

Supply Chain Financing in a Credit Constrained World

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Together we'll go far



Setting the Strategy



With margins tightening, companies are seeking working capital solutions that will reduce supply chain costs without harming Supplier relationships

Objectives:

- Enhance working capital
- Reduce COGS
- Reduce overall cost of supply chain

Supply Chain Finance Solutions can:

- Reduce financing costs
- Enable a working capital enhancement via an increase in DPO
- Enable a working capital enhancement via a decrease in DSO
- Enhance existing Open Account structures
- Provide full payment transparency
- Address risk mitigation concerns

Working Capital Maximization

Supply Chain Assets & Liabilities And Working Capital Maximization

- Economic Assets - **Good**
 - The Only Economic Asset in Supply Chain is Cash
- Uneconomic Asset – **Bad**
 - Inventory, very bad
 - Accounts Receivable, less bad
- Non-Interest Liabilities - **Good**
 - Accounts Payable
- Interest Bearing Liabilities - **Bad**
 - Debt
- Best Working Capital, the lowest number in the following ratio:
 - $DSO + DIO - DPO = \text{Cash Conversion Cycle}$

Carrying Costs, particularly bad in OECD and less so in EMs

Free but needs to be balanced with supplier relationship & Cost of Goods Sold (COGS)

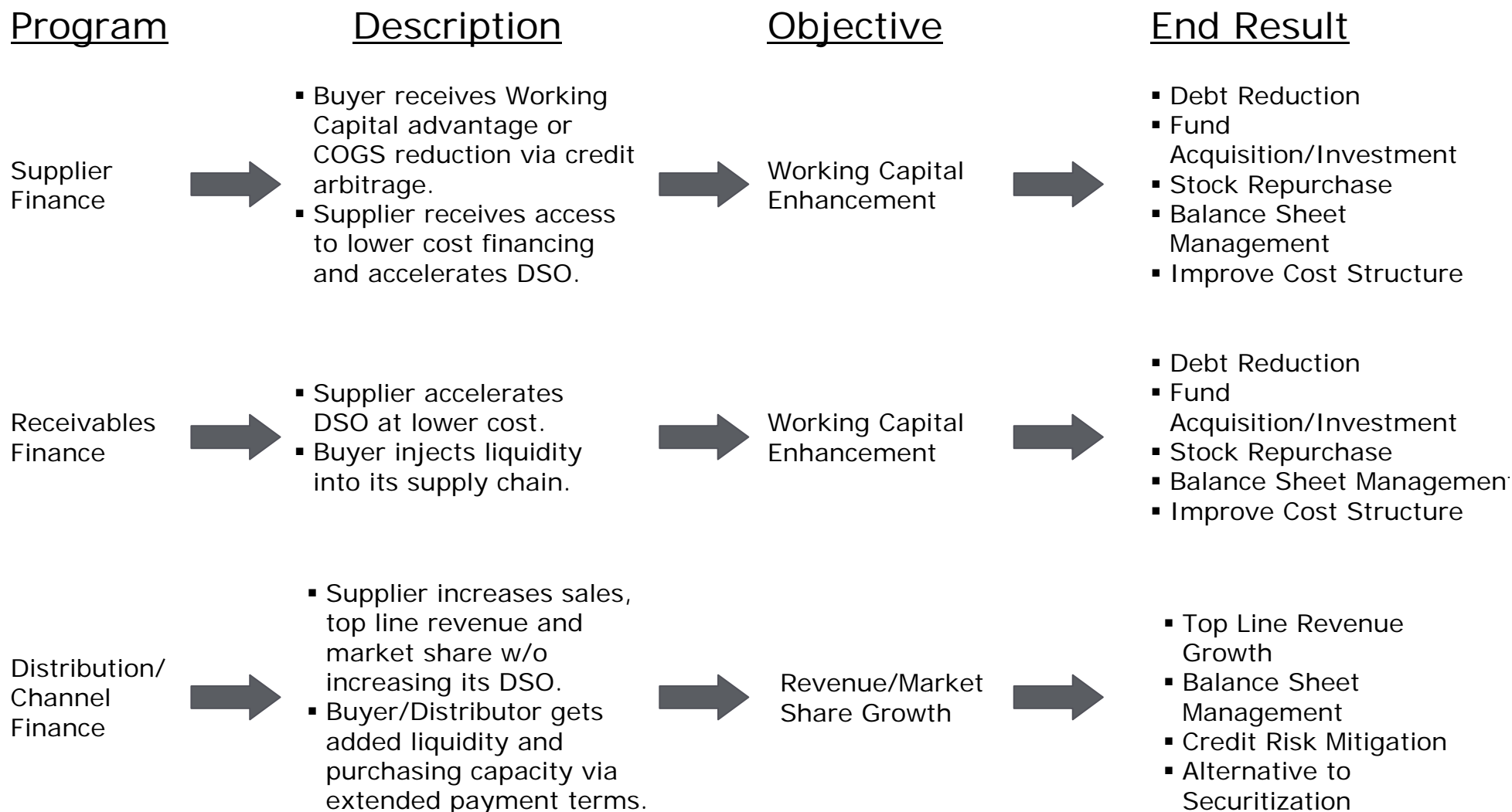
Particularly negative in OECD and less so in EMs

