PrimeRevenue

6 Ways Manufacturers are Using Supply Chain Finance to Fund the Future

Overview

As transformation reshapes the manufacturing industry, its business leaders face a critical obstacle – liquidity. The scale and pace of this transformation is forcing manufacturers and suppliers to make massive and costly changes to their businesses. According to PwC's Global Innovation 1000 study, manufacturers made up 9 of the top 20 R&D spenders in 2017. That's a telling statistic given the list also includes names like Intel, Amazon and Apple.

"How will we fund X strategic business initiative?" is a question that weighs heavily on even the largest, most profitable manufacturers and especially on suppliers that lack access to investment-grade funding.

For many businesses across the manufacturing supply chain, the answer is supply chain finance.

Unlike commercial-based lending, dynamic discounting or early payment programs, supply chain finance is a win-win for all parties involved. It doesn't negatively impact the balance sheet (for buyers or suppliers) and suppliers are paid the full amount due for invoices. Most importantly, the cash flow gains delivered are substantial enough to fund the kind of large-scale strategic business initiatives that often require billions of dollars in working capital.

What is Supply Chain Finance?

Supply chain finance improves cash flow by allowing companies (buyers) to optimize payment terms with their suppliers. At the same time, it provides suppliers a way to get paid early by a third-party – typically a financial institution. By increasing the time it takes to pay suppliers, buyers can free up cash that would otherwise be trapped within the supply chain. Likewise, by enabling suppliers to be paid early by another party, suppliers can accelerate their own cash flow.

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Fueling Tomorrow's Success. From agricultural and automotive equipment to medical devices and household appliances, an increasing number of manufacturers are using supply chain finance to fund the changes and transformations that will power their future. These initiatives include:

1 Innovation investment

Advanced analytics, artificial intelligence, IoT platforms, direct-to-consumer distribution models, blockchain – these are just a handful of the innovations that are powering transformation within the manufacturing enterprise. Historically, companies have used their own balance sheet to pay for these large-scale innovation programs – whether by increasing debt, austere cost cutting, restructuring, or the sale of assets. Supply chain finance provides an attractive, off-balance sheet alternative to these measures.

Take one of the world's largest agricultural equipment manufacturers, for example. With PrimeRevenue's help, AGCO has standardized nearly 70 different supplier payment terms, bringing them in line with best-in-class industry standards. As a result, the manufacturer has realized millions in working capital improvements. Today, the company's investment in R&D as a percent of sales is at a record rate, which has been key in allowing the company to protect and grow its competitive edge.

2 Fund M&A success

The race to innovate is driving up M&A activity across many manufacturing sectors. Global transaction volumes are at all-time highs, with industrial (manufacturing) M&A activity expected to increase according to recent reports from PwC. The trajectory shows no sign of change as companies reconcile their growth and innovation strategies with the desire to acquire – rather than build out – new products and capabilities. For many manufacturers, supply chain finance is instrumental in making these transactions happen.

As part of its long-term growth strategy, medical device manufacturer Boston Scientific invests heavily in strategic acquisitions – many of which are paid for in cash. To improve its cash position, the company turned to supply chain finance. Since implementing its supply chain finance program with PrimeRevenue, the manufacturer has gained nearly $100 million in working capital. This has helped the company expand its product portfolio through numerous acquisitions, including the acquisition of Apama Medical, a developer of atrial fibrillation technologies, for over $300 million in cash (including $175 million upfront).

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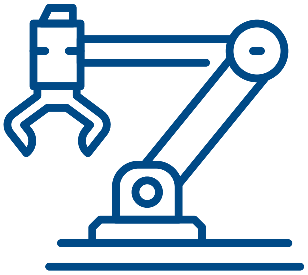
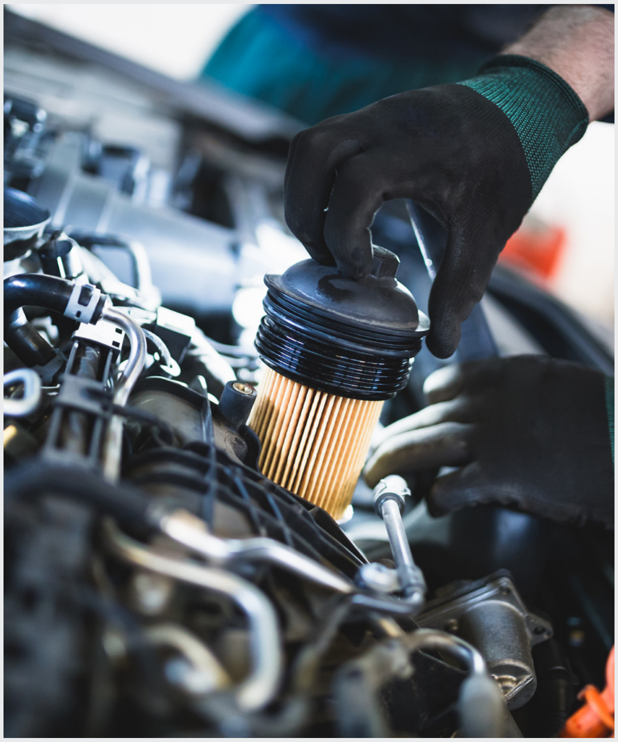
3 Build out new infrastructure to support evolving production demands



The transformations happening across the manufacturing industry are making sweeping changes to production requirements for both OEMs and suppliers. Whether through building out new production capabilities or acquiring them outright, companies are using supply chain finance as a funding mechanism to meet changing requirements.



