines for both Buyer & Supplier
- ✓ Fits within long term procurement strategy based on partnership
- ✓ Requires operational excellence of buyer
 - ✓ Collaboration Treasury & Procurement
 - ✓ Financial shared services



Bas Rebel

Phone number: +31 88 792 3824

Mobile: +31 6 45874974

E-mail: bas.rebel@nl.pwc.com

Danny Siemes

Phone number: +31 88 792 4264

Mobile: +31 6 30245711

E-mail: danny.siemes@nl.pwc.com

Appendix

7



Accounting Treatment: een grijs gebied

- Voor de beoordeling van de classificatie van de schuld zal de economische realiteit beoordeeld moeten worden
- Voor classificatie als handelsschuld is het daarom belangrijk dat de afnemer juridisch een schuld houdt aan de leverancier en dat de schuld aan de leverancier dus niet teniet wordt gedaan, maar blijft bestaan
- De bank heeft dan feitelijk een voorschot betaald aan de leverancier (i.e. in feite financiering aan leverancier)

Factoren die door de afnemer (i.e. aanbieder van het SCF programma) kunnen gebruikt als onderbouwing van de stelling dat de financiering door de bank classificeert als een handelsschuld aan de bank:

- De betalingstermijn wordt niet verlengd als gevolg van het SCF programma
- Het is een vrije keuze van een leverancier om al dan niet te participeren
- Het te betalen bedrag door afnemer is niet gewijzigd
- De voorwaarden voor betaling door afnemer blijven gelijk
- De financieringslasten worden volledig gedragen door de leverancier
- Er wordt geen kick-back gegeven door de bank aan afnemer
- Afnemer is niet of zeer beperkt betrokken in de totstandkoming van de relatie tussen de bank en de leveranciers
- De leveranciers en de bank onderhandelen een marktconform contract (prijs en andere voorwaarden) voor de betaling
- Afnemer blijft verantwoordelijk voor controle van de factuur, prijsafspraken, creditnota's en dergelijke
- De bank is slechts een agent voor de betaling, afnemer houdt controle over de betaling van haar schuld