



Accounts  
Receivables  
Purchase  
Program

# Citigroup® Global Transaction Services

*Cash Management Trade Services and Finance Securities and Fund Services*

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## Accounts Receivables Purchase Program

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# Agenda

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## ■ BASIC OVERVIEW

- The Conflict
- The Solution
- Key Structuring Blocks
- A Case Study

## ■ SAMPLE TERMS

- Parties and Definitions
- Sample Structure
- Documentation

## ■ STRUCTURAL VARIATIONS

## ■ DECIDING TO PROCEED

- First Steps – What do you have
- Second Steps – What do you want
- Addressing a few Misconceptions

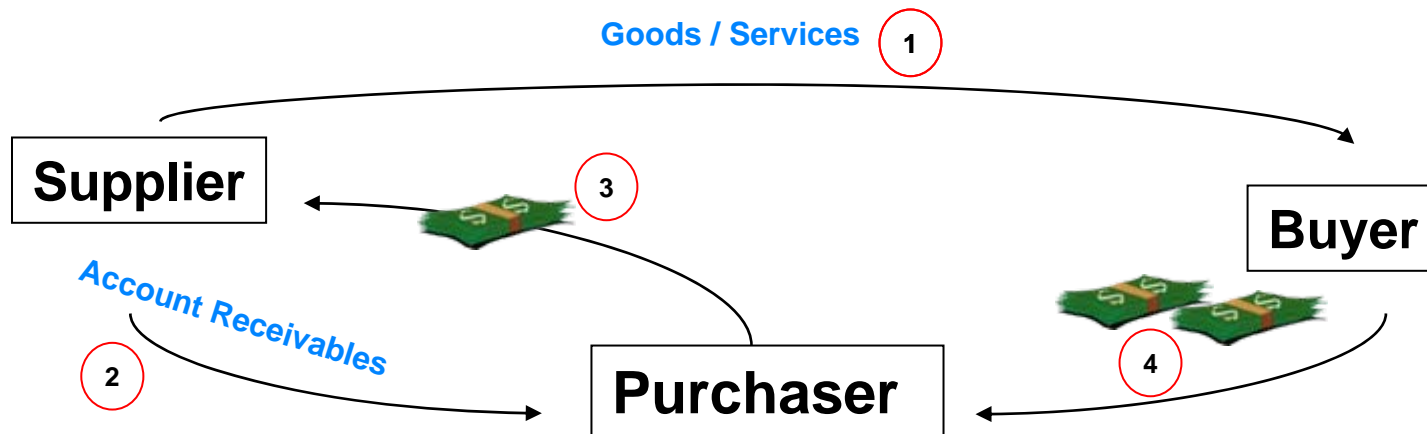
# *Account Receivables Purchase*

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## Basic Overview

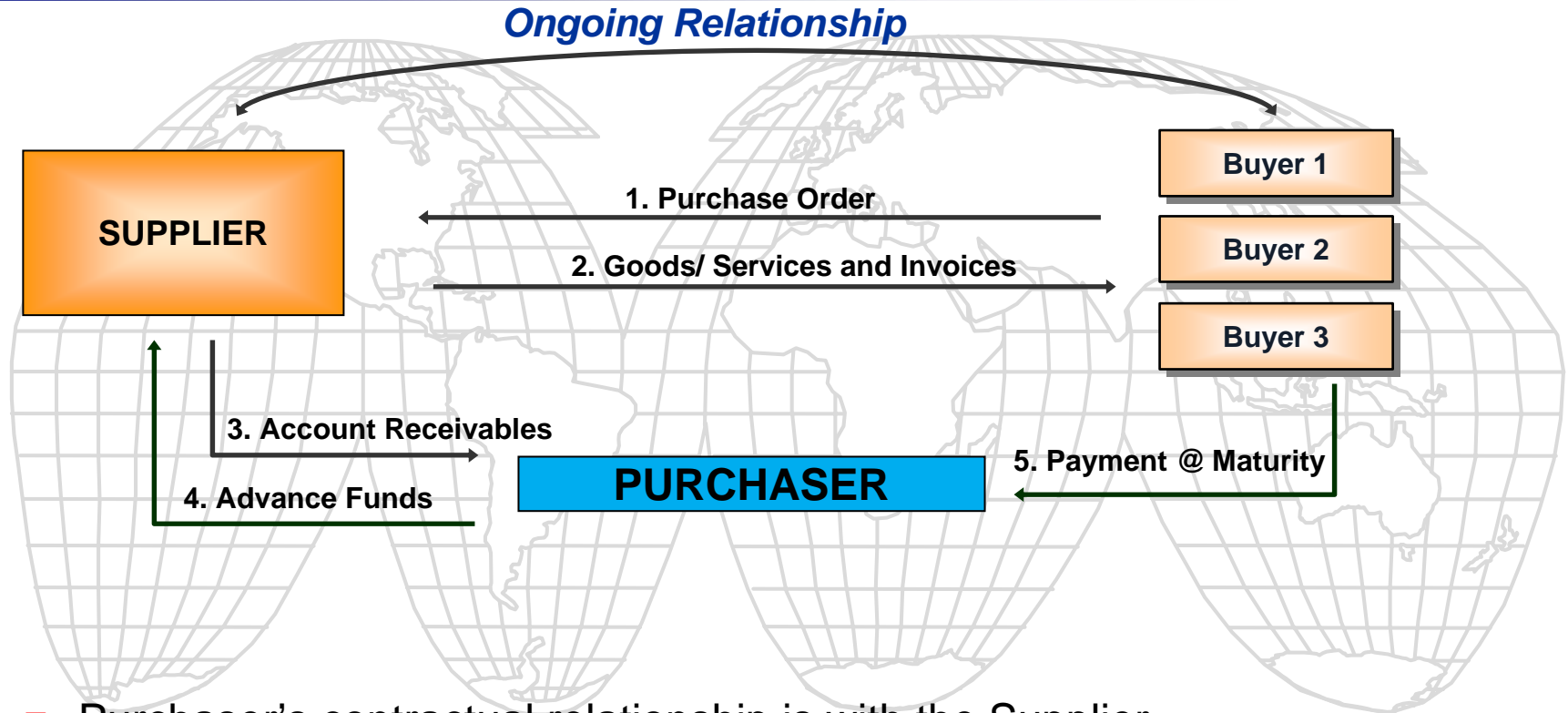
# Account Receivables Purchase: The Conflict

- **Suppliers and Buyers have Contradictory Objectives**
  - Supplier wants to convert inventory to cash as early as possible
  - Buyer wants to optimize cash flows by “stretching the trade”



- **Account Receivables Purchase Addresses This Conflict**

# Account Receivables Purchase: The Solution



- Purchaser's contractual relationship is with the Supplier
- Purchaser finances/purchases account receivables at an advance rate that is determined based on historical dilutions
- Buyers pays into collection account that is owned / pledged / assigned

# Account Receivables Purchase - Key Structuring Blocks

## Accounts Receivable

- Current and Short-term ( $\leq 180$  days)
- Post-shipment
- Related to Supplier's/ Buyer's core business
- No Inter-company receivables

## Advance Rate

- **Multiple of Historic Dilutions**
  - Based on due diligence and Supplier risk
  - Calculated based on a formula

## Recourse Level

- **Limited / non-recourse**
  - Purchaser takes insolvency risk of the Buyers
  - Purchaser takes contingent risk on Supplier
  - Supplier retains commercial dilution/dispute risk

## Cash Dominion

- **Assigned / Controlled**
- **Bank Owned**
  - All sold receivables remittances are collected in Purchaser owned / controlled account.

