# COOPCOIN

# a decentralized Asset-Based Token platform

Type: BUSINESS CASE

Category: 100 - FACTORING

Status: DRAFT

Created: 2018-05

Requires: ABTRC 100 - FACTORING

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## BUSINESS CASE

**Factoring allows companies to actively manage their working capital**

In a factoring transaction a supplier company (Seller) sells its accounts receivable from a client (Debtor) to a factor (Investor) at a discount to face value. When the invoice is paid by the Debtor, the investor receives the principal plus charges, and the balance goes to the Seller. As a result, the supplier reduces the duration of its accounts receivable, turns them into cash to redeploy in its business.

**Suppliers are getting squeezed and some fail due to inadequate cash flow management[1][2][3][4]**

In recent years large companies have renegotiated payment terms with their suppliers extending the payment terms to 90 or 120 days after the purchase date. As a result, small and medium sized suppliers are facing increasing challenges managing their cash flow. By delaying payments to suppliers, the larger companies have more cash for any number of projects but the small and medium suppliers have little cushion and face higher financing costs. This can be disastrous to their bottom line.

According to a recent U.S. Bank study reported that poor cash flow management is a contributing factor for 82% of small businesses that fail within the first five years of operation. Larger businesses also benefit from active cash flow management to achieve faster growth, more flexible business management, and as a valuable tool for survival during times of tight liquidity or economic distress.

**Factoring has grown to a market size of €2,598bn annual volume[5]**

In 2017, factoring volumes in the European region grew by 7 percent and now represent 65 percent of the total worldwide. Asia grew by 18 percent and accounts for 25 percent of the world. The growth was led by China, an impressive 34 percent, now the second largest factoring market in the world at €406 surpassing the United Kingdom.

The Americas region grew 5 percent and represent 8 percent of global volume. Africa and the Middle East regions grew by 6 percent each respectively.

**Factoring still remains a relatively inflexible and manual-intensive process that is dominated by large financial institutions and specialised factoring vendors[6][7][8]**

Businesses usually enter into a bilateral factoring contract with a factoring company at pre-agreed terms depending on their annual turnover and the type and location of their

accounts receivable debtors. A factoring line is established which allows the seller of the invoices  funds up to a pre-specified notional amount for the duration of the contract.

Factoring has various types of agreements. The two most common are non-recourse and full-recourse. In a full-recourse transaction, the factor holds the right to claim back the factoring amount from seller if  the debtor fails to meet its payment obligations when due. The factor does not have such rights under a non-recourse factoring and bears the full credit risk. To ameliorate risk, factors often buy credit insurance from specialised insurance providers to mitigate their credit-default risk.

The factoring industry has made efforts to streamline their processes; however, large established factoring companies largely rely on paper-based documentation and a high degree of manual interaction. Inefficiencies and overhead costs account for the fact that feasible factoring solutions are only available to businesses with revenues in excess of five hundred thousand (500,000) Euros or at a relatively high annualised cost in excess of twenty five percent (25%) APR.[9]

**CoopCoin's first step is to bring the factoring process onto the blockchain and to make it equally accessible to all businesses and investors**

CoopCoin is an Ethereum based platform, directly connecting entities looking to sell their accounts receivable and investors seeking short term investment opportunities. It seeks to allow businesses of any size to use completely digital, immutable and auditable, self-executing smart contracts to, as a first step, conduct factoring.

Businesses and investors can identify investment opportunities in form of Factoring-ABTs (FABT or ABT100) on CoopCoin, relying on blockchain technology to carry out their transactions on a smart tradeable contract. CoopCoin plans to add a 'tranche functionality' allowing one or several bidders will be able to invest in a whole invoice or split it up in tranches among themselves through an auction format.