$DSO = \text{Accounts Receivable} / \text{Revenue} * 360$

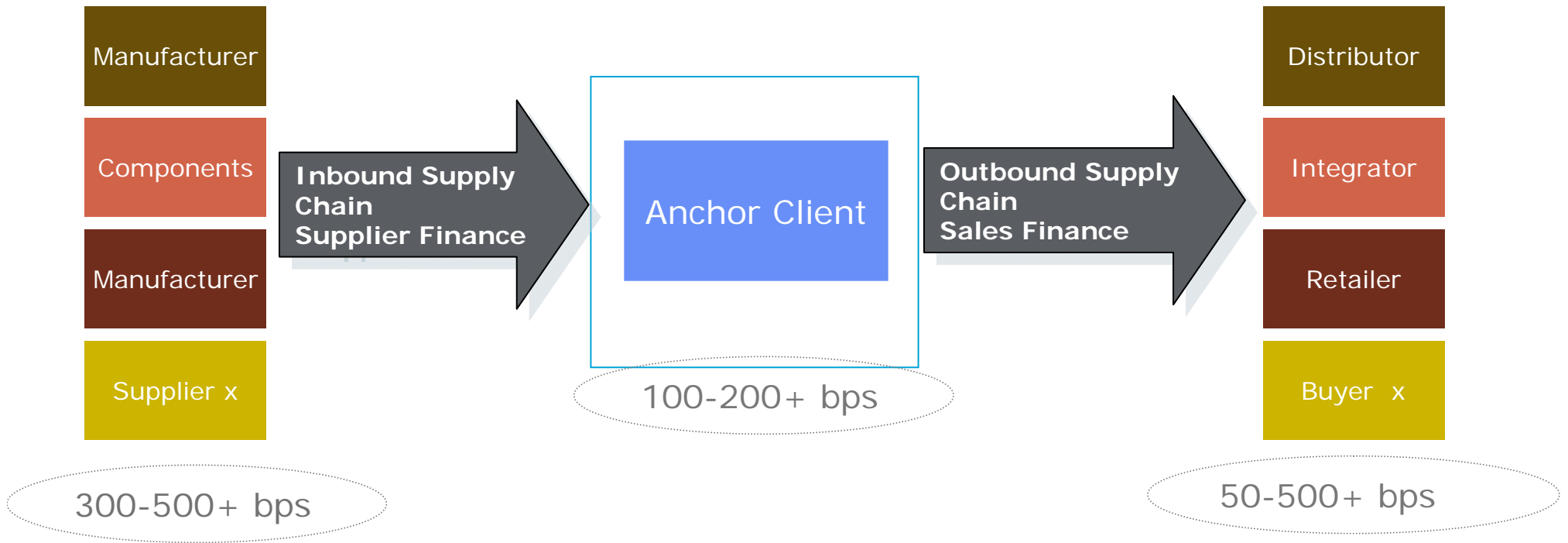
$DIO = \text{Inventory} / \text{COGS} * 360$

