Greensill Capital

Supply Chain Finance
Technology and the long tail

March 2016

Greensill Capital

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Greensill Capital is an independent financial services firm and principal investor group specializing in structured trade finance, working capital optimization and sales financing for investment grade and non-investment grade companies globally.

By the Numbers

Over 130 employees dedicated to Supply Chain Finance (SCF) supporting over 100 active programs.

The team has originated and executed over 225 SCF programs in their careers at Citibank, Morgan Stanley, HSBC, JPMC and Deutsche Bank.

Heritage

Greensill Capital was founded by Lex Greensill in 2011 by a team with over 12 years experience working together.

Lex is the Senior Advisor to the UK Prime Minister and was the head of SCF at Citibank and Morgan Stanley.

Funding Capacity

Greensill Capital is an active and established investor in SCF assets utilizing its own balance sheet as well as that of its subsidiary bank and a network of bank and non-bank institutional investors. Existing programs range from $1MM to $1BN in funded assets.

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First, why do we need Supply Chain Finance and Early Payments?

Large Corporate Financial Landscape

1. Corporates have record cash but are obtaining low returns on that cash. In Europe, investors are obtaining negative returns. So corporates needs other options to deploy this cash.

2. Banks are happy to lend to large corporates, but corporates don't need more cash and they do not want to take on more debt. So banks need something to do with the cash.

3. Governments are asking corporates to pay their suppliers faster via initiatives such as SupplierPay, the European Prompt Pay Directives and the Security of Payments Act in Australia.

4. Financial analysts are placing additional focus on working capital and free cash flow, encouraging companies to extend payment terms across their supply chains and discouraging solutions which consume cash.

Small and Medium Enterprise (SME) Financial Landscape

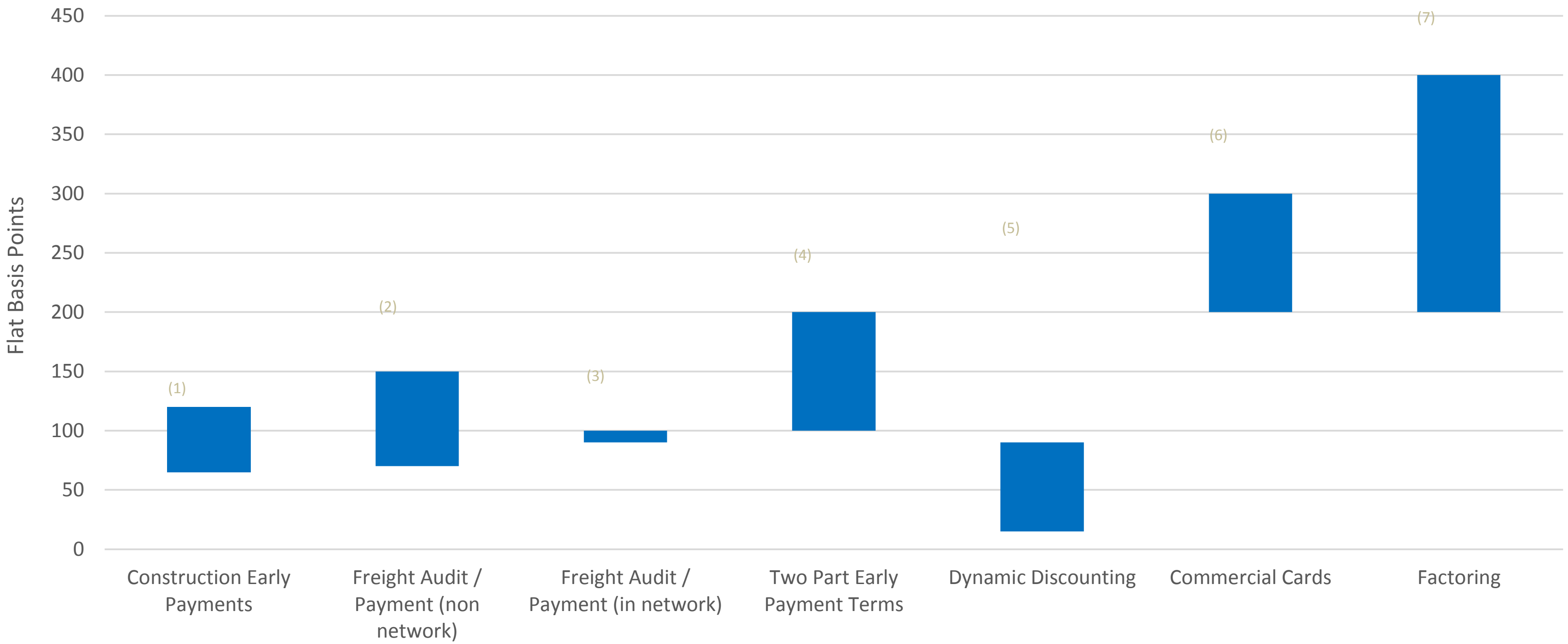
1	Over 50% of the Australian working population works for a SME business. There are 2.2MM SME businesses in the Australia, outnumbering large corporates by 1416 to 1.
2	Factoring and Commercial Cards are growing at 12-20%+ per annum because banks are not lending to small businesses. These are the solutions of last resort due to high interest rates.
3	Bank financing makes up 90% of an SME's access to capital[(1)] but banks will continue to tighten access to credit as Basel II is fully implemented in Australia[(2)].
4	Finance costs for SMEs peaked at 15x that of large corporates during the crisis, tightened to 2.5x from 2012 onward but have again widened to 5.4x over the last six months.

