Distribution Financing: a top-up from Factoring

Working capital is essential for companies to keep their businesses moving. In today's world, the financial industry has a lot to offer to companies seeking to finance their working capital and achieve sustainable growth.

One of the traditional ways to finance working capital is **Factoring** - an Accounts Receivable (AR) based solution whereby a company (Vendor) sells or assigns its AR to a Funder that advances the payment to the Vendor and collects from the Account Debtors (Buyers) at maturity date. In Factoring programs, Vendors improve liquidity and can reduce Days of Sales Outstanding (DSOs) and credit risk, if the AR sale is done on a true-sale basis. However, the commercial conditions between Vendor and Buyers remain unchanged. Factoring is a standard product offered by a wide range of Funders, mainly banks and factors across the world.

Vendors can achieve additional benefits for themselves and their Buyers by establishing a more comprehensive type of program called **Distribution Financing** (**DF**). DF is also an AR-based financing program set-up by a Vendor, similar to Factoring in that it sells its AR to a Funder on a true-sale basis and collects sales earlier, but with an important enhancement that is the <u>extension of payment terms offered to Buyers</u>. DF is therefore a win-win type of program, with advantages for both Vendors and Buyers. By improving the payment terms offered, Vendors enhance their competitiveness and boost sales, and on the other hand, Buyers benefit from the payment terms extension which positively impacts liquidity and Days of Payables Outstanding (DPOs), as such extension is considered Accounts Payable.

	VENDOR	BUYERS
FACTORING	↓ DSOs ↑ Liquidity ↓ Credit Risk	No impact
DISTRIBUTION FINANCING	↓ DSOs ↑ Liquidity ↓ Credit Risk ↑ <u>Sales</u>	↑ DPOs ↑ Liquidity

Summary benefits of Factoring and Distribution Financing for the Vendor and its Buyers

Distribution Financing is a structured product, tailored to each case, offered by specialized Funders that count with an adequate servicing platform able to handle the complex data processing and reporting. Whilst Factoring is widely used by companies across industries, DF is more suitable for sectors in which companies sell B2B in a recurrent and short-term basis. In DF, credit risk management is a key feature, as each Buyer is individually assessed and assigned a credit limit, in accordance with its credit standing, payment term extension granted and trading volume with the Vendor amongst others.

In a nutshell, Distribution Financing constitutes a step up from Factoring, with additional benefits for Buyers, helping companies to boost sales, enhance liquidity and optimize working capital. DF represents a wider ranging solution, which when managed by an advanced technology servicer, creates an environment that maximizes benefits for all participants within the supply chain.

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