Factoring

a financial tool for FVL sector?

Alumni Meeting

Barcelona, 10.02.2024

Did you know, that…

When was factoring first mentioned in writing?

Answer I: on Babylonian cuneiform clay tablets from 3000 BC

Answer II: in Aztec Maya Codices from 11 century (AD), known today as the Dresden Codice

Answer III: Introduced by Lorenzo di Medici (Il Magnifico) in 1480, to finance its global commercial trade activities

Answer IV: Invented by American banker GP Morgan in 1885, New York, to insure his financial transactions

Did you know, that…

The global GDP in 2022 amounted to approx. 100 trillion US$.
How much of the global GDP was processed via factoring?

* Gross domestic product (GDP) is the market value of all final goods and services from a nation in a given year

Answer I: 0,05%

Answer III: 4%

Answer II: 1,2%

Answer IV: 12,3%

What is factoring?

Definition

Factoring Financial Service

Factor Financial Institution [a bank or no-bank entity]

3 Involved Parties

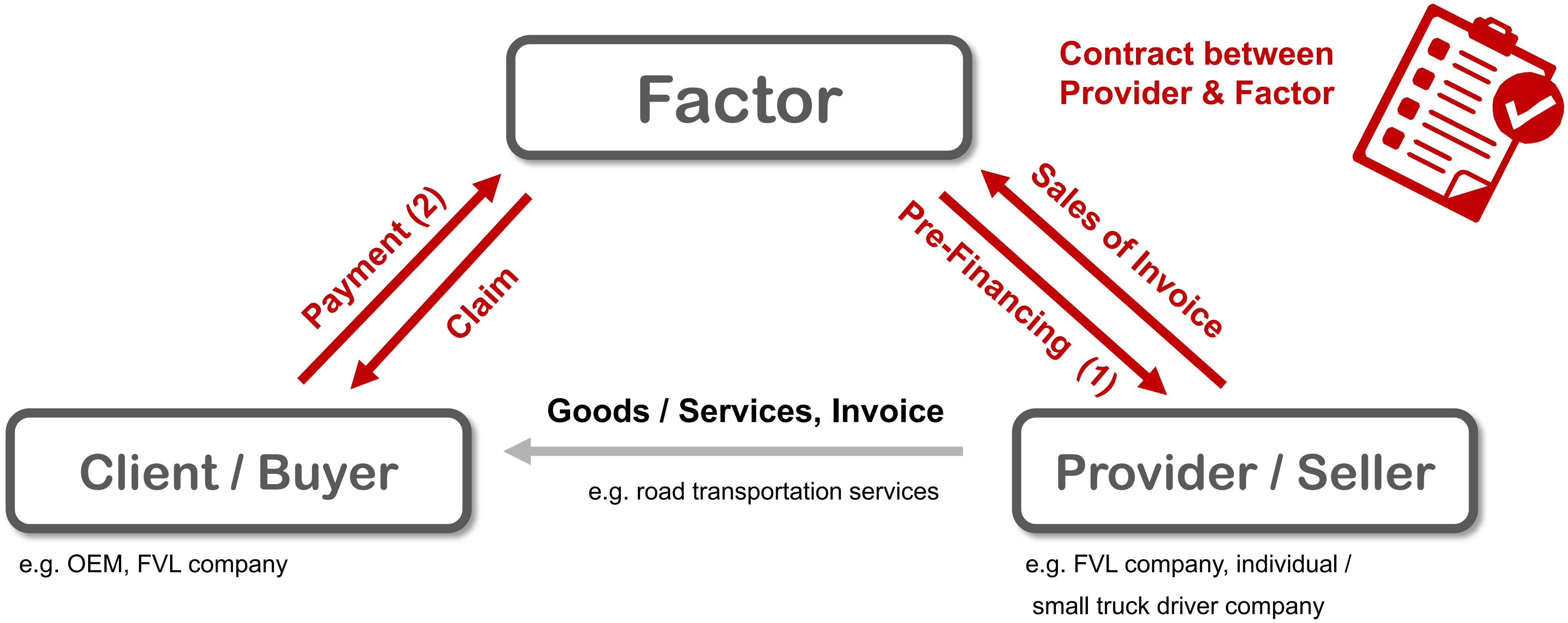
Factor

Client / Buyer

Provider / Seller

How does factoring work?

How does factoring work?



(1) Factor pays with short payment term (e.g. within 10 days)

(2) Client pays to Factor with longer payment term (e.g. within 60 days)

There are certain conditions to be fulfilled

- ✓ Delivery of service or goods must have taken place
- ✓ Payment term maximum 90 days
- ✓ Reference of the invoice to the goods must be recognisable

Cost of factoring (for Seller)

Cost of factoring depend on various factors:

- Creditworthiness of the buyer company / risk level of factoring services
- Amount of the receivables
- Term of the contract
- Type of factoring procedure

There are typically fees, such as:

- One-off set-up fee as new client
- Ongoing fees, made up of an interest rate and a factoring fee (transaction management fee).
  - Factoring fee: usually calculated as a percentage of the receivable amount (between 0.5% and 5%, depending on the provider and contract)
  - Interest rate: depends on the term of the contract and the current market interest rate.

What are the benefits of factoring?

Why should you consider factoring?

