RAISTONE

# SUSTAINING GROWTH

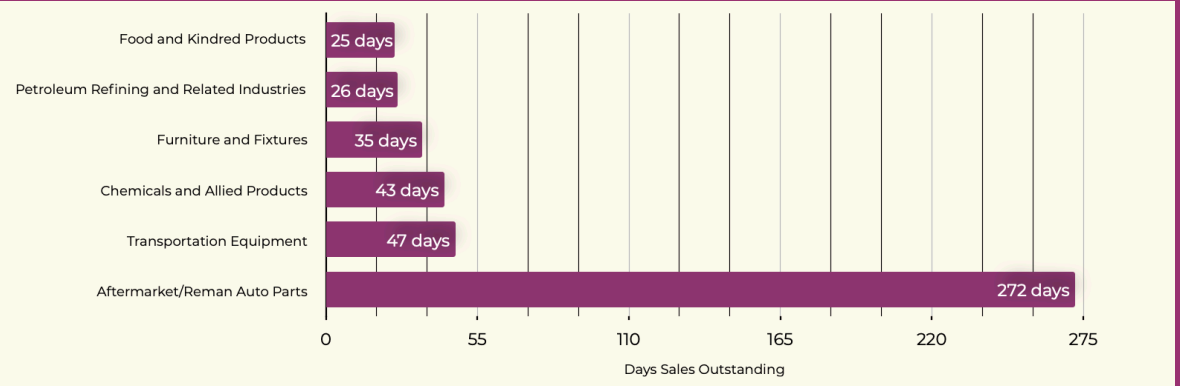
## Benefits of Accounts Receivable Finance and Supply Chain Finance for Remanufacturing Companies

# Remanufacturing companies are getting squeezed.

Since 2012, the average days sales outstanding for automotive aftermarket suppliers, including remanufacturers, has increased by 37 days to 272 days, the latest data from Raistone reveals.

## AFTERMARKET AND REMANUFACTURING COMPANIES ARE OUTLIERS

A comparison of Days Sales Outstanding across industries highlights that aftermarket and remanufactured automotive parts suppliers wait much longer than other verticals to get paid — nearly 10 times that of companies operating in the food industry.




Sources: Raistone proprietary 2021 data for aftermarket auto parts suppliers. Dun & Bradstreet and Credit Research Foundation *Accounts Receivable and Days Sales Outstanding Industry Report Q4 2021* for all other industry data.

The remanufacturing sector has historically been one of the worst for delayed payments in the U.S. economy — and it is deteriorating even further. In some cases, remanufacturers have customers imposing terms over 360 days, and yet they must still pay their lower-tier component suppliers in as little as 30 days, with the trend only worsening due to recent economic conditions.

Despite this crisis, many sustainable manufacturers have not been able to unlock the millions of dollars in working capital that is trapped on their balance sheets. By tapping working capital using established non-debt financial tools with non-bank financial institutions, companies can grow their business, invest in capital expenditures, issue dividends to investors, improve their capital adequacy ratios, pay down debt, make acquisitions, and much more.


# INNOVATIVE CAPITAL SOLUTIONS

Cash can be extracted from the balance sheet with a two-pronged approach:

- *Accounts Receivable Finance*, which allows sustainable manufacturers and suppliers to collect payment due from their customers early.
- *Supply Chain Finance*, which enables those same companies to extend their days payable outstanding while ensuring lower-tier suppliers can still be paid in a timely manner.

## Why choose both Supply Chain Finance and Accounts Receivable Finance?

Consider this common scenario: A remanufacturing company wins a new contract to supply remanufactured fuel injectors to a major automotive parts distributor. The supplier's revenue is about to jump, but traditional banking partners simply do not have the flexibility to support the overnight surge in demand this new contract has brought on. The reman supplier then finds itself struggling to obtain the capital necessary to acquire worn injectors, buy replacement components, and remanufacture and ship the injectors.