[1] "2011 Economic Report of the President", Council of Economic Advisors, The White House
[2] "Survey of Credit Underwriting Practices 2014", Office of the Comptroller of the Currency

So what's wrong with the existing Early Payment solutions?

Accelerated Payments are Very Common

Circa $6.5 Trillion of annual payments in the US are settled early each year at a discount to the face value of the Invoice, so we know Suppliers like the idea.



(1) Construction Payment Management early settlements
(2) A local St Louis freight / audit payment company which processes $40 Billion of freight payments per year to 10,000+ suppliers
(3) US Bank's Syncada, which offers 1% flat discount for immediate payment to members in the Syncada network, to 4,000+ suppliers
(4) The most common early payment discount term is "2% 10 Net 30". 40% of suppliers offer early payment discounts globally: (http://global.atradius.com/images/stories/Publications/payment_pratices/Round10/25-10-2011_PR_HQ_PPB10.pdf). Assuming 10% of payments are on discount terms, this reflects $3.3 Trillion of COGS being discounted in the US
(5) The Dynamic Discounting market, such as Taulia, Ariba, JMPC Xign, Hap-X and C2FO
(6) The $900 Billion US Commercial Card market (https://www.reportbuyer.com/product/167107/commercial-payment-cards-the-u-s-and-global-markets-and-trends-8th-edition.html#utm_source=prnewswire)
(7) The $1.9 Trillion US Factoring market (http://www.fci.nl/news/detail/?id=323)

