Understanding Supply Chain Finance

The current economic climate is forcing many companies to better manage liquidity and strengthen their balance sheet. Supply chain finance (often referred to as SCF/Supplier Finance/Reverse factoring) can be an attractive way for companies to improve their working capital position.

The key concept behind SCF is to provide suppliers with access to advantageous financing facilities by leveraging the buyer's stronger credit rating.

Benefits for the Buyer	*Benefits for the Supplier*
Longer supplier payment terms without having to 'trade off' with price – 30-50% Trade Payables increase	Reduction of Trade Receivables and increase in cash position
Off-balance sheet finance and general improvement of the balance sheet	Faster access to cash at advantageous rates
Reap early settlement discounts while still paying at invoice maturity	Strong cooperation with the buying company creates a competitive advantage
Improved process capability in Invoice Receipting, Approving, Electronic Invoicing and overall Procurement	Faster cash conversion cycle from delivery to cash

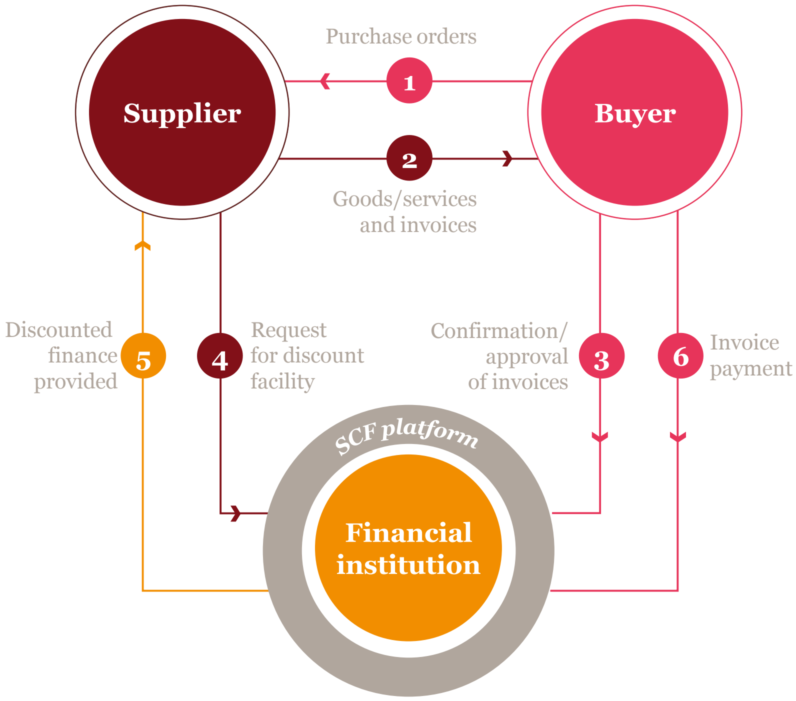
The mechanics of Supply Chain Finance

SCF requires the involvement of a SCF platform and an external finance provider who settles supplier invoices in advance of the invoice maturity date, for a lower financing cost than the suppliers' own source of funds. This benefit is then shared among the parties.

After ordering from the Supplier (1), the supplier then fulfils the order and invoices the buyer (2). The buyer then approves the supplier's invoices and confirms that it will pay the financial institution for these at invoice maturity (3). The supplier sells (discounts) the invoices to the financial institution at a predetermined discount rate (4) and receives the funds straight away (5).

The buyer pays the financial institution as agreed at maturity of the invoice (6).

In parallel to the SCF facility, the buyer is typically able to negotiate better payment terms and/or prices with the supplier.



Why do companies implement Supply Chain Finance?

Companies implement SCF for far more reasons than just cash release

Implementation reasons between SCF practition aspirants are quite similar

Principal reasons for implementing an SCF program	*SCF in place*
Working Capital optimisation	*42%*
Supplier liquidity needs	*18%*
Supplier relationship improvement	*18%*
Supply chain stability improvement	*12%*
Other	*10%*

- Additional revenues, cost reductions
- Utilise cash surplus
- Optimize corporate finance (incl. Asset financing)

Key success drivers for Supply Chain Finance programmes

To maximise the working capital potential of a SCF programme it should be part of an integrated Procure to Pay (P2P) strategy and approach – follow the lead of many global companies that have already implemented SCF.