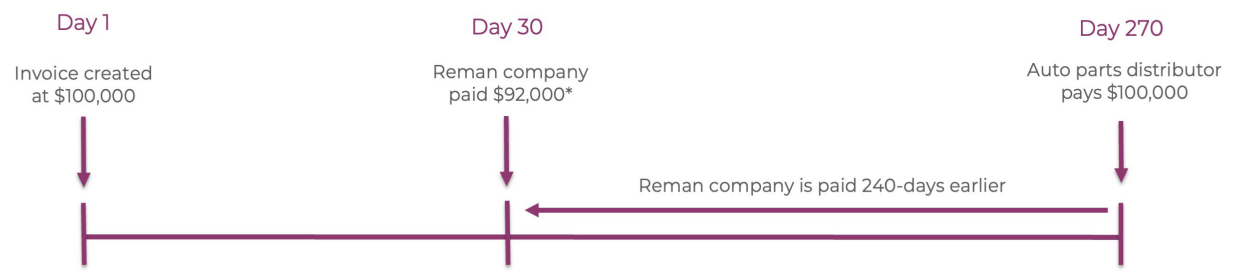
This is where Accounts Receivable Finance and Supply Chain Finance bridge the gap and ease the pressure on the injector remanufacturer.

Using Accounts Receivable Finance, the reman company is able to accelerate payment due to them from their customer. Instead of waiting as long as 360 days for payment, they can receive settlement — with an advance rate of up to 100 percent— in as quickly as a few days or weeks.

Accounts Receivable Finance leverages the credit rating of the buyer of the fuel injectors, the large automotive parts distributor. As a result, the company remanufacturing the fuel injectors is often able to access better pricing, as the non-bank financial institutions are assessing the creditworthiness of the distributor, which will continue to pay at its regular 360-plus-day terms.

## ACCOUNTS RECEIVABLE FINANCE

Example Accounts Receivable Finance: Reman company invoices auto parts distributor with 270-day payment terms




The result: Reman company is paid 240 days early and can use the capital to fulfill new sales. Their Days Sales Outstanding (DSO) decreases from 270 to 30.

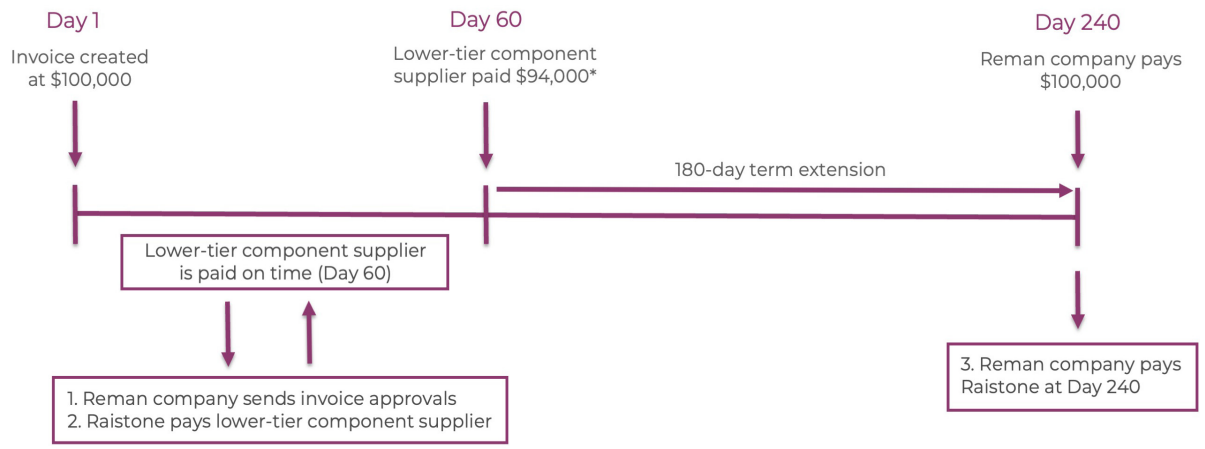
*Supplier discount for early payment = (240/360) days accelerated * 100,000 invoice value * 12% per annum discount rate

A select few non-bank providers of Accounts Receivable Finance are natively integrated with many of the largest business-to-business invoicing and payment platforms (ERPs) that suppliers already use, such as SAP Ariba or NetSuite. In this instance, through their ERP, the remanufacturer can be onboarded in a matter of minutes, allowing them to accelerate payment on invoices due to them much faster than a bank could provide access to capital.