One example is Mann + Hummel, a maker of automotive filtration products. Its rapidly growing supply chain finance program (powered by PrimeRevenue) has generated cash flow gains of ~$130 million, helping execute numerous acquisitions to expand its production capabilities and product portfolio.

Another is a multinational home appliance manufacturer. After participating as a supplier in one of its customer's PrimeRevenue-led supply chain finance programs, the company turned to PrimeRevenue to launch its own buyer program. It wasn't long before the company had traded more than $8 billion in accounts payables – which ultimately enabled an investment of more than $1 billion in new facilities and plant upgrades. The manufacturer has unlocked an estimated $10 billion in working capital since the program's inception.

4 Invest in education to overcome labor shortage

In a recent survey, the National Association of Manufacturers reported that 64 percent of respondents cited attracting and retaining a quality workforce as one of their top challenges. In response, many manufacturers are taking matters into their own hands.

PrimeRevenue customer Michelin North America, located in the upstate South Carolina corridor, has partnered with local technical colleges to offer the Michelin Technical Scholars Program. This program provides opportunities for select students to develop hands-on work experience with competitive pay while earning their degree in Mechatronics Engineering Technology.

These programs require substantial economic investment that, in the absence of off-balance sheet funding options, could negatively impact profits. Improved control over cash flow has enabled Michelin to unlock large sums of working capital that can be used to solve complex business challenges, such as this one.

5 Increasing financial agility

The current state of the manufacturing industry has underscored the need for greater agility. Transformation breeds innovation and opportunity, but it also creates chaos and instability. Having the financial agility to navigate those threats is vital. This is especially true for sub-investment grade suppliers and/or suppliers that want to access liquidity at lower funding costs.

Belgium-based ALRO Group is an example of the latter. The company provides surface treatment of plastic and metal automotive parts for many leading luxury car brands. During the global financial crisis, the company sought a cost-effective way to improve its cash position and turned to the supply chain finance program of one of its largest customers. By participating in the program, the company was able to receive near-immediate payment for invoices rather than waiting 75+ days. Fast-forward to today (and the industry challenges that define today's business landscape), and ALRO Group continues to benefit from the cash flow improvements delivered by supply chain finance. In the last five years, the company has traded over $110 million in invoices and receives payment 104 days early, on average.

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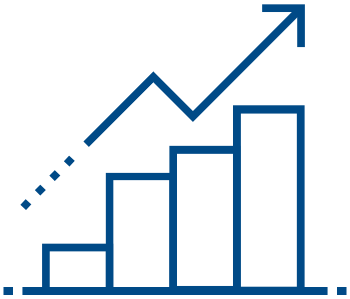
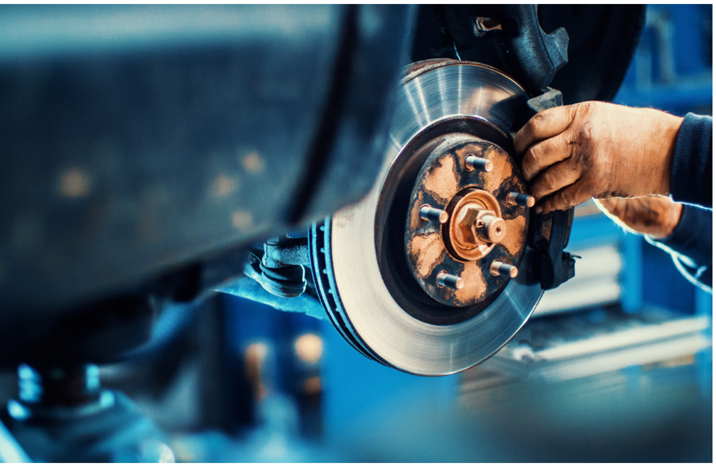
6 Increasing enterprise value



Amid the changes happening across the industry, a scrutinous eye is being applied to companies' profitability and value-creating potential. "How can we increase return on capital?" is one question financial executives must answer in the face of higher capital spending. Supply chain finance is one way for them to turn up the dial.

Hillenbrand, a $1.7 billion globally diversified industrial manufacturer, experienced a 50 percent decline in its free cash flow compared to the prior year. The company set an objective to improve and unlock working capital to enhance shareholder value. After undergoing a working capital analysis with PrimeRevenue, where it realized it could generate an immediate cash flow gain of $65 million by optimizing supplier payment terms, the company decided to implement a trial supply chain finance program. The pilot program initially achieved 127 percent of its Phase I cash flow goal in the first year.

Hillenbrand's supply chain finance program has helped the manufacturer achieve record free cash flow and increase its stock price by nearly 50 percent. Buoyed by these initial results, Hillenbrand is expanding the supply chain finance program to other operations.



Liquidity and Agility Through Supply Chain Finance

The price of transformation continues to be high for manufacturers, and it's one reason why industry leaders are embracing supply chain finance. By materially improving cash flow, supply chain finance can unlock large sums of working capital that can be used to fund mission-critical business initiatives.

About PrimeRevenue As a pioneer in global B2B payments, the PrimeRevenue SurePay Platform connects the entire supply chain by improving working capital and automating digital payments. Thousands of companies around the world leverage one streamlined platform to increase payment visibility, enhance control, and improve cash flow. PrimeRevenue is headquartered in Atlanta, with offices in London, Prague, Hong Kong, and Melbourne. For more information, visit **www.primerevenue.com.**

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