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BUSINESS FINANCE

WORKING CAPITAL KNOWLEDGE

Scottish Pacific Business Finance

TheAdviser
BOOTCAMP
SME BROKER

AGENDA

1. Cash Drivers
2. Inputs and Influences
3. Cash Conversion Cycle
4. Case Studies
5. Where to from here

7 KEY CASH DRIVERS

1. Sales
2. Price
3. Cost of Goods sold
4. Overheads
5. Accounts Payable
6. Accounts Receivable
7. Inventory holds

INPUTS AND INFLUENCES

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Accounts Payable
Extend terms

$$= \frac{\text{Accounts Payable}}{\text{Total Purchases}}$$

This formula reveals the total accounts payable turnover. Then multiply the resulting turnover figure by 365 days to arrive at the number of accounts payable days.

Accounts Receivable
Reduce terms

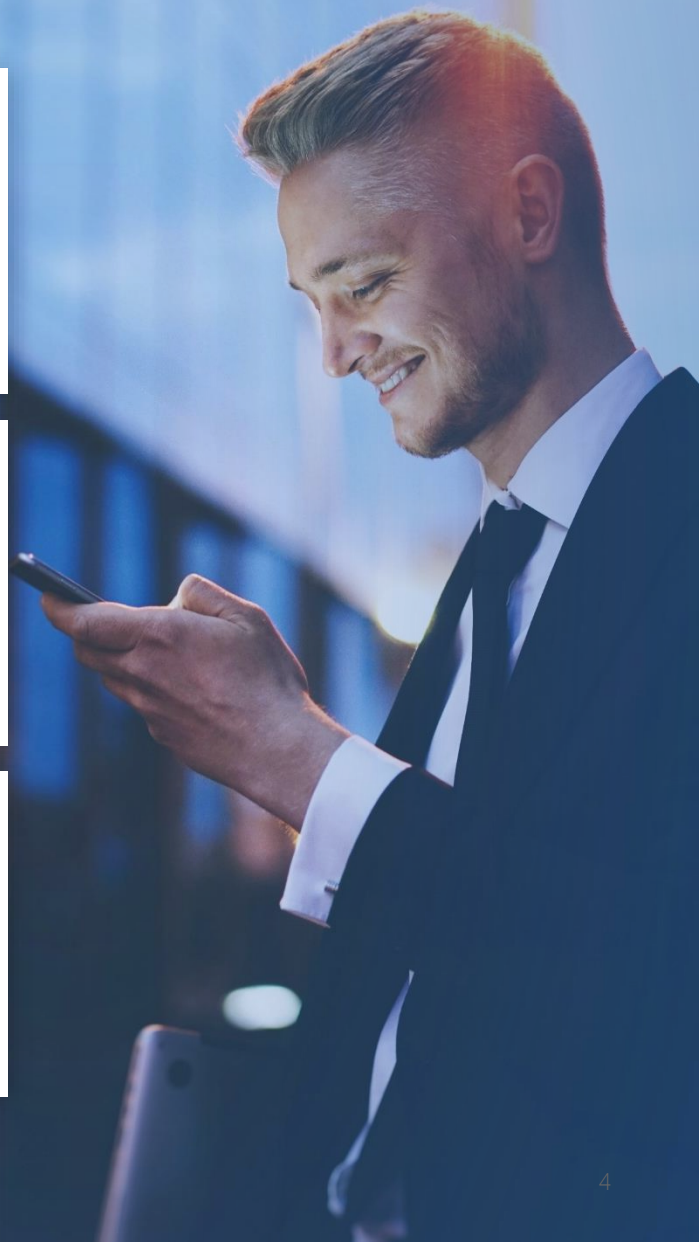
$$= \frac{\text{Accounts Receivable}}{\text{Annual Sales}}$$

This formula reveals the total accounts receivable turnover. Multiply the resulting turnover figure by 365 days to arrive at the number of accounts receivable days.

Inventory Management
Reduce terms

$$= \frac{\text{Current Inventory}}{\text{Total COGS}}$$

This formula reveals the total Inventory turnover. Then multiply the resulting turnover figure by 365 days to arrive at the number of Inventory days on hand.