In addition, the injectors remanufacturer can choose to utilize Supply Chain Finance to extend their days payable outstanding to lower-tier component suppliers. With Supply Chain Finance, the remanufacturer extends its days payable outstanding from 60 days to 240 days, allowing them to retain more cash on their balance sheet to use as needed, including providing more fuel injectors to meet the buyer's demand. Meanwhile, the non-bank financial institution pays the lower-tier suppliers on their normal 60 days terms.

## SUPPLY CHAIN FINANCE

Example Supply Chain Finance: Reman company with 60-day payment terms being extended to 240 days




The result: Reman company achieves a days payable improvement of 180 days, while ensuring timely payment to the lower-tier component supplier.

*Example of a supplier discount for early payment = (180/360) days accelerated * 100,000 invoice value * 12% per annum discount rate. Pricing between reman company and component supplier may be renegotiated to compensate for discount

Both Accounts Receivable Finance and Supply Chain Finance are non-debt working capital funding solutions that generally do not impact debt covenants. They are not loans and do not appear on the balance sheet. Accounts Receivable Finance and Supply Chain Finance can be complementary to traditional loans and other lending facilities, allowing remanufacturing companies to diversify and tap into multiple sources of funding.

With this holistic two-pronged approach, the remanufacturer is able to free up hundreds of millions of dollars that would otherwise be locked up on their balance sheet.

# How it works

Accounts Receivable Finance is accelerated payment of invoices already due to a company. Rather than waiting 270 days — or even longer — to get paid, the company works with a non-bank financial firm, which arranges to purchase the value of the invoice and deliver that money, less a discount fee, to the company in as little as one business day.

The buyer (customer), which initially made the purchase of goods or services, retains their payment terms. But instead of paying the supplier after 270-plus days, they will direct payment to the financial firm that purchased the invoice. If the supplier does not want the buyer to know that the invoice has been sold to the financial firm, a simple of change of account notice will suffice to redirect the remittance to an account with the supplier's name on it at the financial firm's bank.


Accounts Receivable Finance is not a loan, so it is not subjected to, nor will it impact, a business's credit rating or debt covenants. Instead, remanufacturers who take advantage of Accounts Receivable Finance get paid faster, with a much shorter application process, and no bureaucracy to contend with.

Supply Chain Finance is essentially the same process as Accounts Receivable Finance, but it is applied to the remanufacturer's lower-tier suppliers (the tier 1 remanufacturer is the buyer). With Supply Chain Finance, the tier 1 is purchasing goods or services from its suppliers and is able to extend their payment terms, while the tier 2 supplier has the option to be paid in advance of the due date, less a discount fee.

Case Study

# How a remanufacturer / automotive aftermarket supplier unlocked $296 million from its balance sheet

This $300 million revenue remanufacturer and supplier of automotive aftermarket parts was facing customers dictating 270+ days payment terms while experiencing demand for payment from suppliers in 60 days. We stepped in and helped fund the company's receivables in 30 days with Accounts Receivable Finance and extended payables to 240 days with Supply Chain Finance.

## THE WORKING CAPITAL BENEFIT

- **$296 million in cash unlocked** using accounts receivable finance and supply chain finance.
- DSO **decreased from 270 days to 30 days** with accounts receivable finance.
- DPO **extended from 60 days to 240 days** with supply chain finance.

By using the combination of Accounts Receivable Finance and Supply Chain Finance with Raistone, the company was able to unlock $296 million from their balance sheet without incurring any incremental debt. With these funds, management had more options to grow their business, invest in capital expenditures, pay down debt, issue dividends to investors, make acquisitions, and much more.