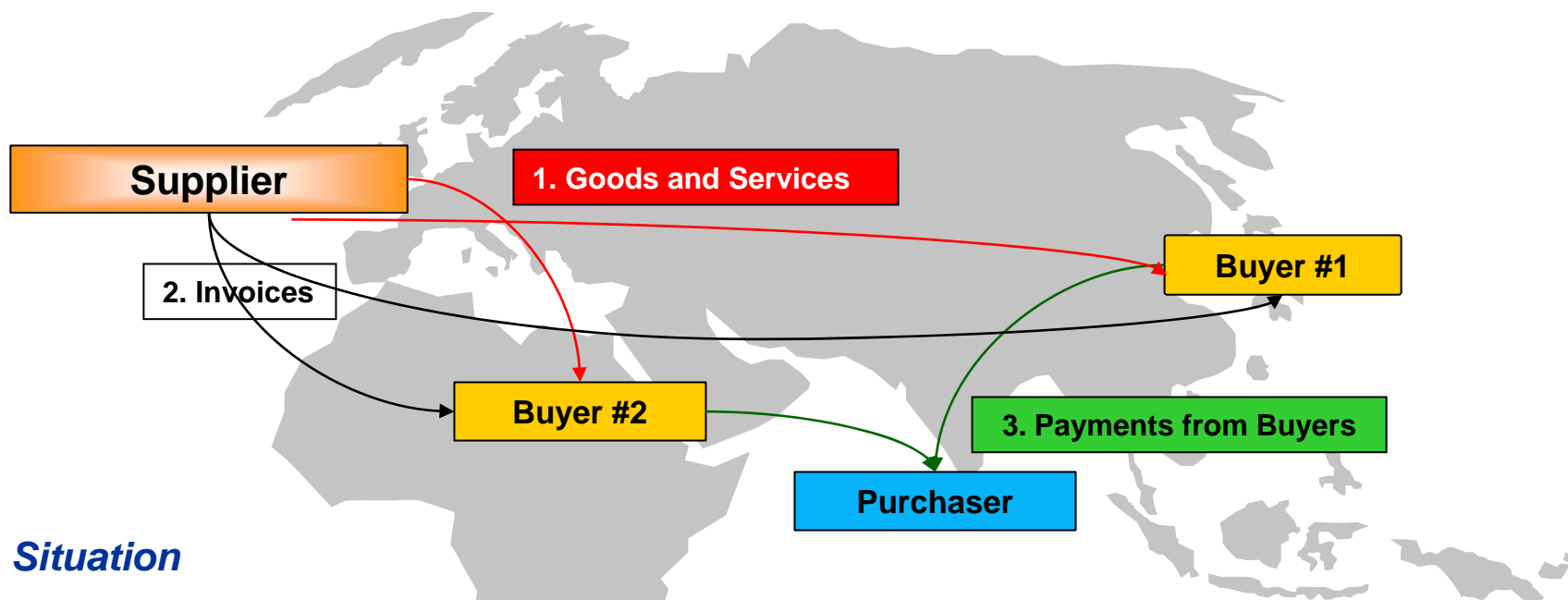
## Disclosure

- *Purchase disclosed to Buyers or Silent*
- *Notification to Buyers*

## Other Considerations

- Committed or Uncommitted Facility
- Credit worthiness of Buyers
- Credit Enhancements (e.g. insurance)

# A Case Study



## Situation

- US based client selling to European retailer on 120+ day terms
- Objective: Improve working capital, improve efficiency ratios and reduce DSO
- Requirement: Solution should have Off Balance Sheet treatment
- Other Consideration: Mitigation of Buyer Credit Risk due to High Concentration,
- Solution: A \$150 million AR Finance facility, priced 45bps cheaper than current revolver

# *Account Receivables Purchase*

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# Sample Terms

# Account Receivables Purchase: Sample Terms

**Facility Description:** Uncommitted Receivables Purchase Facility

**Facility Amount:** The initial Facility limit based upon Purchaser's credit appetite for the individual Buyers proposed by Supplier. Increase in limit or addition of Buyer subject to Purchaser's prior approval.

**Supplier:** *Company selling its receivables to Purchaser*

**Purchaser:** Supplier's bank or other receivables purchasing entity

**Buyer[s]:** Supplier's customers that are approved for inclusion in the facility by the Purchaser.

**Underlying Transaction:** Sales of product or services to Buyer[s] as part of Supplier's core business

**Receivables:** Valid, current trade receivables arising from the underlying sale of goods /services to Buyer[s], documented by Supplier's invoices or drafts (the "Receivables"). Supplier will represent and warrant that the Receivables are bona fide payment obligations of the Buyer[s] due on the respective due dates, that no actual or pending dispute or event of default exists, that the amounts owed are free of allowances, set-offs, counterclaims, or side agreements, and make such other representations and warranties as are customary for facilities of this nature.