CASH CONVERSION CYCLE

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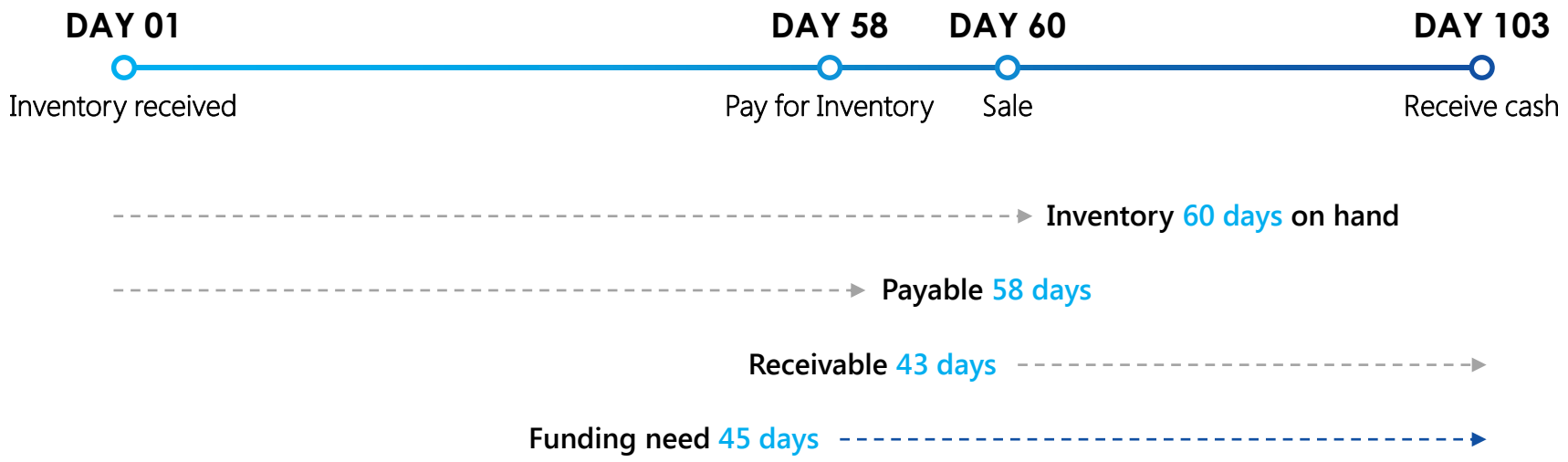


The Business has $10,000,000 Turnover

COGS	$6,000,000
Overheads	$3,000,000
	$9,000,000
	365

= $24,660 per day x 45 days

TOTAL WORKING CAPITAL REQUIREMENT

$1,100,000

BASIC PRINCIPLES OF WORKING CAPITAL / TRADE FUNDING

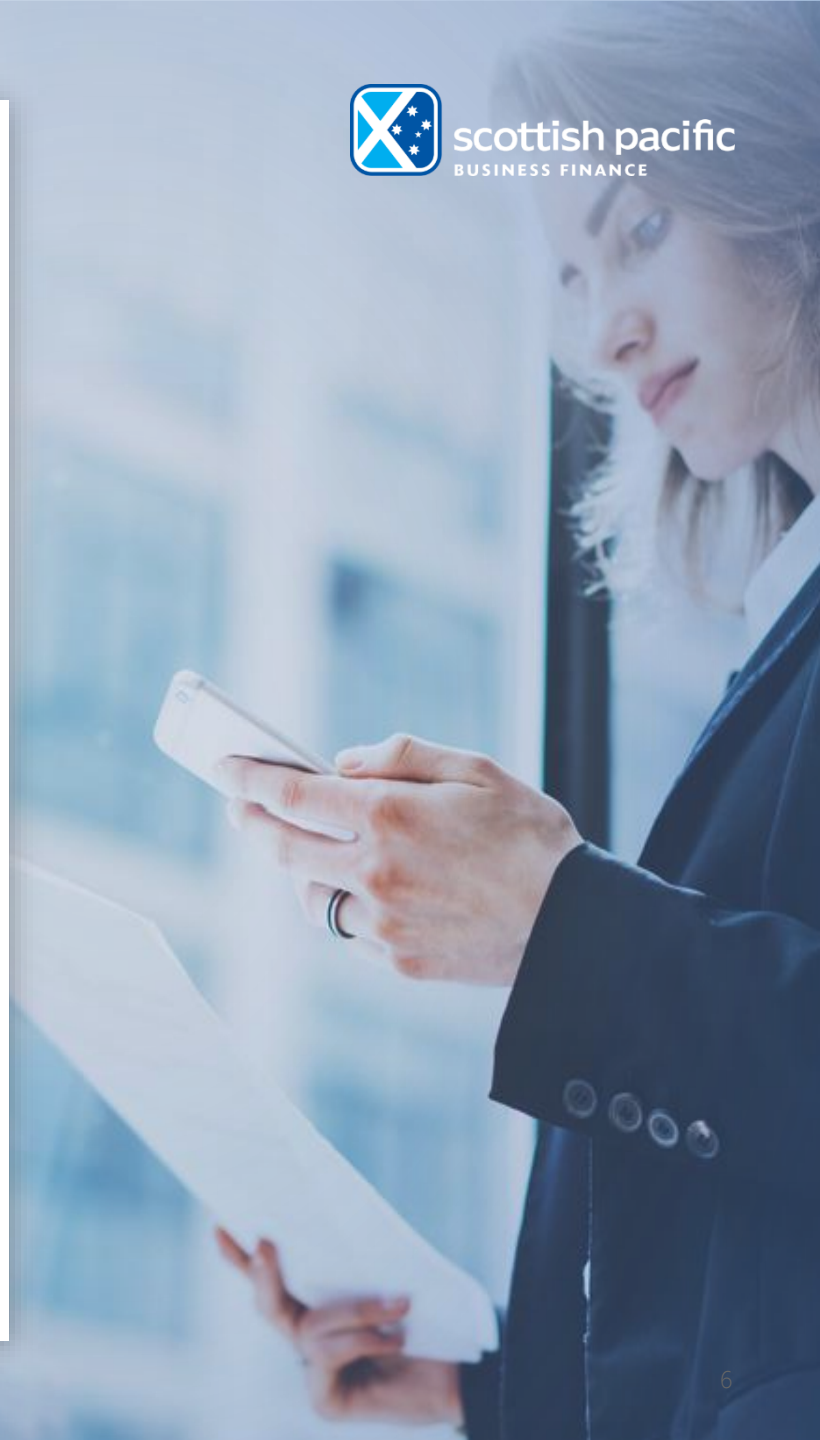
Where does recovery come from?