There is substantial cash locked up in the balance sheets of remanufacturers. At Raistone, we are a leader in this space and can help ease the pain by freeing up working capital with flexibility.

## A select number of fintech companies that specialize in both Supply Chain Finance and Accounts Receivable Finance work with investors to fund the payments of these receivables.

By leveraging the power of capital markets (non-bank financial institutions) and the credit strength of buyers, fintech firms successfully drive down the price of this financing and deliver an efficient, holistic solution that frees up the remanufacturer's cash from its balance sheet.

Some fintech firms like Raistone also offer native integration with enterprise resource planning (ERP) systems, from companies such as SAP, Oracle, Microsoft, Infor and many more. This makes it much easier for remanufacturers to apply for Accounts Receivable Finance, to submit their invoices for accelerated payment, and to receive prompt payment through either traditional wire transfer, or even faster solutions like virtual cards. The administration of a Supply Chain Finance program can also be facilitated if the parties use an ERP tool.

# THE WORKING CAPITAL GAP

MANY COMPANIES WITHIN THE REMANUFACTURING SECTOR REALIZE THERE IS CASH LOCKED UP IN THEIR BALANCE SHEET BUT STRUGGLE TO GAIN ACCESS TO THAT CAPITAL. AT RAISTONE, WE ARE SOLELY FOCUSED ON HELPING THOSE COMPANIES TAP INTO THOSE FUNDS. THIS ENABLES THEM TO GROW THEIR BUSINESS, INVEST IN CAPITAL EXPENDITURES, ISSUE DIVIDENDS TO INVESTORS, IMPROVE THEIR CAPITAL ADEQUACY RATIOS, PAY DOWN DEBT, MAKE ACQUISITIONS, AND MUCH MORE.

Most companies within the remanufacturing space are both buyers and suppliers, meaning they can take advantage of the convenience and cost savings of both Supply Chain Finance and Accounts Receivable Finance. This “double-barreled” financing approach empowers these companies to maximize their cash position while also ensuring the health and stability of their supply chain.

Though leading fintech firms such as Raistone have driven the use of Supply Chain Finance and Accounts Receivable Finance forward by bringing in new investors (non-bank financial institutions) and partners to lower pricing, these solutions are not new, and have been provided by many financial institutions of all sizes for decades. It is an established, safe and secure way for businesses to access their money, on their terms.

Using both Supply Chain Finance and Accounts Receivable Finance, remanufacturing providers have collectively tapped into billions of dollars that would otherwise have been unavailable to them. These tools have allowed them to grow their business, enlarge their client base, make acquisitions, produce more products, hire additional personnel, buy equipment, pay dividends and much more.

## *About the author*

Mike Bruynesteyn is Chief Financial Officer of Raistone. He also serves on the board of one of the top automotive parts suppliers in the world.

Previously, he served the automotive industry as an investment banker. Prior, he was the senior sell-side research analyst for the automotive group at Prudential Securities. In that role, he received numerous awards for stock selection and research quality from publications such as The Wall Street Journal, Fortune, and Institutional Investor. Before joining Wall Street, Bruynesteyn spent eight years with General Motors, in overseas and domestic assignments spanning pricing, sales, budgets, capital planning, and investor relations.

Bruynesteyn graduated as a mechanical engineer from the University of British Columbia. He also earned a Master of Business Administration from the London Business School and studied at the Ecole Des Hautes Etudes Commerciales outside of Paris.

## *About Raistone*

Raistone is a world-leading fintech, providing financial tools specially tailored to the needs of the remanufacturing sector. The company helps businesses accelerate payment of money due to them, through Accounts Receivable Finance, and gives companies control and flexibility over payment terms, through Supply Chain Finance. Since its inception in 2017, Raistone has provided billions of dollars of innovative financing solutions to a range of companies in sustainable manufacturing space. By working with Raistone, these suppliers have been able to unlock millions of dollars in working capital that was previously trapped on their respective balance sheets. For more information, please visit raistone.com.

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