Tokenization of each individual factoring contract in the form of an ABT promotes liquidity through the creation of a secondary market for outstanding accounts receivable. Investors can trade their ABTs and collectively contribute to an efficient price discovery mechanism. CoopCoin expects this feature will develop a significant source of information about the credit quality of the participants, pricing in the primary market and the reputation of investors.
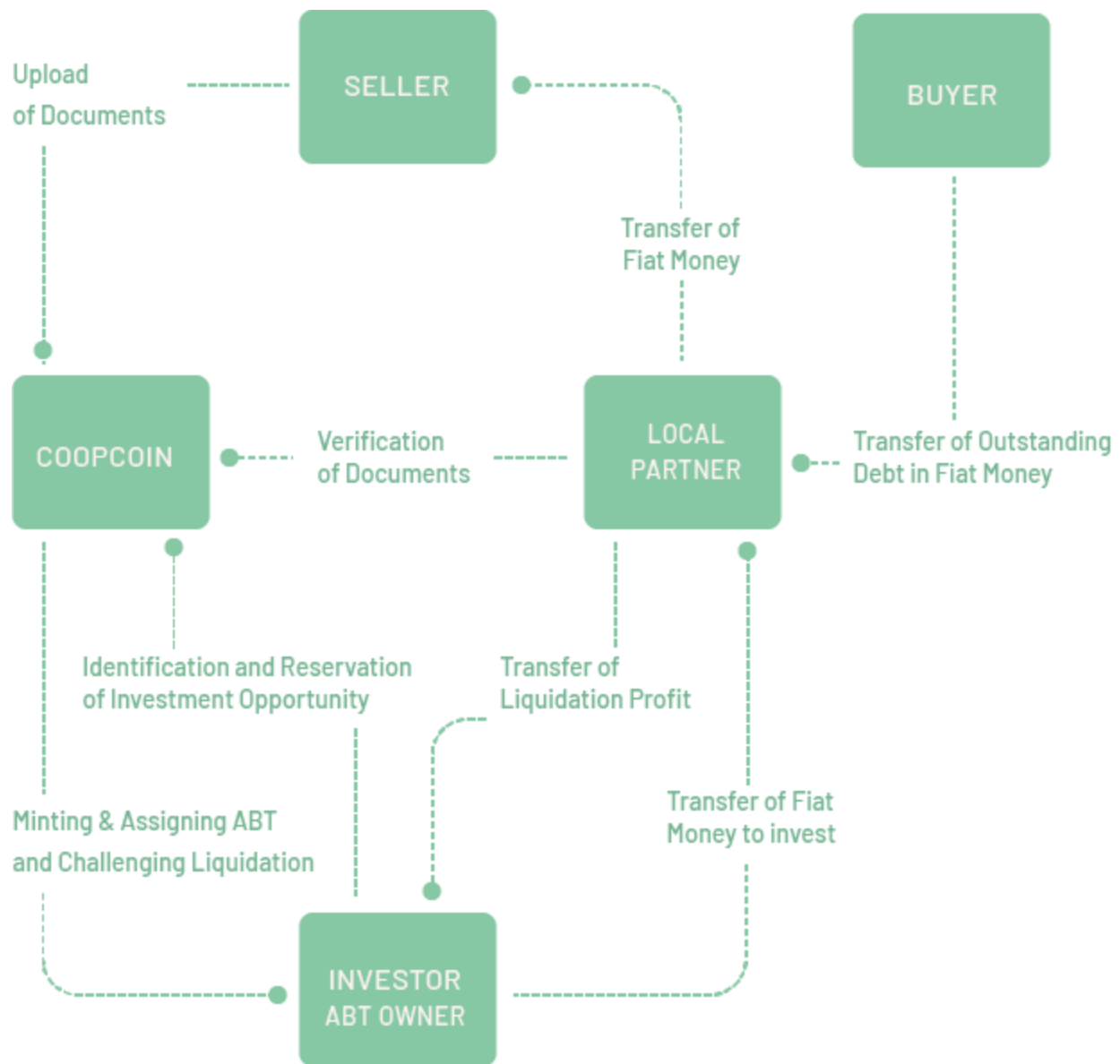
## MARKET AND COMPETITIVE LANDSCAPE

According to the 2017 FCI Annual Review, the factoring industry registered total volume of Euro 2.5 trillion in 2017. Europe leads in market share with 65% of the total world factoring volume, Asia is second with 22%.[11]

**Small GDP penetration**[12, 13, 14]

The global factoring industry has a very small GDP penetration, 3.8 percent in 2015. These statistics per country highlight the growth potential of factoring around the world. UK as the most mature market has a volume equivalent to 12 percent of GDP, the United States (0.5%), Mexico (2.2%), Germany (6%), China (4.2%), and Hong Kong / Singapore / Taiwan / Japan together average (2.9%).