**Receivables Tenor:** Short term – generally not to exceed 180 days

**Purchase Price:** **Adjusted invoice face amount** net of returns, allowances and discounts taken by the Buyer[s], less the Discount Margin agreed between the Supplier and the Purchaser (the "Purchase Price").

**Discount Margin:** LIBOR + [an agreed number of basis points] per annum, calculated on the basis of the face value of each invoice for the number of days between the date of discounting and the expected payment date.

**Security Interests:** Supplier generally will be required to grant the Purchaser a security interest in Receivables other than those purchased. Purchaser will require free and clear title to the purchased Receivables.

# Account Receivables Purchase: Sample Terms (cont. 2)

## ***Sample Structure:***

- 1. The Supplier and the Purchaser enter into a Purchase Agreement, providing detailed terms and conditions of the Supplier's sale and the Purchaser's purchase of the Receivables.**
- 2. Supplier instructs its Buyer[s] to pay to a designated Collection Account, assigned, pledged or owned by Purchaser.**
- 3. Supplier may be designated by the Purchaser as its agent for collections and required to perform standard commercial activities related to collection of the Receivables**
- 4. Supplier presents invoices to the Purchaser on an agreed basis (weekly or bi-weekly). Purchaser may request copies or original invoices and/or conclusive proof of delivery for all goods sold or other information or documents as necessary.**
- 5. Following acceptance of Supplier's invoices, the Purchaser will credit the Supplier with the Purchase Price of the Receivables less any agreed reductions and net of any amounts due by Supplier to Purchaser.**
- 6. Buyer[s] remit funds in respect of the Receivables to the Collection Account.**
- 7. Supplier will perform detailed reconciliations of the payments received.**
- 8. The Purchaser assumes insolvency risk of the Buyer[s]. Supplier remains responsible for all non-insolvency related dilutions.**
- 9. The Supplier agrees to immediately advise the Purchaser of any commercial dispute between the Buyer[s] and the Supplier.**