$DPO = \text{Trade Payables} / \text{COGS} * 360$

Connecting Clients to Strategies



Typical Supply Chain

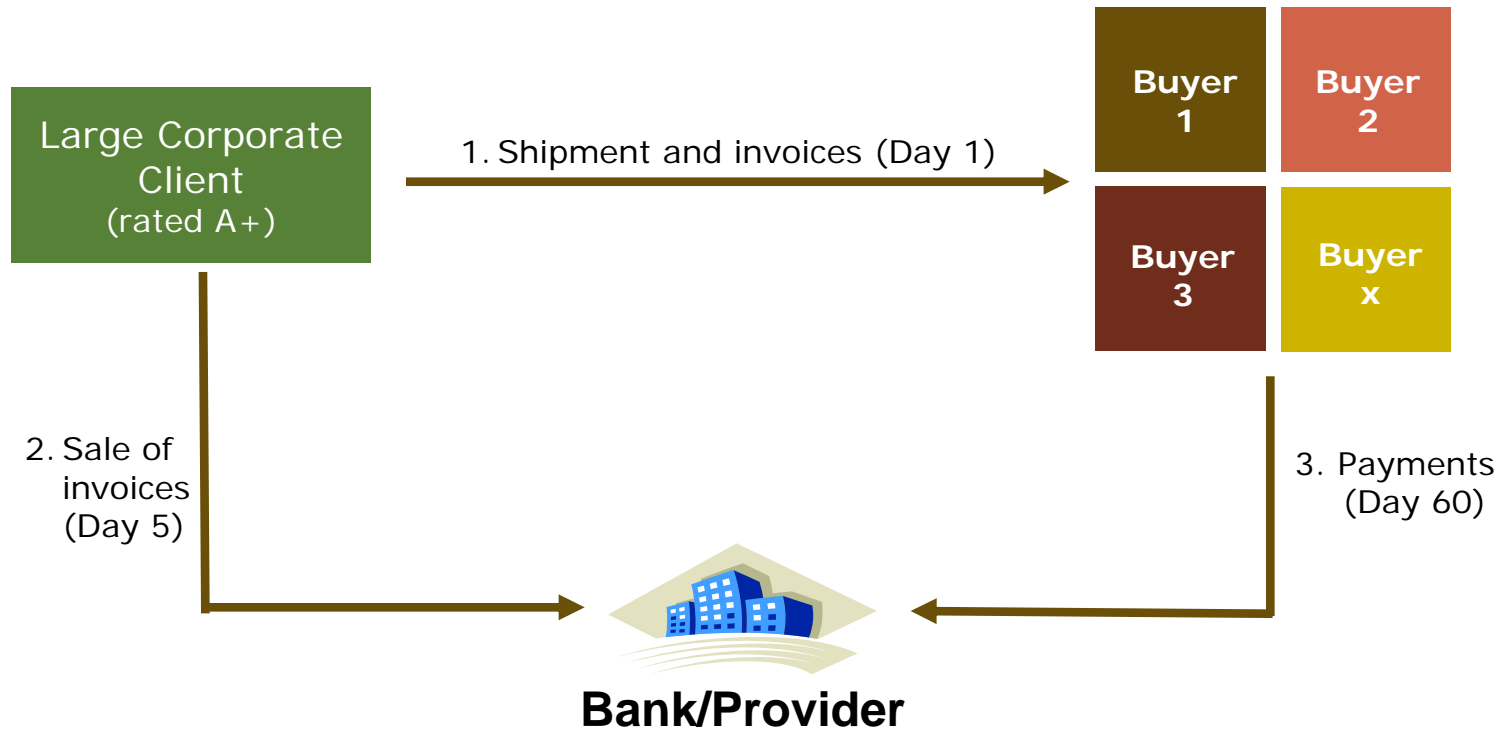


Supply Chain Conflicts



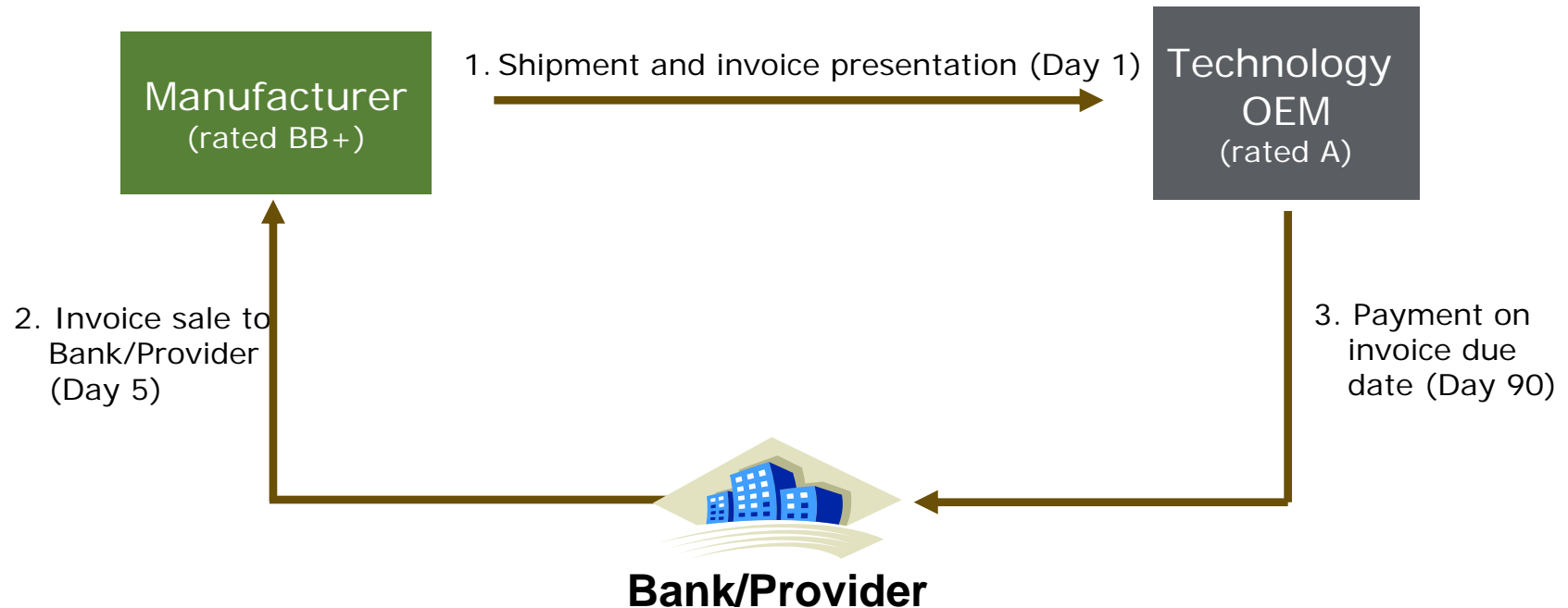
- External
 - Supplier and Buyer in every trade transaction have conflicting goals
 - Supplier wants to convert inventory to cash as early as possible
 - Buyer wants to optimize cash flows by “stretching the trade”
- Internal
 - Functional conflicts exist within Companies due to different success factors
 - Procurement: Obtain the best product at the best price even if the payment terms are longer
 - Finance & Credit: Increase DPO, reduce DSO, manage buyer credit risk, and maintain liquidity
 - Sales: Sell more even if the payment terms have to be extended

Distribution/Channel Finance



- Distributors & Systems Integrators
- Large Corporate Client Benefit: Extend Terms To Grow Market Share While Managing DSO (Receivables Turn)
- Buyer Benefit: Extended Payable Terms, Inventory Financing

