# TURNING YOUR RECEIVABLES INTO CASH:

What’s the best option for my business?

PrimeRevenue

Economic instability, fluctuations in market demand and industry innovation have many companies looking for new ways to access liquidity and improve cash flow.

Historically, companies have turned towards commercial lending or factoring programs as a source of cash. While each of these tactics offer access to capital, they come at a price that is not always economical for many businesses.

**Is there a better way to increase cash flow and access more capital at a favorable cost?**

With accounts receivable finance – specifically selective receivables finance – the answer is yes.

### Accounts Receivable Finance – Know Your Options

Accounts receivable finance unlocks working capital by allowing companies to sell their invoices to funders (typically large banks or other financial institutions) for early payment. It's an important lever that minimizes days sales outstanding (DSO) – a calculation used to estimate a company's average collection period and accounts receivable management. It also mitigates the impact of longer payment terms imposed by customers.

As a company shortens its cash conversion cycle by reducing the time it takes to get paid for the goods and services provided. This "frees" cash flow and decreases the need to turn to more expensive and possibly restrictive methods to optimize working capital.

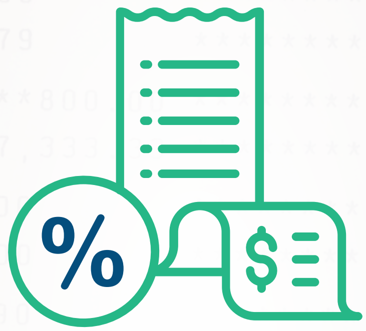
Accounts receivable finance has a waterfall effect that extends straight to the bottom line. A lower cost of capital reduces the average interest rate paid on financing (which, in turn, increases net income and net margin). Most importantly, accounts receivable finance offers companies a competitively priced liquidity option that can be used to navigate economic volatility or free up cash to fund strategic initiatives such as expansion.

## How can companies best take advantage of accounts receivable finance? The first step is choosing what kind of program to put in place. Options typically include:

**Asset-based lending:** Also known as portfolio lending, this is a business line of credit established with a financial institution and secured by accounts receivable (or other balance-sheet assets such as inventory). However, asset-based lending presents three key challenges. First, it's an on-balance sheet instrument and counts as debt. Second, fees and interest rates can be high, and the receivable dilution tends to be higher compared to other options. Third, it's all-or-nothing – companies must commit all eligible receivables to the program and have no flexibility in which receivables are involved.

**Traditional factoring:** In factoring, a business sells its accounts receivable to a third-party, typically a bank. While the business is given immediate access to liquidity, it's not given immediate access to the full amount of the receivable sold. For example, a company will receive early payment for 85 percent of the full customer invoice amount from the funder. The remaining 15 percent will be paid once the customer has paid the funder. Compared to asset-based lending, companies have more flexibility in choosing which receivables to sell. Customers can select which customers' invoices they would like to sell, although not which particular invoices because generally all invoices for that customer must be sold. The downside of traditional factoring is that funder fees are typically materially higher, receivables dilution is higher, and credit lines are often smaller. Because a portion of the purchase price is deferred and paid at the time the invoice matures, these transactions have a higher likelihood of being recorded as debt on the company's balance sheet.

### RECEIVABLES DILUTION



Receivables dilution is the difference between the face amount of invoice(s), also known as gross value, and the payment typically collected from the customer(s). Reasons for receivables dilution can include write-offs, returned goods, credits and more. Thus, dilution rate (the percentage that dilution represents of the gross value of invoices) is a key metric utilized by funders to assess risk associated with paying early for receivables from a specific obligor or buyer.