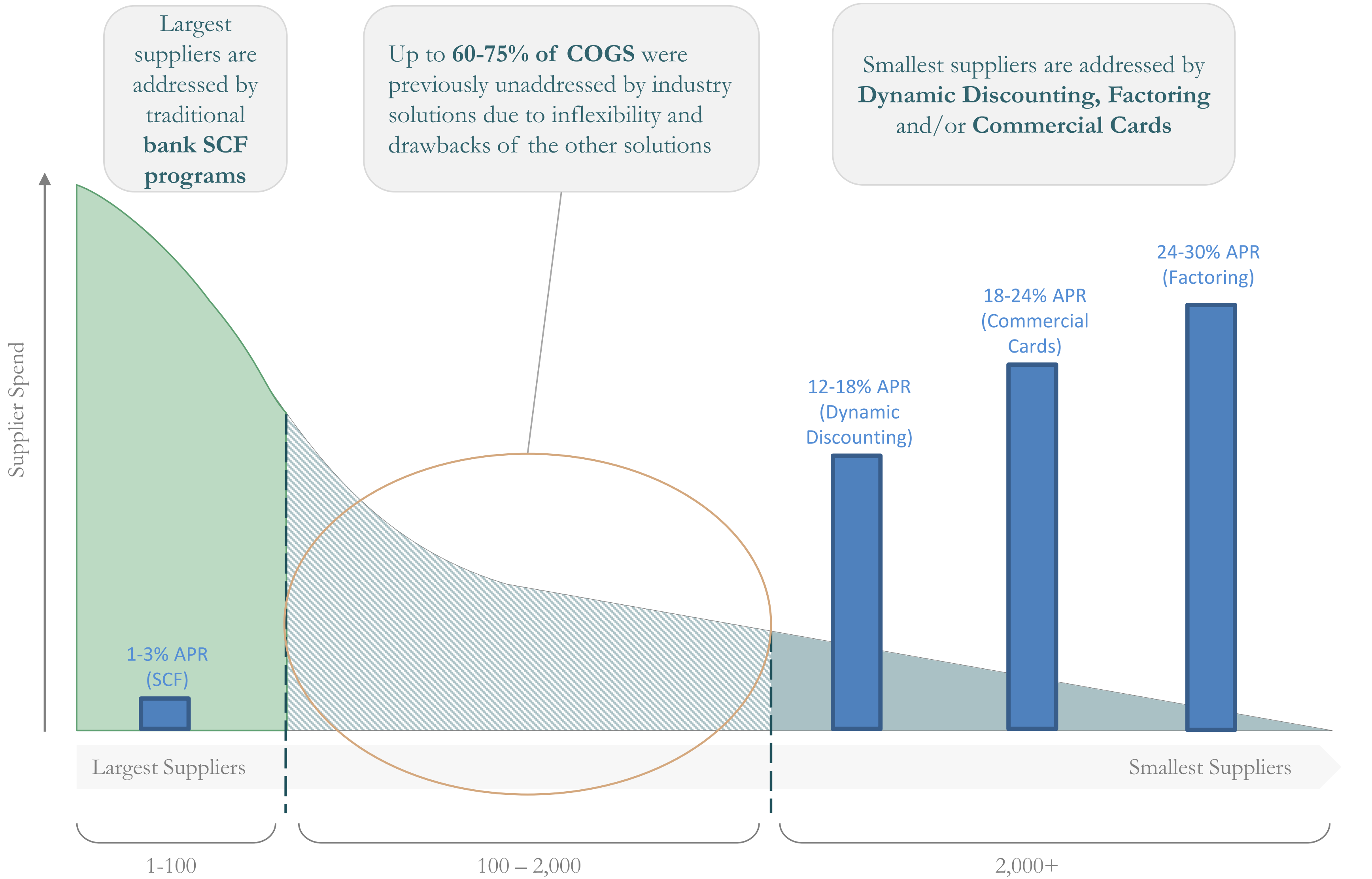
Supply Chain Finance version 1.0 is a Step in the Right Direction

Supply Chain Financing (SCF), also called Reverse Factoring, is the use of third party capital to pay your Suppliers early.

Worldwide, the use of Supply Chain Finance increased 70% from 2012 to 2014 and is expected to continue to grow at 25-30% per annum(1).