Receivables Finance/Key Accounts



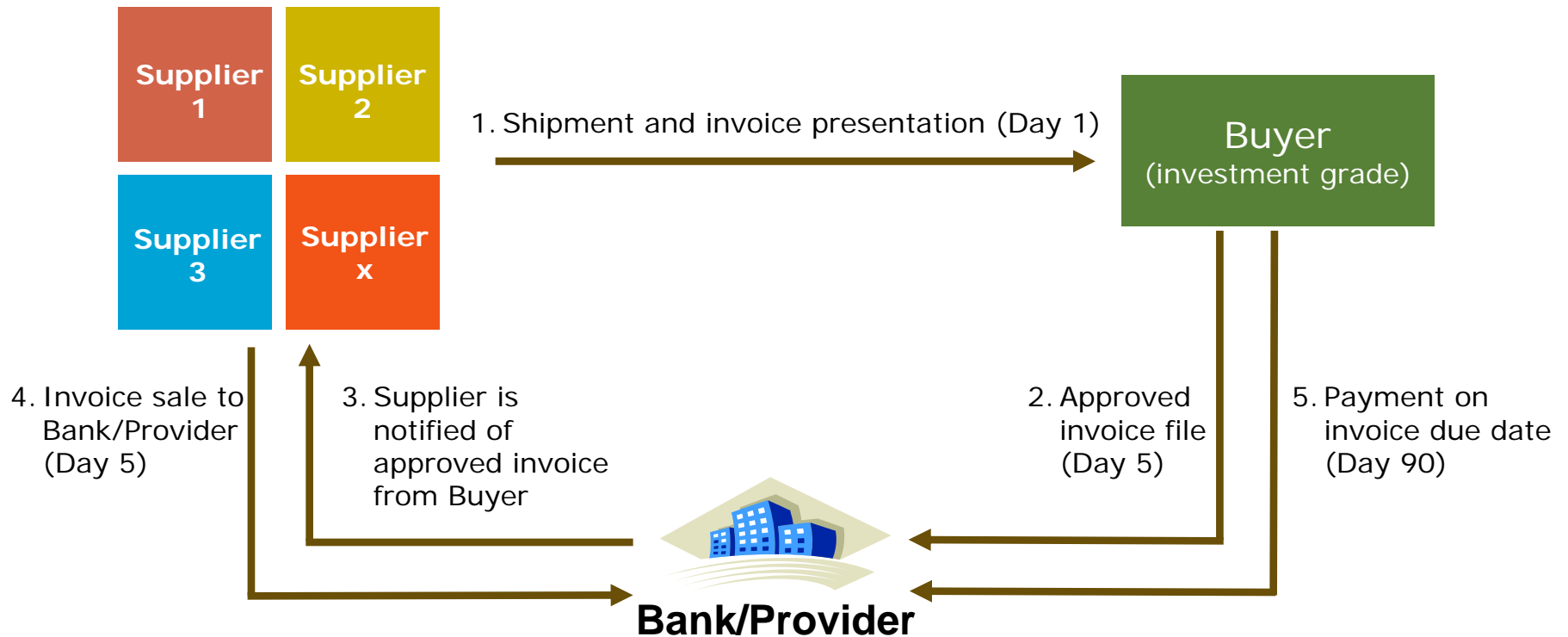
- Shipments of communication devices
- Seller Client Benefit: Reduce Days Sales Outstanding (DSO), Reduce Capital Costs Through Credit Price Arbitrage
- Buyer Benefit: Seller Client Carries Inventory For Buyer

New Payment Type



- Checks
- Wire Transfer
- ACH Credits/Direct Deposit
- Purchasing/T&E Card
- Import LCs
- ***Supplier Finance***

Supplier Finance



1. Buyer approves Supplier's invoice for payment using existing processes
2. Once an invoice has been approved for payment, Buyer electronically instructs Bank/Provider to pay the Supplier on the future due date
3. Buyer's ERP / AP environment is integrated with Bank/Provider for automatic, file-based straight-through processing of payment instructions
4. Supplier is notified via Internet (email and website) of payment from Buyer on a future due date and can see settlement details: Buyer's name, the amount, the due date and associated remittance details. No implementation required by Supplier
5. Supplier may immediately and electronically discount the underlying receivables to cash without recourse, at attractive discount rates
6. Bank/Provider debits Buyer's Disbursement Account for the full amount of payment due on the future due date

