

Supply Chain Finance

Overview / Topics / Trends

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A Closer Look at Supply Chain Finance Solutions

Can it be a win – win value proposition?

❖ Definitions:

- ❖ Approved Payable Finance
- ❖ Dynamic Discounting
- ❖ Receivable Discounting

❖ Supplier Impacts

- ❖ Operationally
- ❖ Relationships- Customer and Bank
- ❖ Customer Credit Risk
- ❖ Payment terms
- ❖ Liquidity
- ❖ Adjustments

❖ Current Trends/Hot Topics Q and A



A Closer Look at Supply Chain Finance Solutions

Supply Chain Finance has grown into a mainstream financing solution

Definition:

Sources of financing to suppliers, directly or indirectly sponsored by a key customer/buyer (typically with good/excess credit available in banking market):

- Approved Payable Finance (SCF as offered by most major banks)
- Dynamic Discounting
- Receivable Discounting
- Structured Inventory finance programs (off balance sheet)

Each Structure has slightly different impact

Best Suited Industries:

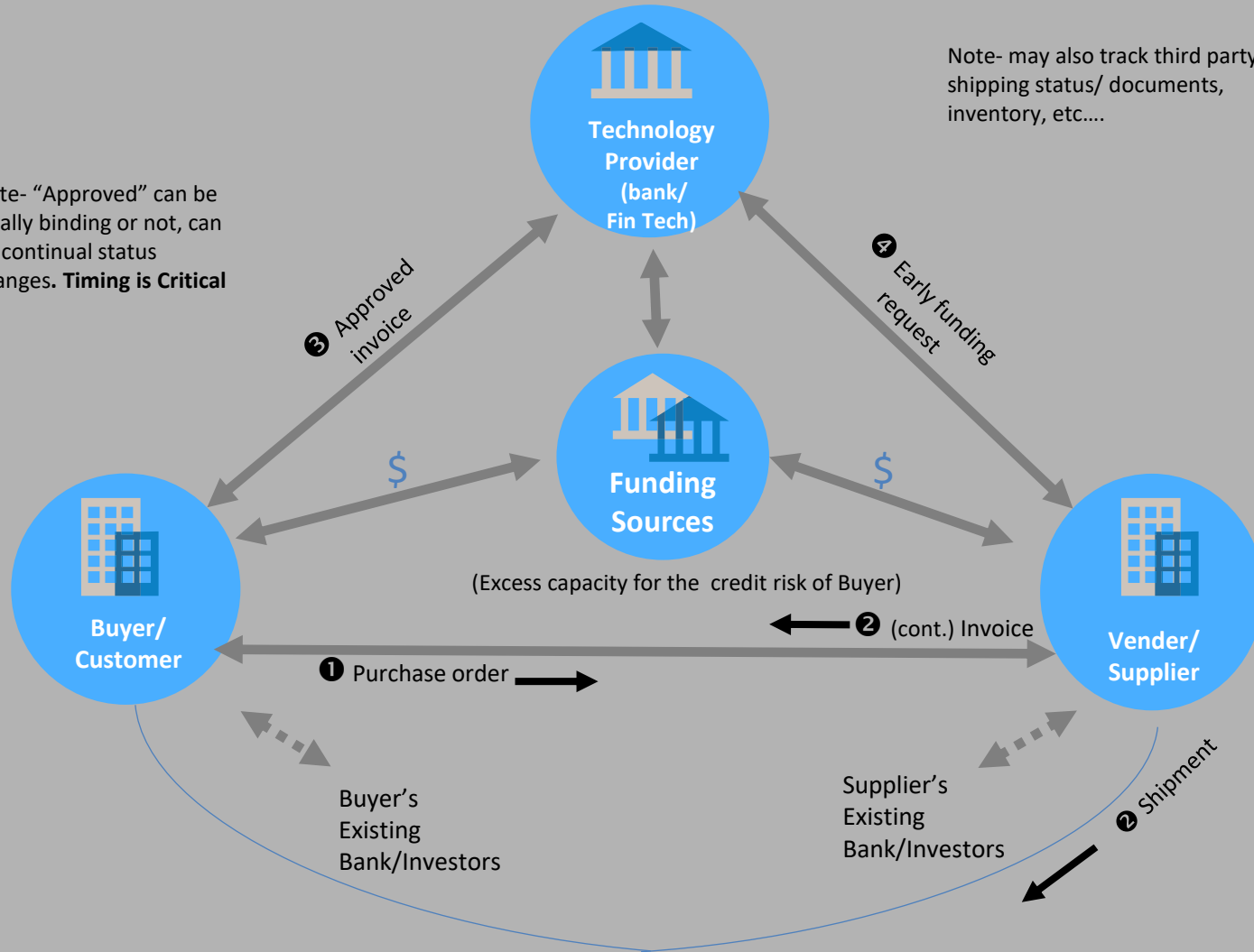
Industries with Extended Cash Conversion Cycles