Benefits of Factoring

- ✓ Immediate liquidity
- ✓ Planning reliability of the day-to-day financing
- ✓ More liquidity than with a bank loan
- ✓ Utilisation of cash discounts (Skonto)
- ✓ Positive payment behaviour
- ✓ Transfer of the liability risk to the Factor
- ✓ Handover of accounts receivable management to Factor (depending on type of factoring)

Factoring versus Bank Loans

Why should we chose factoring as a financial tool to increase our liquidity or cash flow, if we also could get a bank loan ?

Different factoring products

Full Service Factoring

- Provider sells all invoices / liabilities to Factor
- Debtor management by Factor
  - Notification of Buyer that he has to pay to Factor
  - Emission of invoices by Factor, if requested
- Default risk management by Factor
  - Reminder management
  - Follow-up of payment transactions
  - Management of disputes and credit notes for incomplete / defected deliveries
- Insolvency management
  - **Non-Recourse Option**: the entire risk is with the Factors (high fees)
  - **Recourse Option**: if Buyer does not pay, Factor claims money from Provider (lower fees)

Inhouse factoring
(invoice discounting)

- Purely short-term financing product for invoices
- Provider sells his invoices to Factor , Factor pays at short term
- NO Debtor management by Factor (as Seller has own Accounts Receivable Accounting department)
- NO insolvency risk management by Factor

- Advantage: very low factoring fees

Supply Chain Factoring
(Reverse Factoring)

- Buyer is typically a big and solvent company
- Buyer and Seller jointly determine which invoices shall be factored
- Buyer transfers *his* outstanding invoices (liabilities) to his Factor to grant quick access to liquidity to his Provider through immediate payment of invoices
- Buyer guarantees payment of all agreed invoices to Factor

e.g. Seller has issued 100 invoices to Buyer company within last 6 weeks, however only 50 invoices shall be handled via factoring – Buyer company confirms the acceptance of those 50 invoices to Factor – Factor proceeds with payment to Seller and, subsequently, collection of payment.

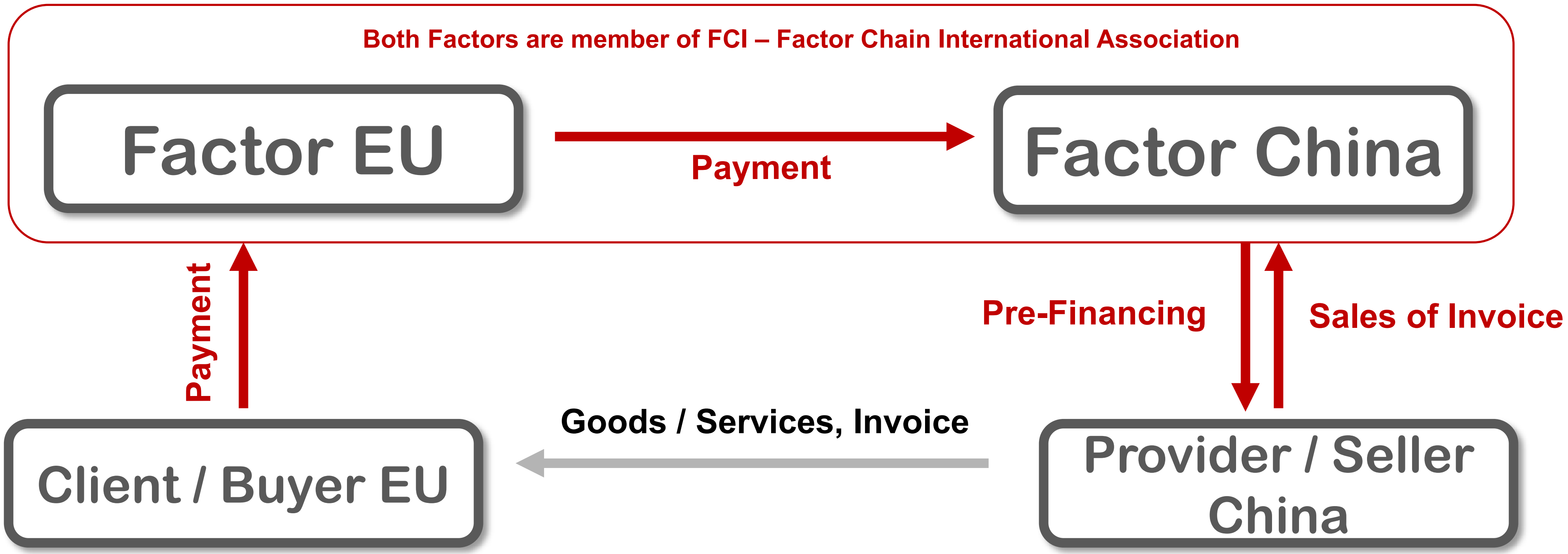
Supply Chain Factoring
(Reverse Factoring)

- Low risk financing instrument for both parties
- Advantage for Provider: higher chance for small providers to be accepted by the Factor
- Excellent negotiation lever for both sides, in case liquidity is an important aspect for one of / both sides!

International factoring

- Especially for import / export on global level

e.g. Buyer is German logistics company, Seller is a Chinese railway company



Open Discussion

How could you use factoring within your finished vehicle logistics industry?


Thank you