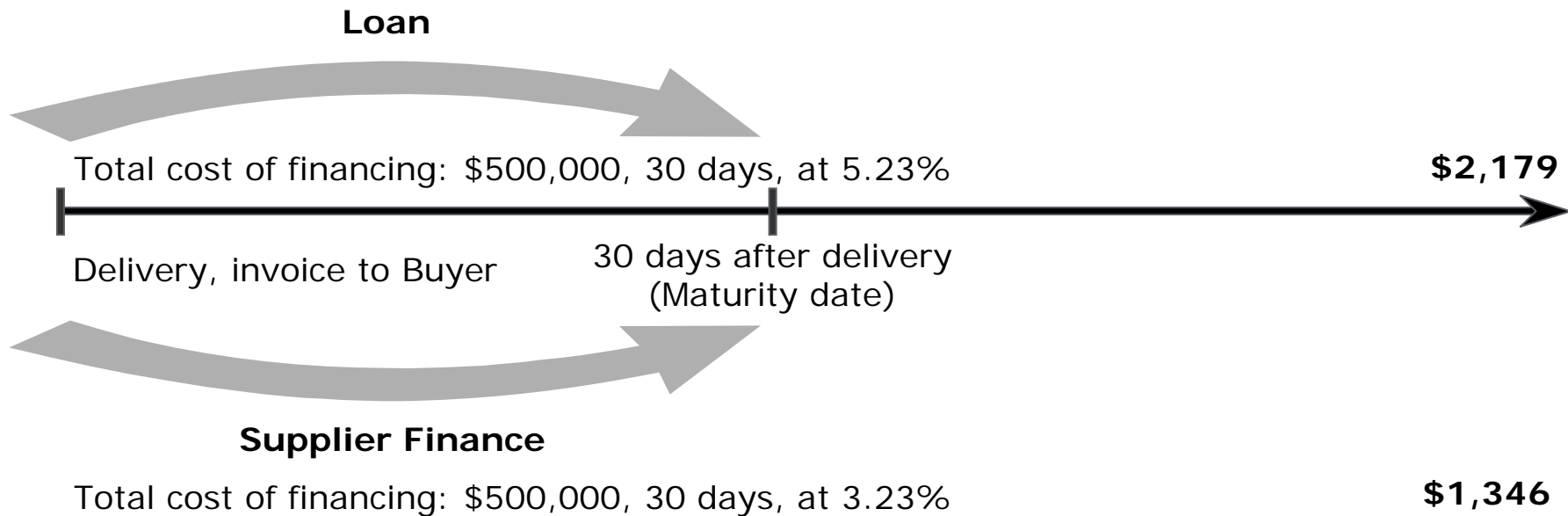
Supplier Finance Example



Example: Supplier reduces prices to Buyer

Win – Win Partnership

- Current payment term is 30 days
- Supplier's existing cost of Working Capital Finance is LIBOR-30 day (i.e. 0.23% p.a.) + 5.00% p.a. spread
- Bank/Provider's Supplier Finance solution at LIBOR-30 day (i.e. 0.23% p.a.) + 3.00% p.a. spread (spread used for example purposes only)



Savings for the Supplier **\$833**

Translates into lower costs of Buyer's supply chain **(COGS REDUCTION)**

Supporting suppliers leads to savings for Buyer's commercial department

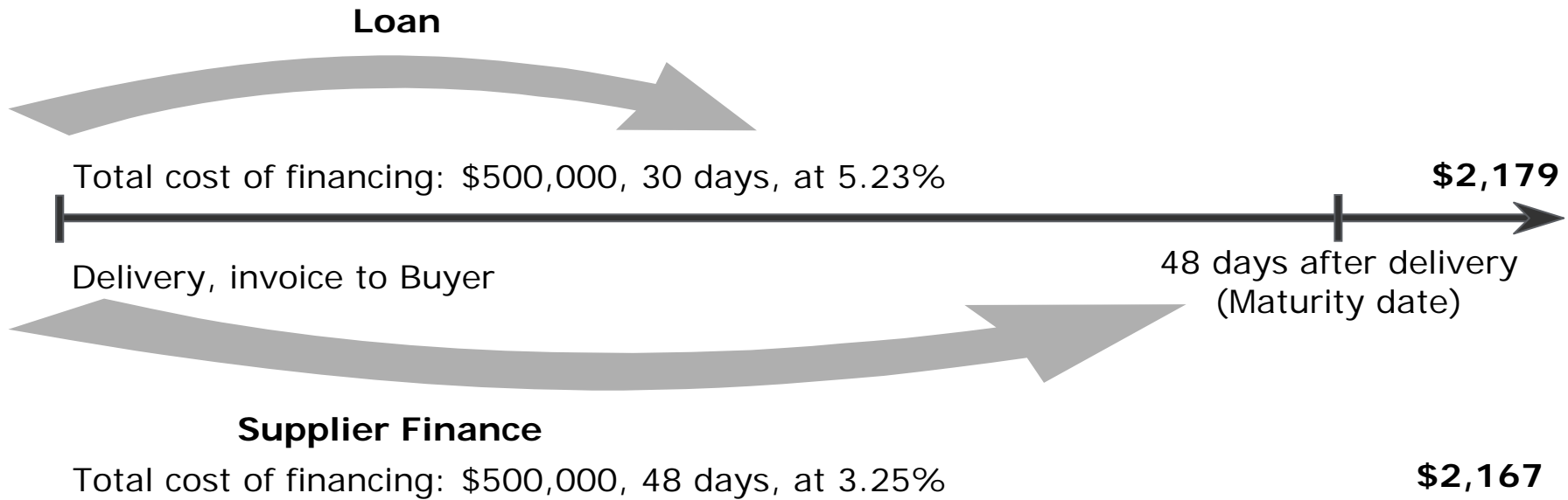
Supplier Finance Example



Example: Buyer negotiates extended payment terms

Win – Win Partnership

- Extended payment term is 48 days
- Supplier's existing cost of Working Capital Finance is LIBOR-30 day (i.e. 0.23%) + 5.00% p.a. spread
- Bank/Provider's Supplier Finance solution at LIBOR- 60 day (i.e. 0.25%) + 3.00% p.a. spread (spread used for example purposes only)