- It's not property
- It's not profits or long term assets
- It's not beyond 90 days

Fundamentals

- Not focussed on borrowers ability to repay
- State of the economy
- Industry
- Unconditional, assignable, collectable

Reliant on recovery of a debt, not the success of the borrower



HOW INVOICE FINANCE WORKS

TARGET INDUSTRIES

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Core criteria

- Minimum annual sales turnover of $500k plus, and growing
- Clean customer purchase orders and invoices i.e. not contractual, no partial or progress payments, good and services must have already been delivered
- Sales are business to business (need and ABN), not to consumers or individuals
- Domestic and export sales

Typical industries

- Manufacturing
- Wholesale/distribution
- Importer and exporter
- Labour hire
- Printing
- Transport
- Textiles / Fashion

Challenges

- Progress claims / milestone payments
- Highly contractual debts

CASE STUDIES

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Importer: Sporting Goods

Facilities: Tradeline, Debtor Finance and Import Finance

Facility Size: Tradeline USD$750k, Debtor Finance $4m, Import Finance $3m

Annual Sales: $16m

Why Tradeline?
Client reached the limit of their bank facilities. Used as an unsecured top-up.

Why Debtor Finance?
Existing bank are too slow to increase existing lines.

Why Import Finance?
Lines increase buying power with less security and covenants.

Why Scottish Pacific?
Tradeline limit with Scottish Pacific was approved within 24hrs. Scottish Pacific allows them to move properties away from business and build their personal asset base.

Transport: Logistics

Facility Size: $6m

Annual Sales: $60m

Why Debtor Finance?
Company had used most of its cash resources ($5.4m) to purchase the business from receivers.

They had $1.25m in the bank but needed a debtor finance facility to assist with ongoing trading. They have 200 full-time staff and 70 casual. They projected the need for a working capital solution and flexibility with the MBO.

Why Scottish Pacific?
The directors were happy with the flexibility and assistance from Scotpac following a recommendation by an Accountant.

Our competitors made too many demands of the directors and shareholders to finance the MBO.

CASE STUDIES

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Buying Group and Services Manager

Facility Size: $29.5m

Annual Sales: $240m

Why Debtor Finance?
Banking relationship of some 50 years broke down when losses arose from one division. Business was growing and needed a more flexible line of credit, with seasonal peaks leading up to Christmas.

Why Scottish Pacific?
Originally looking for a tradeline of credit, but felt a debtor finance facility would allow them to move away from a tight control of the bank and almost double the lines of credit.

Hardware Supplier

Facility Size: $800k

Annual Sales: $5m

Why Debtor Finance?
A long-standing bank customer, but suffered through the GFC. Once the business started to turn around, increased funding lines were required. Bank was unable to assist. Debtor Finance facility assisted with the payout of their bank overdraft and leasing facilities and assisted projected growth in sales.

Why Scottish Pacific?
Recommended by an Accountant, rapid approval was offered with novation of bank accounts, to assist with minimal changes and maintaining consistent service to customers. Minimal covenants.

KEY TAKE OUTS

Insufficient working capital is the 3rd most popular reason for business finance

1. Determine which of the drivers / levers gives you most influence over working capital
2. Determine the mix of equity and debt that make up your working capital
3. Put in place a plan to ensure your client's business is adequately capitalised for it's working capital needs

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