Trends in Trade Finance: an international perspective
Trade Finance 101

• Trade Finance is transaction based financing for sales of goods and services between companies (often internationally)

• Trade finance includes such activities as:
  – Factoring, Vendor Financing, Forfaiting
  – Purchase Order Financing
  – Credit Insurance

Across various payment terms: open account, letters of credit (L/C), documentary collections (D/A and D/P)
The World Trade Organization estimates that 80 to 90% of global trade is reliant on trade financing.

- Users of trade finance range from “mom-and-pops” and start-ups, to Fortune 500’s (Proctor & Gamble, Pepsico)

- Providers of trade finance include global money center banks, regional banks, specialty finance companies, and ECA’s (EXIM, EDC, ECGC)
Factoring

**Definition:** vendor of goods sells receivables to factor. Factor advances money to vendor/client on a non-recourse basis, collects payment from vendor’s customer, and offers bookkeeping/reporting services.

1. Sale/shipment is made, account receivable created
2. Receivable sold to bank, bank advances $$$ to client
3. Client debtor makes payment to bank when invoice matures
**Definition:**
Tangible goods that lack the funds to pay their manufacturers

1. PO presented to bank, bank advances $\$$ to client
2. Sale/shipment is made
3. Customer makes payment to bank when invoice matures
**Credit Insurance**

**Definition:** an insurance policy and a risk management product offered by private insurance companies and governmental export credit agencies to business entities wishing to protect their accounts receivable from loss due to credit risks such as protracted default, insolvency or bankruptcy.

1. Agency issues credit insurance
2. Sale/Shipmet is made with coverage
3. Agency monitors risk and handles debt collections
Factoring in International Trade

Factoring Usage:
- 1980 : +/- 50 billion €
- 1990 : +/- 200 billion €
- 2000 : +/- 600 billion €
- 2011 : +/- 2.000 billion €
- 2012 : ? + 4% first half of the year in the EU

Global Breakdown:
- North America- 5%
- South America- 8%
- Europe- 63%
- Africa & Middle East- 2%
- Asia- 19%
- Australia & NZ- 3%
Factoring in International Trade

- 73% of world factoring turnover is domestic factoring.
- Cross-border factoring continues to grow more rapidly than domestic factoring.
L/C’s in International Trade

L/C usage currently (90% through SWIFT):

Volume of MT 700

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
<th>Change</th>
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<tbody>
<tr>
<td>2008</td>
<td></td>
<td>-1.9%</td>
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<tr>
<td>2009</td>
<td></td>
<td>-2.5%</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td>6.6%</td>
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<tr>
<td>2011</td>
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L/C’s in International Trade

L/C usage currently: average L/C is $ 607,000
Trade Credit Insurance

• 2012 (est.)

Covers: *trade credit default (slow payment & bankruptcy)*

• 6.5 Billion USD in premiums

• 3.5 Trillion USD in covered sales
Typical Trade Finance Clients:

**Fast-growth**
- For most fast growth companies, bank financing will be limited, and limiting. Factoring and trade finance provides ongoing support with no ceiling or cap.

**Buying and selling internationally**
- Domestic factors and finance companies, and even many banks, will not offer financing on international sales.

**Financially stressed or impaired**
- In today’s economy, banks’ and traditional lenders’ credit and underwriting standards have become increasingly stringent and unrealistic.

**Asset-light and/or low margin**
- Trading companies tend to have few, if any, tangible assets—but may have large purchase orders and receivables. Banks and traditional lenders may not be able to provide the working capital needed to fully capitalize on the opportunities in the marketplace.
Fast Growth

USA Food Distributor

- Company expanding overseas sales
  - Selling to European/Middle East debtors
- Taking on PO’s in foreign markets
- Doesn’t have adequate working capital to fulfill new orders
- Trade Finance Provided:
  - PO funding
  - Non-Recourse Export factoring

Results:
- Company now able to meet their growth potential by selling in new markets that were previously out of reach.
- Annual Revenues:
  - 2011: $4.5 MM
  - 2012: $11 MM
  - 2013: $17 MM YTD
Asset Light

US Wholesale Distributor

• Industry: Consumer Electronics

• Introduced by PE Firm

• Situation:
  • Strong sales history but “light” balance sheet
  • Major vendors in China

• Trade Finance Provided
  • Reverse Factoring Facility
    - 85% Advance on Chinese invoices at FOB
    - 15% Provided by client

• Results:
  • Increased sales volume by 15% over 18 months
  • Company continues to utilize supply chain finance for long-term growth
Financially Stressed

Dutch Parent / US Subsidiary:

- Industry: Stainless Steel Products
- $7.5MM Non-Recourse Domestic / Export Facility
- 30%+ customer concentration
- Major global bank introduced factor to client in order to “carve out” concentrated and foreign A/R, allowing the credit to pass through committee
- DS-Concept was able to work with both the US Sub and German Parent to accelerate their domestic (EU / US) and foreign (UAE, China, and South African) receivables.
- Results:
  - The company expects to return to a traditional banking facility within the next 12-18 months.
  - Agreement states that client is able to return to the referring bank as soon as they are again bankable.
Worldwide Network

USA
New York
Turkey
Istanbul
Bulgaria
Sofia
Pakistan
Karachi
Bangladesh
Dhaka
Germany
Münchengladbach
Hungary
Budapest
UAE
Dubai
China
Shanghai

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