What is Trade Receivables Financing?

DEMICA

Whether it's the merchants of ancient Rome or the East India Company of the 1800s, trade has been financed through the sale of debtor obligations continuously throughout history.

There are many different names for this type of financing including *Factoring*, *Forfeiting* and *Invoice Discounting*, to name a few. In this guide, we will focus on the product available to larger companies to understand how it works, and why a company would use it.

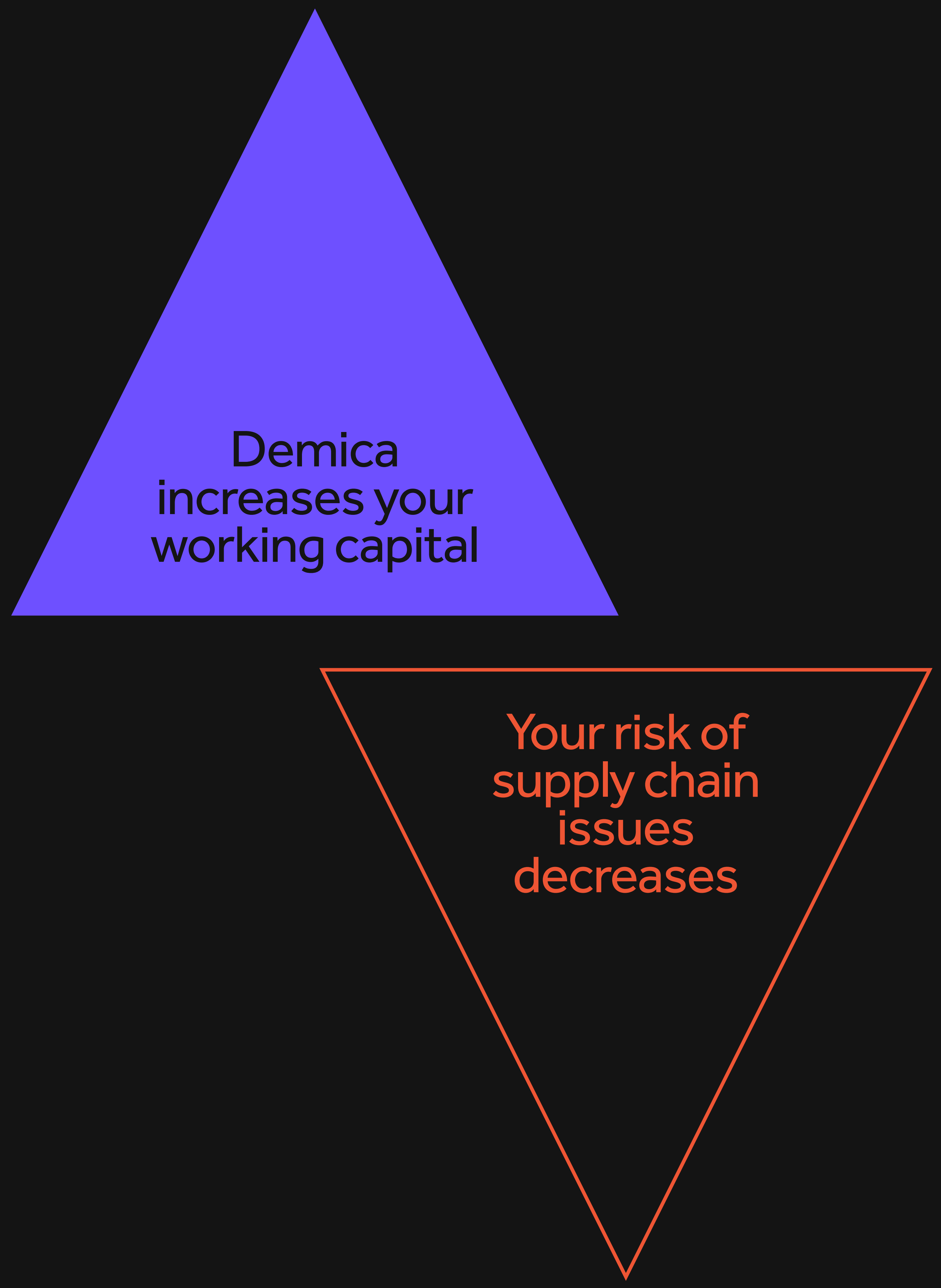
1.0 Introduction

→ **Receivables Finance is a working capital solution by which a company sells all, or part, of its receivables to a bank or a non-bank financial institution (NBFI) to free up cash, instead of waiting for its customers to pay after a typical payment term period of 30-90 days.**