**Selective receivables finance:** Selective receivables finance is a variation of factoring that offers all the benefits of traditional factoring plus more competitive pricing and flexibility. It allows companies to sell their accounts receivable with their largest customers for immediate payment. The company can pick and choose which receivables to sell, and secure funding for the invoice value minus a financing fee and a reduction reflecting anticipated credits the seller gives to the obligor. Financing rates are competitive as they're based not just on the company's financial performance, but also on the customer's (the obligor's) credit rating. Selective receivables finance is not a loan and these transactions do not count as debt on the balance sheet.

| | Asset Based Lending | Factoring | Selective Receivables Finance |
|---|---|---|---|
| No risk of being structured as debt | ✗ | ✗ | ✓ |
| Benefit of customer's creditworthiness in risk assessment | ✗ | ✓ | ✓ |
| Offers the most flexibility in choosing which invoices to sell | ✗ | ✗ | ✓ |
| Program generally run without customer disclosure | ✗ | ✗ | ✓ |
| Easy to use technology platform with real-time reporting | ✗ | ✗ | ✓ |

### Lower Risk, Higher Rewards with Selective Receivables Finance

Compared to other accounts receivable finance options, selective receivables finance delivers the biggest gains in cash flow efficiency with competitive cost and lower risk:

Companies can choose which receivables to submit for early payment. Unlike asset-based lending or traditional factoring, companies can choose which receivables to submit for early payment rather than offering up the "whole book" (or all invoices for a particular customer). Selective receivables finance is designed to target the top tier of customer invoices, which allows for more competitive pricing due to the fact that the financing rate is based on both the seller's and the customer's financials.

Companies can increase participation based on their cash flow needs. A company's working capital requirements aren't static. This is especially true for seasonal businesses or during periods of economic volatility. Selective receivables finance provides companies the flexibility to utilize the maximum of their credit line when they need it and the minimum when they don't. This facilitates a more targeted, strategic approach to cash flow management by allowing companies to adjust their credit line utilization based on business needs.

The cost of capital is typically far more competitive than other accounts receivable finance options. Unlike other options, financing fees for selective receivables finance take both the company's financial position and their customer's credit rating (the obligor) into consideration. As such, companies have the control to choose which qualified obligors to include in the program, which usually translates into a more favorable interest rate and competitive financing fee.

It provides immediate access to funding. With selective receivables finance, companies can sell their customer invoice to a funder on day 1. Payment is received the next day, on average.

## The Power of Selective Receivables Finance? It Depends on the Platform

When considering selective receivables finance as a working capital optimization strategy, platform is an important consideration. Many banks and their customers still rely on spreadsheets, email and other manual processes to run receivables finance programs. Not only does this often prevent the program from achieving its full potential due to poor visibility and process inefficiencies – it also creates unnecessary risk due to human error, which can result in reconciliation, audit and compliance issues.

To fully realize the benefits of selective receivables finance, companies need access to a bank-agnostic, automated platform that's easy to implement and use. It must provide a streamlined and automated way to trade invoices in real-time while meeting the requirements for "off balance sheet" transactions.

PrimeRevenue's selective receivables finance solution is a single platform with more than $60 billion in receivables uploaded annually and more than $5.5 billion in assets under management. Using this solution, companies can sell their invoices for early payment and, in most cases, without any involvement from or disclosure to their customers.

Unlike traditional factoring or a loan, selective receivables finance is a true sale of receivables. It also seamlessly handles all transactions across multiple customers, countries and currencies and provides companies with material cash flow improvement.

Companies will be matched with one of PrimeRevenue's 100+ funding partners. This is useful for companies that want to diversify their liquidity sources beyond their primary banking relationships or retain a certain measure of available existing lines of credit.

With PrimeRevenue, companies use one technology platform to manage the entire process from invoice upload and sale through to maturing payments. The platform is quicker and easier to implement compared to other options, which means companies are able to get paid faster.

As companies seek new ways to solve their cash flow challenges and fund business growth, selective receivables finance is an attractive option that's low-risk and delivers an immediate, material cash flow improvement. PrimeRevenue's platform makes it easy for companies to unleash the working capital they need to sustain and grow their business amid economic volatility.

### CHOOSING A SELECTIVE RECEIVABLES FINANCE SOLUTION

- Does it enable streamlined sale of invoices in real time?
- Does it facilitate compliant, off-balance sheet transactions?
- Does the solution meet financial and industry-specific reporting requirements?
- Is the solution easy to use for financial stakeholders?

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**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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