

The Alternative Financial Landscape



clancy
cashflow solutions

Access to bank finance

- Banks – first port of call
- Open for business and lending
- Overdrafts – harder to come by
- Facilities withdrawn/reduced
- More stringent credit policy

Challenges for SME Owners

- Turnover reduced
- Trading losses
- Cash reserves depleted
- Legacy debt
- Poor credit rating
- Lack of collateral
- Outside bank lending criteria

A new breed of lenders



Alternative lenders

- Greater risk appetite
- Commercial attitude to lending
- Flexible & Fast
- Cost – “added value”

Alternative lenders challenges

- Low awareness of options
- Few SME's look beyond bank
- Perceived “last resort” lending
- Considered expensive
- Lack of knowledge of products

Raising awareness of options

- SBCI teams up with Pillar banks
- SBCI joins forces with non-bank lenders
- Umbrella group – raising awareness of non-bank lenders

Independent Finance Providers Ireland

Bank or non-bank funder?

- Bank – first port of call
- Non-bank funders “meet a need”
- Facilities complement each other
- Increase awareness of options
- Match funder and SMEs funding needs
- Greater choice & competition

Working capital solutions

- Invoice Finance
- Purchase Order Finance
- Supplier Payment Finance

Invoice Finance

Maximises a company's cashflow by releasing cash from unpaid invoices to trade debtors.

Invoice Finance – umbrella term

- Invoice Discounting
- Factoring
- Selective Invoice Finance
- Invoice Trading

Criteria for Invoice Finance

- Selling to trade debtors on credit terms
- Invoice in arrears
- Good papertrail - POD
- Computerised systems
- No “sale or return”
- No contractual debt

How Invoice Finance works

- Funder agrees prepayment %
- Up to 80% of invoice value
- Invoice as usual
- Cash released immediately
- Customer pays within terms
- Balance 20% (less charges) to client
- As invoices raised, cash available

Benefits of Invoice Finance

- Maximises cash flow
- Funding grows in line with turnover
- Supplier relationships/discounts
- Facilitates expansion -MBOs
- Flexible & cost-effective
- Predict & manage cash flow

Criteria for Invoice Discounting

- Turnover €500K+
- Strong financials
- Spread of debtors
- Good management systems
- Selling to trade debtors on credit terms

Case Study

- Promotions Co - €1.3M t/o, debtors owe €380K.
- Problem – Order = €400K, needs to pay suppliers - €260K
- Solution: Invoice discounting – releases 80% against debtors ledger = €300K.

Consider this situation:

- “ We need to improve our cashflow but we can't get invoice discounting from our bank, because of historical losses.”

Outside bank lenders' criteria...

- Start-ups
- Weak financials
- Debtor concentration
- Poor credit rating
- Revenue debt
- Turnaround/re-start
- Industry sector –export

Flexible Invoice Finance

- Commercial approach
- Focus on debtors, management, future
- Turnover criteria – €200K+
- Minimum funding line - €20K
- May include credit control (factoring)

The Problem...

- Haulage Co - €1M t/o, €15K o/draft, debtors o/s €250K, Credit terms 90 days
- Problem: pays staff weekly, bank can't help – single debtor
- Solution – Flexible Invoice Finance, 80% IP, cash released = €200K

Flexible tailored solutions...

- Wholesaler—€750K t/o, start-up
- Funding in 7 working days

- Residential Care - €4M t/o, one debtor
- Funded single debtor at 80% IP

Consider this situation:

- “I had a confirmed order from a blue-chip customer but I had to pay my suppliers upfront...and my bank couldn't help....”

Purchase Order Finance

Finance to pay suppliers for finished goods that are pre-sold to credit worthy customers.

Purchase Order Finance

- Irrevocable Purchase Order (€20K min)
- Credit worthy customers
- Finished goods
- GPM 20%+
- Pays Duty/VAT
- Exit usually via debtor finance

Case Study

- Start-up wins order: €480K to retrofit a factory.
- Problem: Lighting supplier needs payment upfront - €360K.
- Solution: Purchase Order Finance to pay supplier. Nett Profit - €100K

Purchase Order Finance - benefits

- Transaction-driven
- Start-ups or “top-up” funding
- No equity dilution
- Purchasing power
- Complements bank facilities
- Maximise opportunities

Supplier Payment Finance

- Funding to pay suppliers
- Suits financially strong companies
- Exit via insured Bill of Exchange
- Complements existing funding

Choosing a funder

- Consider of all the options
- Identify what product best suits
- Match lender with funding needs
- Consider “added value” as well as cost

Alternative Working Capital options for SMEs



clancy

cashflow solutions

www.clancycashflow.ie

Tel: 01-4386462