Receivable Finance Explained

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Preamble

Receivable finance is a financing technique for a Seller of a product to raise working capital by monetizing a receivable with a financier.

Instead of waiting, say, 30 days to be paid by the Buyer, the Seller receives early payment from the financier for the product sold to a Buyer.

Receivable finance is the most basic form of trade finance that started in ancient Rome.

Receivable finance = factoring = receivable discounting = AR financing.

Receivable Finance

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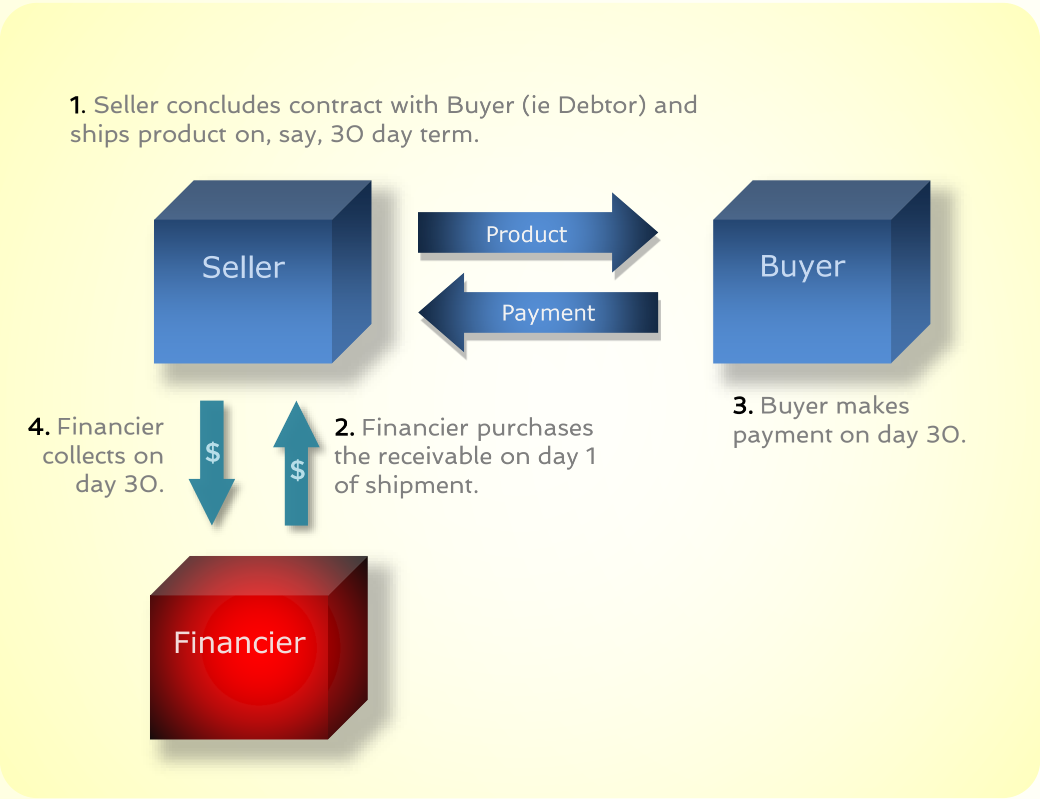

- Seller does not wish to wait 30 days to be paid by Buyer, so Seller monetizes the Buyer receivable with Financier (ie Seller assigns, sells, transfers the receivable to Financier).
- A receivable is a right to collect payment.
- Not a loan from Financier but a sale of an asset called a 'receivable' to Financier.
- Not an Asset Based Loan. Product is not pledged as collateral to Financier. Title to Product passes directly from Seller to Buyer.
- If Buyer goes bankrupt during the 30 day period, Financier faces the non-payment loss, not Seller.