## Account Receivables Purchase: Sample Terms (cont. 3)

***Account Receivables Purchase Documentation* would include the following elements:**

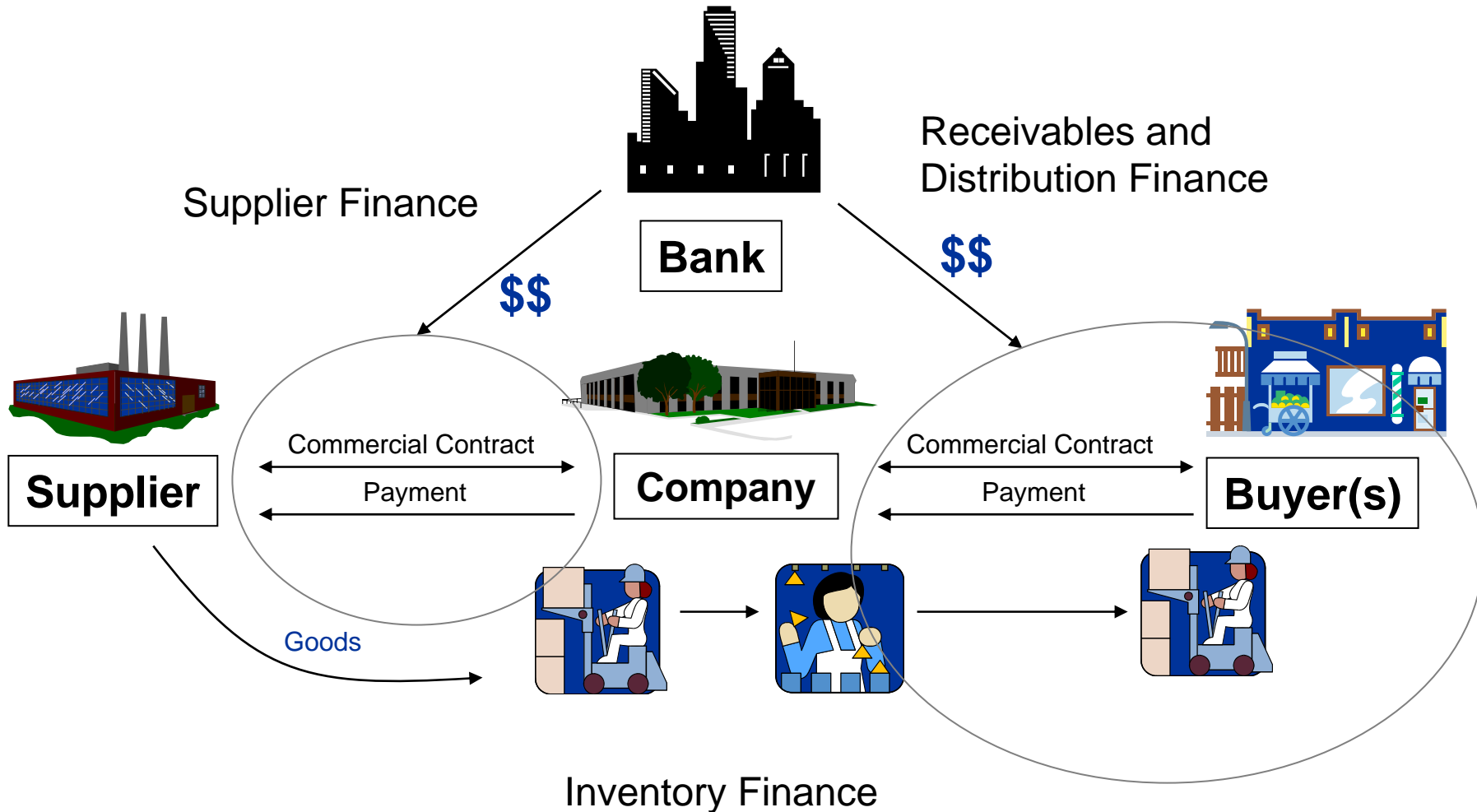
- 1. A Purchase Agreement between Supplier and Purchaser, providing the basis for the sale of the Receivables to the Purchaser and containing conditions precedent to closing and to each sale, representations and warranties, covenants, events of repurchase and termination events customary for facilities of this nature; and**
- 2. An opinion letter from Supplier's outside counsel acceptable to Purchaser, including with respect to true sale of the Receivables, and acknowledgement of proper accounting recognition of the transaction, if required; and**
- 3. UCC-1 financing statements to perfect the Receivables purchase and the security interests granted by Supplier; and**
- 4. A release of liens agreement from any secured creditor or beneficiary of pledged Receivables; and**
- 5. If applicable, a performance guarantee to support the performance and limited recourse obligations of the Supplier or any subsidiary(ies) under the Purchase Agreement; and**
- 6. If applicable, an account control agreement or similar security agreement, to establish Purchaser's first priority perfected security interest in the Collection Account.**