**In the hands of very few players**[12, 13, 14]

As reported by FCI, factoring transactions are largely concentrated: Concentration Ratio CR5, accounting for 84% of the market. Bank divisions are 46%, banks owned companies 27% and independents at 11% in 2015. There are 2,800 companies in the sector, the annual turnover per client is around Euro 4 million pointing to small and medium-size enterprises (SMEs).

**The following are findings of our research**

**A large group of companies offer factoring platforms at high prices & interest rates.**
GoSocket, Billie, Bibby, Bluevine, Americanreceivable, Marketinvoice, CapitalSpringboard, PrimeRevenue, EulerHermes are a few examples of platforms working to facilitate factoring or factoring services online. These companies have at least a few of these four things in common: 1) high usage fees, 2) high discount rates for buying an invoice, 3) non-transparent processes for calculating the total costs of factoring, and 4) a lack of a small-individual investor base. Some services even come with very odd restrictions, such as only factoring with payment terms shorter than 13 weeks or the requirement for a sellers to have a substantial balance sheet.

**Investors continue to pour in capital attracted by the potential.**
Bluevine recently secured a US$ 200m debt financing facility from Credit Suisse, bringing its total financing to around US$ 518m. Billie in Germany brought in US$ 10m in recent funding. PrimeRevenue attracted $80m investment. Well-known Venture Capital firms (i.e., Battery Ventures, Lightspeed Venture Partners, Fortress Investment Group) are placing their bets into the invoice financing market.

**Two blockchain-related ventures with recent token sales.**
Populous and Hive Project are two examples of blockchain-related ventures with recent token sales. We kindly ask the interested reader to examine their code, products or white papers for themselves. In general, it is very positive to see that the ideas and dreams of those two projects have been well received by the investment community and generated significant public interest.

**CoopCoin creates a new asset and aims to change today's factoring market**
We believe CoopCoin opens up the field to new investors who until recently had no opportunity or awareness of accounts receivable investing. It is paramount that liquidity and reduced friction on the CoopCoin platform impact the existing factoring services and spur improvement in rates of return for all involved. CoopCoin will look forward to entering into partnering agreements with current players for the benefit of the companies looking to offer their accounts receivable.

## MARKETING CONCEPT

Initially, CoopCoin is focused on factoring from suppliers to established companies to reduce complexity, default risk and overhead costs. These companies are analyzed on a case by case basis, and once a company is verified, its suppliers are be able to factor with CoopCoin.

CoopCoin has identified the following potential users and believes that they have a motivation to populate and grow CoopCoin:

Buyers (Debtors) benefit from participating on CoopCoin by reducing their internal costs such as the costs associated with manual processes often handled by an accounts payable department. CoopCoin seeks to reduce the complexity in factoring by offering companies the ability to make payments into one single segregated bank account. Invoices from multiple suppliers are paid at maturity and the funds redirected appropriately to the investor who purchased the invoice through a factoring agreement and the supplier who sold it. As a result, there is a reduction in the risk of "double-invoicing". An extended list of benefits is in the Order-to-Cash-Risks section of the Appendix.

EDI and/or B2B platforms have the potential to multiply CoopCoin's platform use. Electronic Data Interchange (EDI) and/or Business-to-Business (B2B) platforms provide valuable input for factoring companies and the overall factoring process. Such data as electronically verified ARs could be uploaded onto CoopCoin and facilitate the quick creation of a factoring contract. The potential integration of EDI and/or B2B platforms into CoopCoin would bring added value and increased market penetration.

Financial Institutions seeking short-term instruments, i.e. factoring, have the potential to drive growth of the platform as they seek to eliminate intermediaries in an effort to lower the costs and conditions. Several financial institutions have already established independent investment units specialized in crypto. Such financial institutions are potential customers for factoring transactions as well as buyers and suppliers of COOP tokens.

Suppliers will recognize the benefit of doing business with buyers that have been verified on CoopCoin to ease the path to quick and efficient factoring with minimal effort. Suppliers will therefore be motivated to consult with their buyers as well as other suppliers to make CoopCoin their factoring platform. The more suppliers from one buyer are on CoopCoin, the more options will be available for factors to invest. In the second phase, factors will also be able to invest in a bundle of multiple ARs from one debtor thus making it possible to do larger investments, easier, quicker and at a lower transaction cost.

Private Investors are largely excluded from the factoring market today. CoopCoin seeks to make it more accessible to small private investors. Given the differences of interest paid for example on a german government bond vs. the cost of capital of a mexican company, it could be very attractive for a german individual to buy an ABT from a mexican company, receiving a multiple of return compared to his/her local investment opportunities.