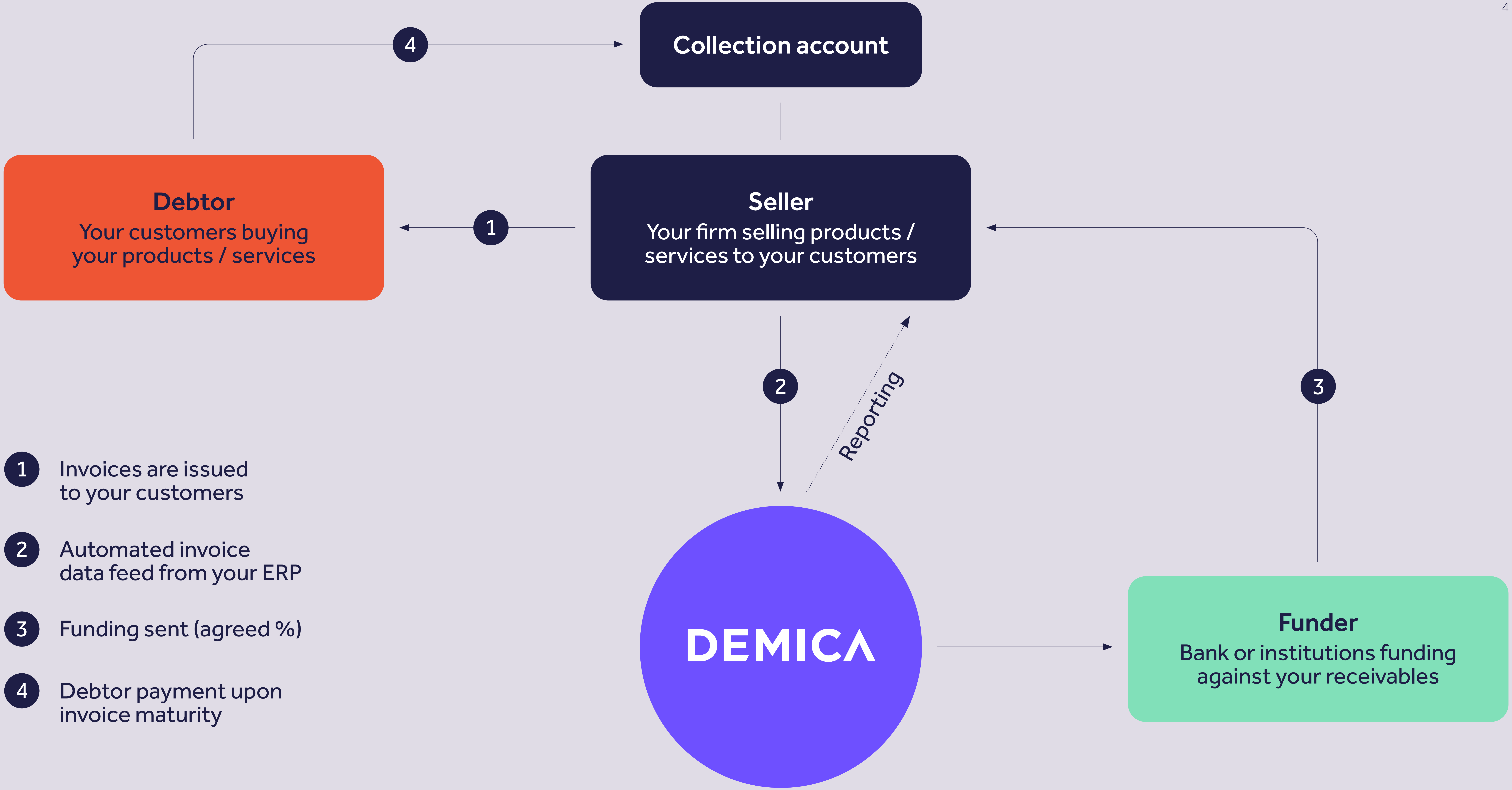
The solution is used by most of the largest companies in the world to improve liquidity and risk management across the supply chain. The company, who is the seller of the receivables, will usually retain control of the collections process on behalf of the funder. This means the sale is not disclosed to the company's customers and remains confidential in most cases.

Receivables Finance programmes can be committed, typically for three years, and usually the sale of the receivable is without recourse to the seller. This enables the transaction to be considered a true sale, with the receivables being de-recognised from the balance sheet.

Thus, through Receivables Finance, companies can leverage their receivables without putting a strain on customer relationships.



3.0 How does it work?



1. Invoices are issued to your customers
2. Automated invoice data feed from your ERP
3. Funding sent (agreed %)
4. Debtor payment upon invoice maturity

2.0 What are the key benefits?

→ Receivables Finance programmes create several valuable benefits for companies and their customers:

Transactions are a sale of receivables and therefore do not count towards leverage.

It is a competitive source of funding which is often cheaper than debt.

It enables a reduction in DSOs to improve cash conversion cycle.

It allows the company to redeploy capital to drive growth.

It provides access to alternative funders to free up banking lines for other uses.

Creates operational discipline to optimise collections and risk processes.

4.0 Looking to unlock cash trapped in your receivables balance?

→ When exploring your options, it is critical to consider external partners with vast experience in this area to support you. That's where we come in.

We are a market-leading technology platform helping you:

- *Evaluate the performance of your receivables portfolio*
- *Understand alternative financing structures available*
- *Optimise terms and select the right funder for your company*

Click here to speak to us