Benefits

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- Liquidity improvement:
  - Immediate payment upon product delivery
  - Balance sheet enhancement by reducing receivables
  - Reduction of cash conversion cycle
- Risk mitigation:
  Manage Buyer credit risk and reduce counterparty exposure
- Ease of set up:
  No SPV set up, no lengthy documentation as in securitization
- Minimal admin work:
  No allocation of full time staff

Features

Transactional:	One-off transaction for each invoice.
Off-balance Sheet:	True sale and non-recourse. When the receivable is sold, such receivable comes off of the balance sheet.
Buyer Payment:	Financier typically prefers direct payment from Buyer to Financier on Seller invoice due date.
Disclosure:	Transaction undisclosed to Buyer. Correspondence between Financier and Buyer occurs only upon collection complications or Seller default.
Advance Rate:	Typically 80 - 95% of Seller invoice amount. Sharing of risk. Finanicer reassured of Seller's skin in the game.
Financier Protection:	Financier may credit insure Buyer payment risk behind the scenes of Seller.
Receivable Lien:	Financier creates a lien on the receivables purchased from Seller under the Uniform Commercial Code ("UCC"). Seller must ensure the receivable is not encumbered under a separate financing facility (eg revolver borrowing base facility)

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Features

- Line Establishment: Financier needs to assess Buyer credit strength and establish internal risk limit.
- Pricing: Financier's interest rate determination:
  - Buyer credit strength (approx 60% weighting)
  - Buyer jurisdiction / country risk (30%)
  - Seller performance risk (10%)
- Non-committal: Typically, receivable finance is on an uncommitted basis. Financer reserves right to decline any discounting.
- Non-recourse: Typically, receivable finance is non-recourse, on true sale basis and the receivable comes off the balance sheet upon deal execution.

  In rare cases, receivable finance is on recourse basis. The Seller must repay financier upon non-payment by Buyer.

Documentation

- Master Receivable Purchase Agreement between Seller and Financier.

- Typical documents required for each discounting transaction:
  - Loan Ticket (form in the Master Agreement)
  - Sales contract
  - Commercial invoice
  - Purchase order
  - Bill of Lading
  - Inspector report
  - Certificate of origin
  - Other shipping documents.

Terms & Conditions

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Facility:	Uncommitted, unsecured, non-recourse receivable discount facility
Seller (Client):	Seller of a product. Seller seeks to monetize its receivable instead of waiting for payment from Buyer on invoice due date.
Buyer (Debtor):	Buyer of product from Seller. Financing undisclosed to Buyer.
Financier:	A bank / institutional investor that advances the funds to Seller by purchasing the receivable from Seller.
Product:	Product sold by Seller to Buyer.
Tenor:	Up to [90] days.
Deal Amount:	$[50 million] per Seller invoice.
Frequency:	Up to [2] times per week.
Advance Rate:	[80% - 95%].
Credit Enhancement:	Financier may mitigate Buyer credit risk with a) Buyer's parent company guarantee, b) credit insurance or c) letter of credit issued by Buyer's house bank.
Fees:	Discount margin. Discount margin is largely determined by i) Buyer credit risk, ii) Seller performance risk and iii) buyer/seller country and jurisdiction risk. [Upfront fee] Upfront legal fees payable by Seller.

Calculations

Calculations using broad assumptions on a typical deal.
Illustration purpose only.

Invoice Amount:	$1,000,000	A
Advance Rate:	90%	B
Receivable Amount:	$900,000	C = A x B
Residual Invoice Value:	$100,000	D = (A - C)
Advance Start Date:	Dec/01/2021	E
Advance Maturity Date:	Dec/31/2021	F
# of Days of Advance	30	G = F - E
Libor	0.2%	K
Interest Margin:	3.0%	L
Interest Rate:	3.2%	M = K + L
Interest Amount:	$2,400	N = C x M x G / 360
Amount Advanced:	$897,600	O = C - N

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Notice

- **Confidential:** Please refrain from disclosing this information to external parties.
- **For discussion purposes only:** All terms and conditions are subject to change. Not a commitment to fund.
- **Information:** Hommocks unable to warrant correctness and completeness of information.

Thank you

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