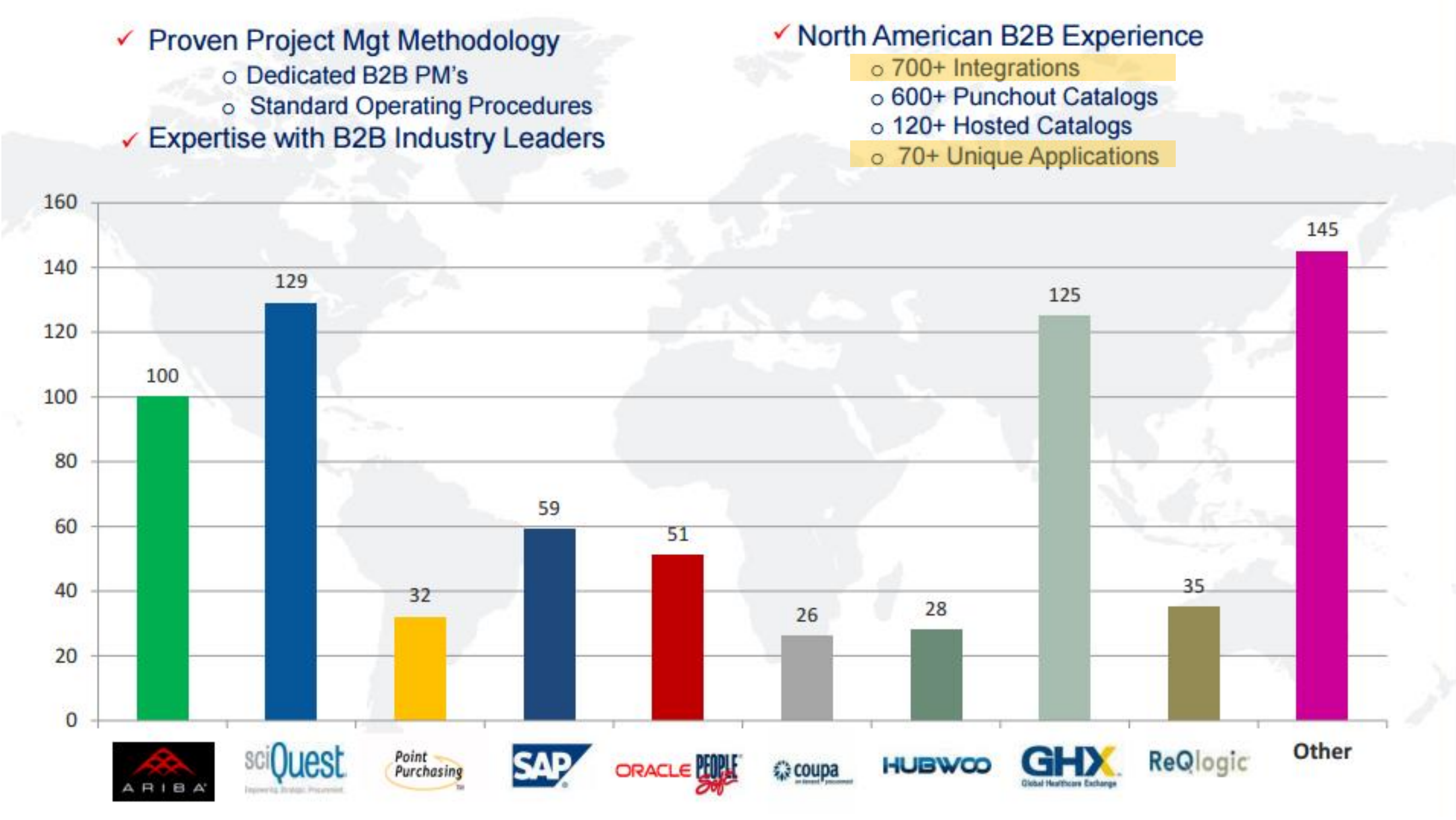
1 "World Supply Chain Finance Report 2015," BCR Publishing

But There is a Large Gap in what Existing Solutions Address



And Suppliers Do Not Want Another Portal

- Per a recent Basware report there are over 200 eInvoice networks[1]
- Suppliers are burdened with integration to multiple platforms[2]



[1] http://www.basware.com/global-business-network-basware/interoperability
[2] VWR Scientific's B2B Integration Footprint, http://www.softwareplatform.net/2016/01/19/quartzy-a-new-business-model-in-e-procurement/

Existing Solutions Are Not Perfect

Factoring	• An expensive option for Suppliers, often 24-36% APR • High level of operational impact as the Factor takes over all collections for that Supplier • 70% of the fees charged by the Factor cover operational costs, not financing costs • Often prevents the Supplier from participating in other forms of more favourable financing
Commercial Cards	• High Supplier-facing rates, as high as 2.65% flat discount plus merchant acquiring fees • Inflexible Supplier-facing rates due to Visa, MasterCard and Amex interchange rules • 0.31% flat friction cost to the “Cards rails” • Unable to provide Buyers with desired 90-120 day payment terms

Existing Solutions Are Not Perfect

Bank SCF

- Typically targets only the largest 100-200 Suppliers due to complicated Supplier on-boarding paperwork and receivables purchase restrictions
- Singular focus on improving working capital which excludes other beneficiaries such as Procurement or Accounts Payable
- Requires the deployment of a single use platform to the Suppliers and often limited capital if via a single bank

Dynamic Discounting

- Shortens Days Payable Outstanding (DPO) which is contrary to working capital goals
- Removes Cash from the balance sheet so the quantum of funds devoted to the program by Treasury may be limited
- Often introduced at APRs of 12%, 18% or 24% to ensure Treasury obtains a sufficient return on committed capital

Ok, so how is the SCF industry innovating?