Insurance companies face increasing cash balances and limited investment options available to them.[15]

"Buy local" is an important goal in CoopCoin's marketing approach. CoopCoin plans to bring the "buy local" approach to a new level: "invest local". We believe supporting local business can be attractive financially and makes economic sense. CoopCoin seeks to support regional companies, co-operatives, small and mid-sized suppliers, farmers looking to improve their overall cash flow at the lowest cost possible.

The economic importance of cooperatives is highlighted in a study by the University of Wisconsin Center for Cooperatives (http://reic.uwcc.wisc.edu/sites/all/REIC_FINAL.pdf) which shows there are "nearly 30,000 cooperatives in the United States that account for >$3T in assets, >$500B in total revenue, $25B in wages and benefits, and nearly 1M jobs.

## FINANCIALS

**CoopCoin's financial forecast is based on a top down approach**

The forecast covers the first 4 years of operations and are based on conservative assumptions (please refer to the appendix for details). In our current planning, we are considering a rollout in the following markets: United States, Mexico, Germany, UK, Italy and China, followed by Hong Kong, Singapore, Taiwan, Japan and the next 20 markets (10 in year 3 and another 10 in year 4) ranked by strategic value and annual factoring volume.

These markets represent approximately $2.2 trillion. Our forecast is based on CoopCoin market share starting at (on average) 0.02 percent and growing annually until it reaches

a conservative 1.5 percent in year 4. Based on this assumption we forecast the total factoring volume processed through CoopCoin to reach $37 bn in year 4 generating revenues of $149m assuming an average fee of 0.5 percent of factored notional. This fee will be charged in COOP, meaning the equivalent fiat-currency amount of COOP will have to be bought and burned for processes that will be charged, reducing the total amount of COOP available.

Furthermore, we expect the sales and marketing expenses to reach a total of $14m across all target markets by year 4. Additionally, we believe a further $7m in total will be required to cover general administration expenses for the first 4 years. In order to be able to shoulder the envisaged ramp-up in operations we plan staffing numbers to reach 158 and a total compensation cost of $39m by year 4. Compliance and regulatory legal budget allocations are critical in CoopCoin's business model. We expect to spend a considerable amount of resources prior to entering any country to ensure compliance with local regulation when entering the market. In our financial projections, we are estimating Y1-Y4 $4.5m, $4.75m, $7.25m, $7.25m annually.

In the absence of significant expenses for capex and cost of financing this translates to a negative EBITDA of $7.9m in year 1. Estimated EBITDA in year 2 is $4.7m, $53.7m for year 3 and $148.2m in year 4.

In the more optimistic case where our market share is 50% higher than that in our base case, our EBITDA for Y1 - Y4 is: -$6.4m; $11.9m; $74m; $197.8m.

# APPENDIX

## FINANCIAL PROJECTIONS

### Top down model - Base case

| in $ thousand, unless otherwise noted | Base case scenario | | | |
|---|---|---|---|---|
| **Summary** | **Year 1** | **Year 2** | **Year 3** | **Year 4** |
| Revenue | 2,333 | 22,019 | 78,850 | 183,842 |
| SGA | 4,749 | 11,495 | 16,874 | 27,318 |
| Legal, regulatory and compliance | 4,500 | 4,750 | 7,250 | 7,250 |
| SGA % Revenues | 203.6% | 52.2% | 21.4% | 14.9% |
| Sales + Marketing | 1,000 | 3,700 | 4,110 | 5,260 |
| G&A | 330 | 1,073 | 1,848 | 3,663 |
| Salary expenses | 4,419 | 7,722 | 11,916 | 19,395 |
| Earnings before taxes | (7,916) | 4,775 | 53,726 | 148,274 |
| **Assumptions** | | | | |
| CoopCoin fee | 0.50% | 0.50% | 0.50% | 0.50% |
| Sales & Marketing average expense | 200 | 200 | 200 | 200 |
| General & Admin average expense | 110 | 110 | 110 | 110 |
| Employee average salary | 90 | 90 | 90 | 90 |
| Employees | 17 | 40 | 80 | 158 |
| Tax rate | 20% | 20% | 20% | 20% |
| GDP, in $ trillion | 43 | 44 | 45 | 46 |
| Market size, in $ billion | 2,407 | 2,455 | 2,504 | 2,554 |
| CoopCoin market share $ | 466,514 | 4,403,885 | 15,769,932 | 36,768,346 |
| CoopCoin market share % | 0.02% | 0.18% | 0.63% | 1.44% |