How do Supply Chain Finance programs work?

Note- "Approved" can be legally binding or not, can be continual status changes. **Timing is Critical**

Note- may also track third party shipping status/ documents, inventory, etc....



The Process Considerations of an SCF Program

- ✓ Approval Status Timing
- ✓ Payment instructions
- ✓ Credit/Debt Postings
- ✓ Reconciliations
- ✓ Payment Term Changes
- ✓ Transaction Recording

And.....

- ✓ Forecasting
- ✓ Payment Posting
- ✓ Payment Term Changes
- ✓ Auto Posting Tolerances
- ✓ Multiple Entity Tracking
- ✓ Bank Reporting

Depending on your systems/processes...





Customer helps lower its suppliers' receivable financing costs (time and/or rate)

Suppliers share some (or all) of the benefits of the lower receivable financing costs with its customer

In the real world, results are impacted by....

Buyer's and Suppliers culture/relationship/goals

Working capital costs of the supplier vs the Buyer - how they calculate it

Example 1

The "Cash-Rich" Supplier

Example 2

The Internal Capital Charge Supplier

Example 3

The Unaware Disorganized Buyer

Trends/Topics

- ❖ Volumes Since 2020
- ❖ Industries
- ❖ Largest Players
- ❖ Technology Changes and Players
- ❖ International Risks
- ❖ Transportation and Delivery Uncertainties
- ❖ Libor vs SOFR vs BSBY
- ❖ Accounting Guidelines/Rules and Term Extensions
- ❖ “Greensill Meltdown Lessons” still reverberating- positively



Other Topics/ Questions?

Questions:

- ❖ Why should a vender set up an account for supply chain financing: Customer requests vs internal requests
- ❖ What is involved to set up an account on SCF programs- legal and operationally?
- ❖ How are rates set and discounts/rates calculated? Is there a spread? Are they fixed for a period of time?
- ❖ Do the vendors set terms on this program – example N5 days, N10 days – or is this driven by the customer?
- ❖ What documentation is needed by all of the parties involved?
- ❖ Are there maturity dates or expiration dates on these programs? Do they typically roll over year after year?
- ❖ With higher interest rates, are you seeing an increase in vendors more hesitant to agree to Supply chain financing?
- ❖ How does it impact credit risk and credit/debit memo risks?
- ❖ Is it a good source of Liquidity?

How does a Supply Chain Finance Program Impact Credit and Risk?



Other Topics/ Questions?

Who We Are:

Structured Trade Finance Advisory Services

**30+ years experience in
structured finance, Supply
Chain Finance, Banking,
wholesale distribution and
Capital Markets**

www.invrecapital.com

- **Working Capital/Risk Optimization Projects**
Payment Term Studies and Optimization
- **Working Capital Finance Programs
(receivables/payables)**
Analysis/Design/Implement
- **B to B Platforms/Embedded Finance**
Risk reviews and process recommendations
Strategies and funding solutions
- **Trade Finance Programs-**
Reviews, risk and funding strategies(cross-border)
- **Risk Mitigation/Capital Source**
Analysis, sourcing, negotiations

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