Approximate breakeven **\$12**

Extending terms from 30 to 48 days results in a win - win for both Buyer and Supplier

Results in A positive impact on Buyer's working capital

Terms Extension Strategy- 10 days



Assumptions

- Revenues \$1 billion
- Estimated COGS (60% of Revenues) = \$600 million
- Estimated Daily Cash Flow (COGS/360) = \$1.67 Million
- Payables Stretch: 10 days

Estimated Increased Annual Cash Flow - \$16.7 Million

Opportunities Summary



Peer Group Analysis

Company	Revenue (\$000)	COGS (\$000)	COGS/REV	DSO	DIO	DPO	Cash Cycle
ABC	\$63,367,000.00	\$41,885,587.00	66%	45.76	58.27	57.77	46.26
DEF	\$64,400,000.00	\$56,450,000.00	88%	4.26	31.11	32.68	2.69
QRM	\$378,799,000.00	\$286,515,000.00	76%	3.47	44.20	38.16	9.52
XYZ	\$9,010,000.00	\$8,100,000.00	90%	4.60	38.98	27.64	15.94
Leader Average			80%	14.52	43.14	39.06	18.60

XYZ Opportunities			
COGS to Average	10% Reduction	\$810,000.00	\$810 mm
DPO to Average	11 Days	\$247,500.00	\$247.5 mm
Gain/Day DPO Extension		\$22,500.00	\$22.5 mm

Dynamic Discounting vs. Supplier Finance



Invoice	Discount				Supplier Finance
	3%	2%	1.50%		LIBOR + 300 bps (3.25%) - 60 days
\$50,000	\$1,500	\$1,000	\$750.00		\$ 270.08
Net	\$48,500	\$49,000	\$49,250.00		\$49,729.92
\$100,000	\$3,000	\$2,000	\$1,500.00		\$ 541.67
Net	\$97,000	\$98,000	\$98,500.00		\$99,458.33
\$250,000	\$7,500	\$5,000	\$3,750.00		\$ 1,354.17
Net	\$242,500	\$245,000	\$246,250.00		\$248,645.83
\$500,000	\$15,000	\$10,000	\$7,500.00		\$ 2,708.22
Net	\$485,000	\$490,000	\$492,500.00		\$497,291.67

Note: terms extension from 50 to 60 days results in a Working Capital Enhancement of \$128 Million

An average 2% straight discount on COGS of \$4.6 billion = \$92 Million

Supplier Finance: Benefits for Buyers



- Achieve working capital or other commercial terms benefit
 - Improved cash flow by reducing working capital and related funding costs
 - Improve commercial terms without increasing cost to the supply chain
- Transition suppliers to electronic payments
 - Utilize a powerful electronic payment tool
 - Provide suppliers with remittance visibility over the Web
- Reduce transaction costs
 - Reduce payment issuance fees
 - Reduce administrative costs in A/P & have fewer supplier inquiries
 - Resolve errors early & eliminate error replication proactively
- Improve relationships with Suppliers
 - Introduce visibility into the payment process
 - Increase suppliers' cash flow
 - Reduce suppliers' borrowing costs

Supplier Finance: Benefits for Suppliers



- Attractive liquidity management tool through the early payment option
 - Conversion of accounts receivable to cash through attractively priced, non-recourse sale
 - Frees up borrowing capacity with lenders
- Positive working capital benefits
 - Increased cash flow, reduced AR and DSO
 - Reduced capital costs (e.g., AR carrying costs)
- Full payment transparency
 - Details on approved payments and their timing
 - Full detail remittance information for each payment
 - Early resolution of errors & proactive elimination of error replication
 - Certainty of payment
- Ability to receive information and payment in a format that best suits their needs
 - Over the web – in either a statement or report format
 - Through their bank – via a CTX, CCD or Wire payment instruction