## ORDER-TO-CASH-RISKS

| | | |
|---|---|---|
| Credit Mgmt | Cash Application | Modify cash received for fraudulent purposes. |
| Credit Mgmt | Sales Rebates | Manipulate the user's credit limit and assign generous rebates to execute a marginal customer's order. |
| Credit Mgmt | Sales Orders, Agreements or Contracts | Enter or modify sales documents and approve customer credit limits |
| Process Credit Memo | AR Payments | Initiate an unauthorized payment to the customer by entering fictitious credit memos. |
| Cash Application | Maintain Billing Documents | Create a billing document for a customer and inappropriately post a payment from the same customer to conceal non-payment. |
| Cash Application | Process Customer Invoices | User can create/change an invoice and enter/change payments against the invoice. |
| Cash Application | Customer Master Maintenance | Risk of the same person entering changes to the Customer Master file and modifying the Cash Received for the customer. |
| Cash Application | Delivery Processing | User can create fictitious/incorrect delivery and enter payments against these, potentially misappropriating goods. |
| Cash Application | Sales Rebates | Enter a fictitious sales rebates and then render fictitious payments. |
| Cash Application | Sales Invoice Release | Change the accounts receivable records to cover differences with customer statements. |
| Cash Application | Sales Orders, Agreements or Contracts | Enter a fictitious sales document and then render fictitious payments. |
| AR Payments | Customer Master Maintenance | Create a fictitious customer and initiate payment to the unauthorized customer. |
| Maintain Billing Documents | Customer Master Maintenance | User can create a fictitious customer and then issue invoices to the customer. |
| Maintain Billing Documents | Sales Orders, Agreements or Contracts | Inappropriately create or change a sales document and generate a corresponding billing document for it. |

| | | |
|---|---|---|
| Maintain Billing Documents | Sales Pricing Maintenance | Risk of Sales Price modifications for Sales invoicing. |
| Customer Master Maintenance | Process Customer Invoices | Make an unauthorized change to the master record (payment terms, tolerance level) in favor of the customer and enter an inappropriate invoice. |
| Customer Master Maintenance | Sales Rebates | Inappropriately create or change rebate agreements and manage a customer's master record in the favor of the customer. Could also change a customer's master record to direct payment to an inappropriate location. |
| Process Customer Invoices | Credit Management | Risk of modifying and entering Sales Invoices and approving Credit Limits by the same person. |
| Process Customer Invoices | Sales Orders, Agreements or Contracts | User able to create a fraudulent sales contract to include additional goods and enter an incorrect customer invoice to hide the deception. |
| Process Customer Invoices | Sales Pricing Maintenance | Sales price modifications for sales invoicing. |
| Clear Customer Balance | Maintain Billing Documents | Potentially clear a customer's balance before and create or make the same change to the billing document for the same customer, clearing them of their obligation. |
| Clear Customer Balance | Process Credit Memo | Create a credit memo for a customer then clear the same customer, prompting a payment to the customer. |
| Clear Customer Balance | Customer Master Maintenance | Maintain a customer master record and post a fraudulent payment against it. |
| Clear Customer Balance | Sales Orders, Agreements or Contracts | Create sales documents and immediately clear customer's obligation |
| Sales Orders, Agreements or Contracts | Sales Rebates | Risk of entering sales documents and giving sales rebates by the same person, effectively granting an indirect price discount. |
| Sales Orders, Agreements or Contracts | Sales Pricing Maintenance | Enter sales documents and lower prices for fraudulent gain. |
| Sales Rebates | Maintain Billing Documents | Creating fictitious sales rebates by modifying customer invoices may result in loss of profitability or unauthorized rebates. |
| Sales Rebates | Process Customer Credit Memos | Creating fictitious sales rebates by entering credit memos may result in loss of profitability or unauthorized rebates. |

| Sales Rebates | Process Customer Invoices | Creating fictitious sales rebates by modifying customer invoices may result in loss of profitability or unauthorized rebates. |
| --- | --- | --- |
| Sales Rebates | Sales Pricing Condition | Creating fictitious sales rebates by adjusting pricing conditions may result in loss of profitability or unauthorized rebate. |

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