Key Drivers of Success for Supply Chain Finance Programmes

Selection of the right Technology Platform and Financing Partner

- SCF has been around for decades, resulting in multiple technology approaches that offer different levels of flexibility and integration with your ERP system – selecting the right one is key for long term success
- Cutting-edge Fintech allows you to tap into global finance markets. The off-balance sheet nature of SCF allows to add financing providers despite possible restrictions from debt covenants.

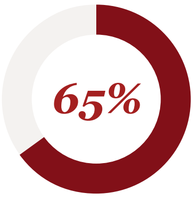
Cross-functional approach

- Despite the name containing “Finance”, SCF programmes cannot be successfully rolled out only with the involvement of the Treasury or Finance function – Procurement and Accounts Payable are equally important
- Successful SCF programmes bridge the functional gaps and align the organisation to a common Procure-to-Pay strategy

Integration into a comprehensive Procure-to-Pay Initiative

- Minimise invoice approval times, maximise use of e-invoicing, self-billing and cooperation with suppliers
- Payment term and payment run enhancement; Differentiated terms strategy with aligned payment runs
- Consideration of small business suppliers; be economic with corporates – nurture small businesses

What does the Research Say?



of European companies with revenues larger $750m revenues run a supply chain finance program

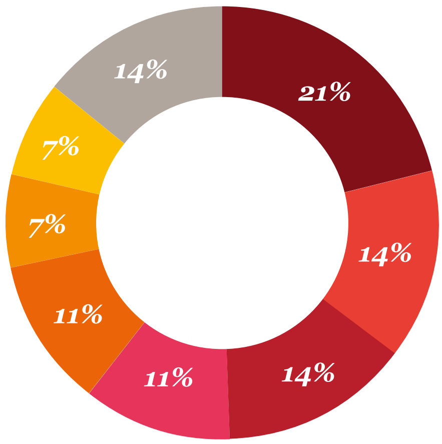
of Australian large companies have implemented a supply chain finance program so far

Increase in Earnings-per-Share (EPS) through Working Capital Management with SCF

SCF is not industry specific...

Respondents with SCF in place

- Consumer Goods
- Automotive
- Communications & IT
- Energy, Utilities & Mining
- Industrial Manufacturing
- Transport & Logistics
- Professional Services
- Other



How can PwC assist you

PwC's dedicated Working Capital Management team combines global best practice experience with industry knowledge to provide our clients with expert advice and implementation assistance to maximise benefits.

Supply Chain Finance Feasibility Review & Opportunity Estimation

- Quantitative analysis of spend data to estimate SCF opportunities (Cash & EBIT)
- Supplier-industry specific terms benchmark Performance assessment in invoice processing and approval price
- Assessment of electronic invoicing penetration, non-PO spend

Procure-to-Pay Opportunity Assessment

- Review of end-to-end process capability in Cash-Cost-Service performance
- Quantification of benefits from avoiding early/late payments, improved terms structures (end-of-month terms, settlement discounts), optimised payment channels (PCards, SCF, EFT, etc)
- Opportunities of invoice scanning, EDI interfaces, robotics and AP automation
- Optimised use of ERP resources, better controlling & governance

Working Capital Project Management Office

- Establishment of global PMO to drive change through the organisation
- Performance Dashboards with drill-down capability
- Executive and operational KPIs and performance reporting
- Action plan development and monitoring of progress
- Build-up of a Working Capital Centre of Excellence for the client

Total Working Capital Programmes

- Total Programme from Analysis over Implementation Sustainability activities
- Roadmap development, action planning and delivery of best practice processes, tools and IP
- Cooperative approach with client resources for upskilling and sustainability
- Measurable impact within 2-6 months, payback while we are still working with you
- Contingent fee arrangements

Our specialist capabilities

- Dedicated working capital expert team
- Industry experience
- Tailored best practice methodology
- Proven change management capabilities
- Hands on mentality and collaborative mindset
- Focus on knowledge transfer

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