

CAPX INVOICE DISCOUNTING

Presentation to the Portfolio Committee on Small Business Development

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INTRODUCTION

- CapX Invoice Discounting (Pty) Ltd ("CapX") is a company within the CapX Finance Group.
- CapX is funded partly by **sefa** (R30 million) and partly by its majority shareholder (R10m). ✓ — Mr Rossouw
- CapX provides finance by way of Invoice Discounting to SMEs.

HISTORY OF CAPX FINANCE GROUP

← Gd relath w SEFA

- Formed in 1999 to finance SMEs.
- Focus on alternative finance ("AltFin"):
 - Financial products not generally offered by banks;
 - To clients who do not qualify for bank funding.

LOCATION AND GEOGRAPHICAL SPREAD

- Based in Cape Town.
- Clients spread all over South Africa.
- Regular visits to clients.
- Transactions done via internet, e-mail, fax and telephone.

FINANCIAL PRODUCTS OFFERED BY CAPX GROUP

- **Secured Loans**

Security = fixed property

- **Factoring**

Security = general debtors

- **Merchant Cash Advances**

Security = future credit and debit card sales

- **Credit Facilities**

Security = combination of debtors & property

- **Invoice Discounting**

Security = specific invoices issued to specific debtors

[NB: Invoice Discounting is the *only* financial product funded by **sefa**].

INVOICE DISCOUNTING

- Since June 2009.
- We discount between R 50 000 and R 1.5 million per client per debtor per month.
- Higher amounts considered if debtors are very creditworthy (e.g. listed on JSE).
- Currently CapX's main product focus.
- Huge opportunities for assisting SMEs in South Africa.

ACHIEVEMENTS TO DATE (INVOICE DISCOUNTING)

- CapX drew down R 30 million from **sefa** within 15 months (from June 2013).
- 6,400 Invoice Discounting transactions concluded over 4 years, with a total value of more than R 710 million.
- Number of black-owned clients increasing consistently – from around 10% to about 45% today (target = 50%).
- Female-owned clients vary from 35% to 40% in recent months (target = 25%).

- Youth-owned clients have been up to 40% in recent months (target = 25%).

- Jobs created:

On average, we create one new job for every R71,500 (approximate) which we advance for a period of one year.

Based on the amounts advanced to date, we estimate that we have created 1,224 jobs over the past 4 years. ✓

$$[R710,000,000 / 365 \times 45 / 71,500]$$

*Priority Provinces
Low Provinces.*

- Priority provinces – 12.5%, probably due to location of suppliers to larger companies being mainly in Gauteng, KZN and WCape.

DESCRIPTION OF INVOICE DISCOUNTING

*Explained
Math*

Typical SME cash flow problem

- Small SME sells product or renders service on credit to a larger, creditworthy Debtor;
- E.g. ABC Enterprises supplies washing pegs to Very Large Limited;
- ABC issues invoice to Very Large Limited;
- Very Large Limited will only pay invoice amount to ABC in 30 days;

- Very Large Limited immediately orders more washing pegs from ABC;
 - ABC does not have the cash to buy the new washing pegs ordered by Very Large Limited.
- Classic cash flow problem for SME which is outgrowing its own working capital.
- SMEs working capital is increasingly locked up in its debtors.
- Caused by SMEs' inability to beat the large companies at arm-wrestling for cash.

Solution = **Disclosed Single Invoice Discounting**

NB requirements: ✓

How it works

1. Uniquely applicable to SMEs which are suppliers of goods or services to larger, *creditworthy* companies; and
2. Debtor's co-operation is necessary:
 - a. Debtor must be *satisfied* with product/service delivered before invoice can be discounted.
 - b. Debtor must *approve* payment of invoice.
 - c. Debtor must *agree* to pay CapX directly.

Mechanism

- CapX:
 - contacts Very Large Limited,
 - verifies that the invoice has been approved for payment;
 - arranges direct payment to CapX by Very Large Limited.

- ABC immediately sells its invoice (actually its right to the future invoice payment from Very Large Limited) to a finance house ("CapX").

- CapX immediately pays ABC at a discount.

- CapX collects invoice payment from Very Large Limited in 30 days' time.

Discount

= cost of funding for ABC;

- Ranges between 3.0% and 4.5% per month; ✓

- Cannot be compared to typical bank funding rates because client does not qualify for bank funding;

- Compares favourably to a typical "*cash settlement discount*" or "*early settlement discount*".

Benefits of Disclosed Single Invoice Discounting

For SME:

- Allows SMEs to free up working capital without the traditional securities required by banks.
- Working capital can immediately be used again instead of having to wait for 30/60/90 days.
- Often saves SME from disaster/going under.

For Financier:

- Financier's credit risk lies with debtor (Very Large Limited) and not with supplier (ABC Enterprises).
- Debtor confirms goods/services have been delivered/performed to debtor's satisfaction.
- Debtor is fully aware that it is obliged to pay the Financier.
- Payment is made directly from debtor to Financier's bank account.