Innovation is Common in Financial Services

FinTech Companies utilize core Banking Services but Improve the Usability

KICKSTARTER

PROSPER

PayPal™

LendingClub

gofundme

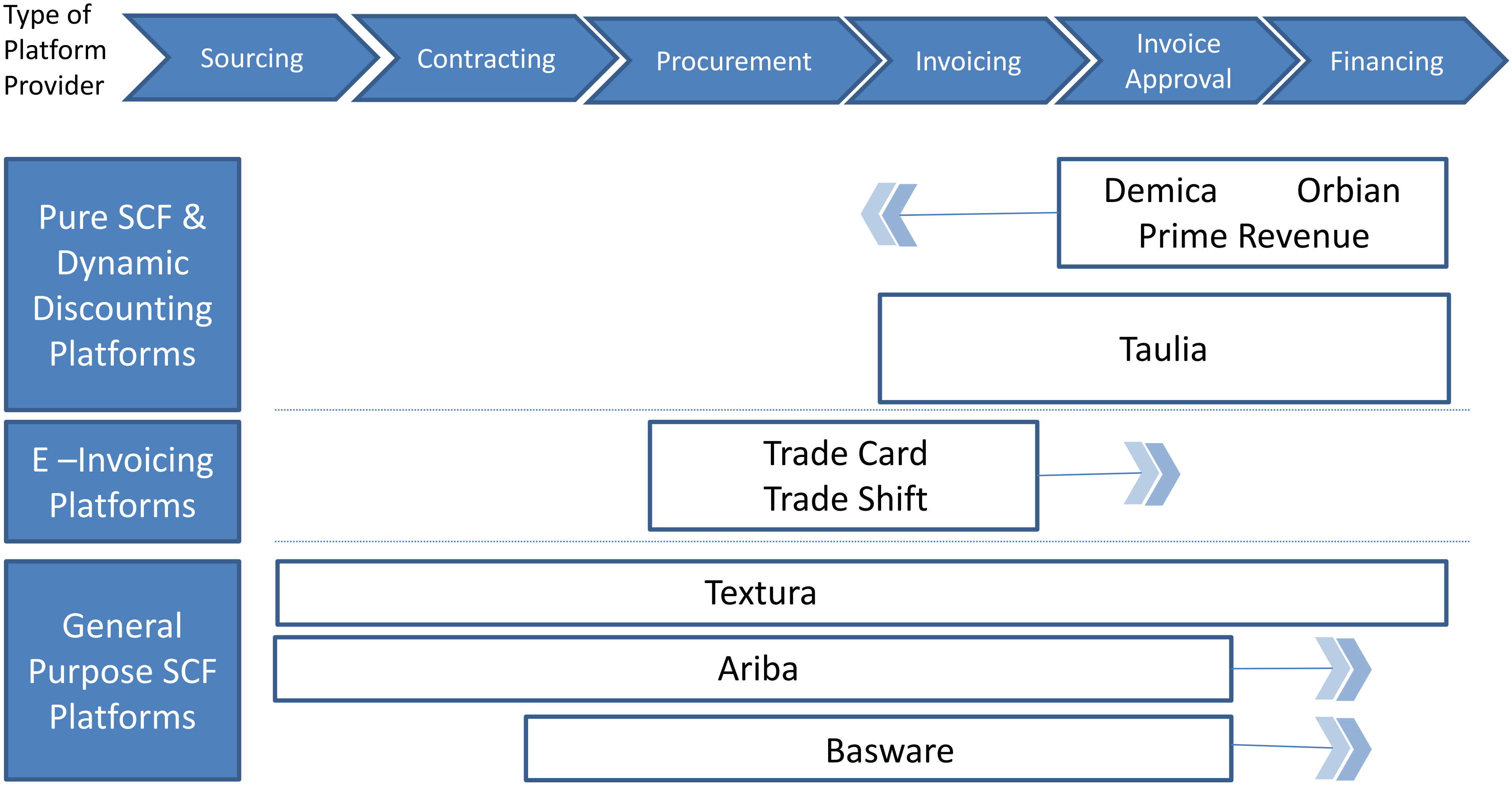
Square

Pay

OnDeck

stripe

Fintechs offer solutions across the procure to pay cycle



Expansion of observed offering

Source: McKinsey analysis and Greensill Analysis

Industry Innovations to Address 100% of the Supply Chain

1	Adding a Pay Me Now button to existing procure-to-pay (P2P) and Electronic Invoice Presentment and Payment (EIPP) platforms, Treasury Workstation providers and ERP systems – no new portal.
2	Single click Supplier on-boarding allowing thousands of Suppliers to access early payments, not just hundreds.
3	Utilizing banks plus the non-bank financial market to provide the capital for SCF programs, supporting non-investment grade Buyers as well as providing lower cost capital than banks are able to provide.
4	Returning a revenue stream to the Buyer, similar to PCards and Dynamic Discounting, but allowing Buyers to capture discounts without the use of their cash and without shortening their DPO.

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