*Account Receivables Purchase*

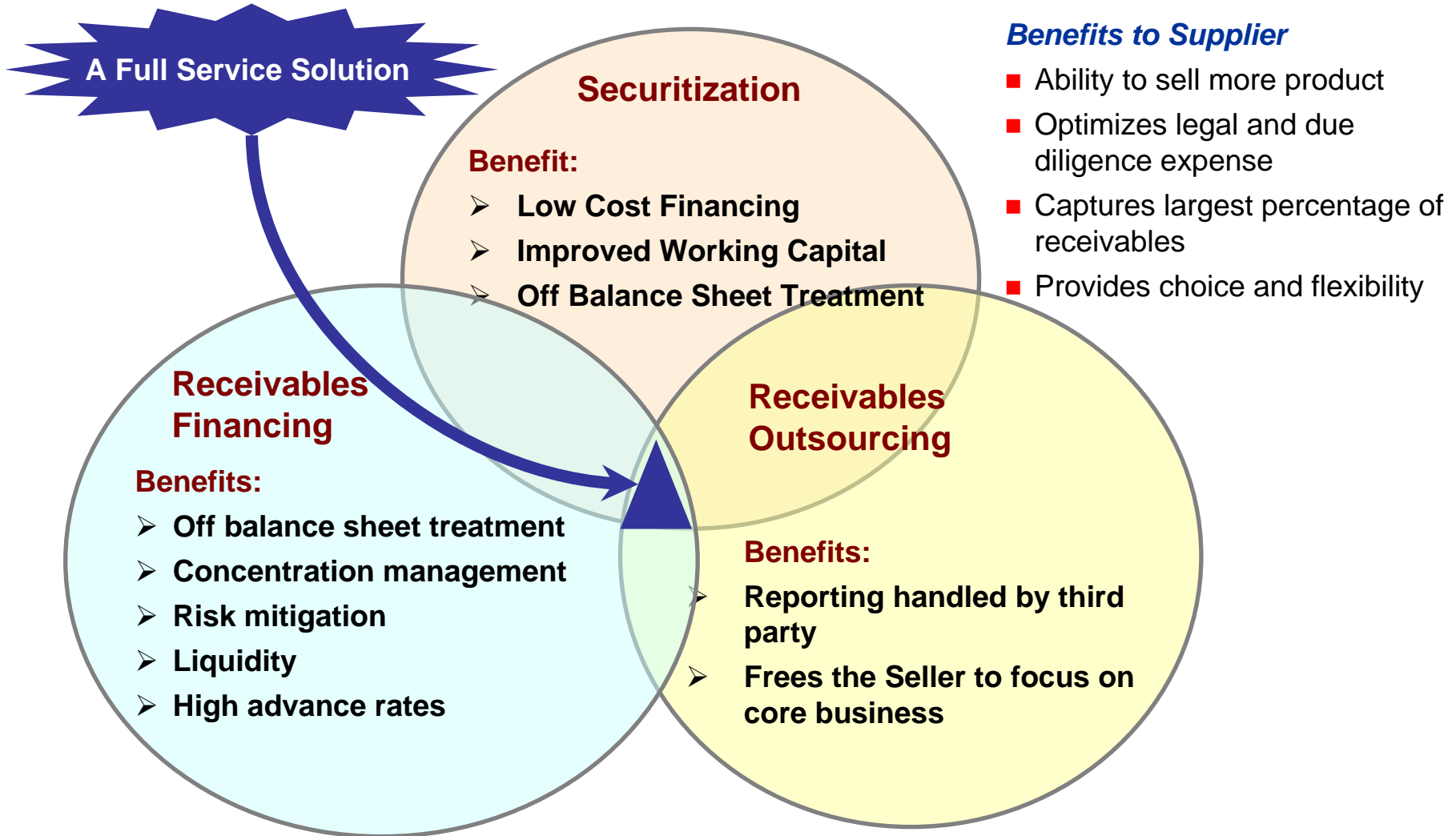
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# Structural Variations

# Structural Variations



# An Integrated Solution



*Account Receivables Purchase*

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# Deciding to Proceed

# Accounts Receivable Finance: First Steps

## ■ Understand your Supply Chain

- Supplier's and Buyers' relationship
- Terms as a driver for margin / sales growth
- Objective: what is your key working capital objective?

## ■ Understand your Account Receivables

- Are there large concentrations? Are Buyers better rated than yourself?
- What is the payment performance history? What % of overdue / returns?
- Objective: determine the right fit: ABL / ABF, Securitization or Account Receivables Purchase

## ■ Understand your Organization

- Invoice generation process
- Account Receivables collection and reconciliation process
- Customer contract relationship – Is approval of Buyer required?
- Objective: identify the financing currency, legal jurisdiction, and operation location

# Account Receivables Purchase: Second Steps

## ■ Identify which Account Receivables to Sell

- To minimize cost: sell receivables from highly rated Buyers
- To maximize advance rate: sell receivables with best payment history (lowest returns, disputes, discounts)
- To optimize facility size: sell largest concentration of receivables

## ■ Identify your preferred Structure

- Single buyer, multiple buyers, or portfolio of buyers
- Single country, or multiple countries
- Single supplier entity, or multiple entities

## ■ Develop your Account Receivables Purchase Strategy

- Prepare list of outstandings from the last few quarters with aging report
- Identify need: quarter end, year end, or ongoing sales
- Committed or uncommitted facility
- Insured or uninsured

## ■ Structure and Customize your Solution

- Be clear about objectives
- Aim for easy implementation, flexible structure

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