CapX has a flexible approach

- Each SME has unique circumstances/requirements.
- Client does not have to discount all its invoices to CapX. →

- Client can discount only a portion of an invoice to CapX.
- Many variations of Invoice Discounting – disclosed or undisclosed, reverse discounting or supply chain finance, full and partial discounting, single invoice discounting and factoring.
- Final product always shaped around the SME – its financial circumstances and needs, its debtor’s credit standing, trade terms and payment history as well as the history of the relationship between supplier and debtor.

OUR CHALLENGES

- Limited capital
 - No further funding received from **sefa** since September 2014 (recently applied for a further R20m).
 - Cannot get funding into this company from other funders due to different objectives/frameworks and securities all taken by **sefa**. *s. ce. Sanlam/Job Creatⁿ rather than ownership*
- Monthly cash flow cycle
 - Difficult to accept new clients when close to funding ceiling – we must keep a “buffer” of available cash to assist existing clients.
 - Certain months (Jan and Feb) are slower – we often have large amounts of cash available which we cannot (in terms of our agreement) repay to **sefa**.

- Result – sometimes large amounts of cash in bank at month-end, other times short on funds.

RISK ASSESSMENT

Strengths

- More flexibility and lower rates than competitors.
- Intimate understanding of invoice discounting as a product.
- Experienced personnel – exceptionally low staff turnover.
- Credit insurance (80% of our credit risk is covered).
- Very strong internet marketing skills.
- Countrywide referral network.

Weaknesses

- Lack of brand awareness amongst potential client base.
- Lack of product awareness amongst potential client base.

Very unique part

Opportunities

- Economic crisis/recession – more businesses need external funding.
- Government backs SMEs and job creation.

- Large debtors are extending payment terms - this creates more demand for invoice discounting.

Threats

Not Credit Risk

- Fraud - ~~although we have developed extensive fraud prevention systems and procedures~~, fraud is our largest single risk - *desperate owners of businesses do desperate things to keep them alive.*

• *Cooperate plus someone @ big co. w someone @ small idea*

INVOICE DISCOUNTING: THE IDEAL PRODUCT TO PROVIDE FINANCIAL ASSISTANCE TO SME SUPPLIERS TO GOVERNMENT AND PARASTATALS

- We receive numerous enquiries every day from SME suppliers to government and parastatals.
- Unable to assist these clients due to the following:



Government contracts prohibit cession of rights and obligations - we must take cession of invoice payment rights;

Payment rights shld be ceded 2 financiers

- Very difficult to find an official who is duly authorised and willing to confirm the validity of invoices;

- Unable to arrange payment directly from government into CapX's bank account.

- ➔ There is a huge need/opportunity for funding SME suppliers to government by way of Invoice Discounting, but intervention and co-operation is required at the highest level to address these stumbling blocks.

Compare: invoice discounting systems in South America

SUCCESS STORIES

Case study 1

One of our first clients was a transport company which started off with two trucks. He needed to discount his invoices in order to grow his business. He required cash flow to make his diesel payments and increased monthly debit orders as he acquired new trucks. The client started discounting his invoices to us, with one debtor of about R30 000 per month.

Four years later the client now owns 16 trucks and provides services to various clients in the Western Cape. At one stage the client discounted around R500 000 per month for his 4 biggest clients. He has now reached a stage where his business has matured and he doesn't require invoice discounting anymore as his cash flow has stabilised.

A true success story where our invoice discounting product was able to assist the client in the growth phase of his business through numerous tight month-end scenarios until he was able to stand on his own feet.

Case study 2

One of our long-standing clients has been discounting their invoices with us since June of 2014. They transport anthracite for a big mine in KZN.

The company started off quite small and needed some cash flow to take on new business and more employees.

Since they have started using invoice discounting, there has been an increase in their business growth. Invoice discounting has improved their cash flow and has opened new doors for them in terms of getting new and bigger contracts.

They have managed to increase their monthly invoice values from less than R 100 000 a year ago, to more than R 300 000 currently.

Case study 3

CapX recently received an enquiry from a prospective client with quite a unique situation. The client has a large staff compliment, which in turn generates a hefty salary run on the 25th of each month. Although they did not experience payment problems from their debtors, who paid on time at the end of the month, their cash flow was almost depleted come the 25th. Payments would only be received after the salary run, which left them with a serious cash shortage. They approached CapX for a solution.

Our invoice discounting product was able to easily resolve their cash flow conundrum. They now discount only one of their debtors' invoices on the 24th of each month to ensure they have adequate funds available for salary payments. This debtor pays these invoices no more than 7 days later, which also keeps the costs of discounting to a minimum.

This client illustrates how specialised invoice discounting can easily overcome a cash flow deficit and alleviate any stresses surrounding salary payment runs for workforce intensive companies.