

# AFP<sup>®</sup> Annual Conference



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ORIGINAL  
ESSENTIAL  
UNBIASED  
INFORMATION



**The Factoring (R)Evolution: A Viable Way of Managing Your Cash**

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# Graber Associates

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- Founded in 2002
- Financial services and technology markets
- Research, marketing, and public relations
- Offices in Boston, Burlington, and London
- Former treasurers, bankers, industry analysts, business consultants, and reporters

# Factoring History

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- Practiced for centuries
- Romans sold promissory notes at a discount
- Today, a \$150 billion dollar industry
- Better well known in Europe than in U.S.
- Alternative source for non-bank debt financing

# Factoring Basics

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- Factors “purchase” accounts receivable at a discount, based on risk, for immediate cash
- Unregulated - factors charge market rates
- Factors more concerned about the credit-worthiness of their clients’ “customers” who become their debtors
- Factors generally assume risk of collection
- In today’s credit restricted market factoring is mainstream

# Factoring Terms

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- Client (seller)
- Customers (debtors)
- Account receivable (invoices)
- Advance (% of invoice paid to client)
- Reserve (% of invoice held by Factor)
- Recourse / Non-recourse
- Contract period (6 months +)
- Fees (services, credit)

# When Should Businesses Factor?

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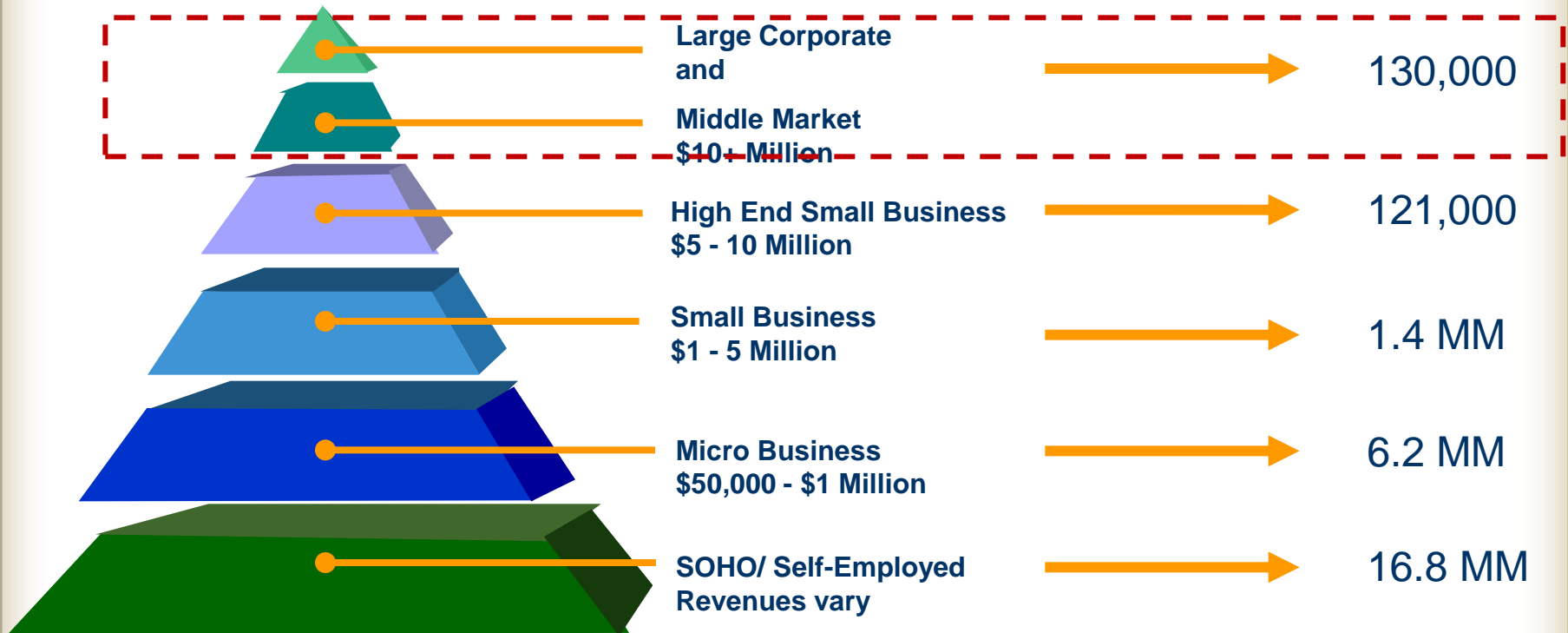
- Need immediate cash flow, fund growth or make payroll, etc.
- Don't want to create more debt (loan)
- Can't get bank financing
- Can't wait for bank financing
- Don't want to dilute company equity
- Want to build up company cash reserves

# Focus on Slow Payments

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- 60% of a business' cash is tied up in their receivables
- Days sales outstanding (DSO) across industries average 65 days
- Receivables can be monetized to boost company profitability

# Factoring industry is fragmented because of lack of liquidity



# Finding Factors

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- Many more large factors serve large corporate clients
  - Metro areas, check the Yellow Pages
  - Commitment of \$100,000 + per month minimum
  - GE Capital, CIT
- Regional factors
  - Riviera, Millennium, LSQ, Gateway, Bibby
- Small local factor
  - Independent investment businesses interested in short term financing
- Web
  - New exchanges

# New Face of Factoring

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- Spot Factoring
  - Single invoices
- Online Factoring
  - Lower rates
  - No minimums
  - 100% cash upfront
  - Easy signup
  - No non-payment insurance
  - Small invoice amounts
  - INZAP Factoring
  - Facticeon
- Auction Sites
  - Supplier sells invoice to highest bidder.
  - Receivables Exchange
  - DebtX
- Bank Solutions
  - Receivables Financing
  - Payables Financing
  - TradePay B2B Payment Network

# Summary

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- Mainstream
- Frees up cash trapped in accounts receivable
- Includes outsourced services such as collections