



Growth and Innovation in Structured Trade Solutions

For Corporate Clients

INDUSTRY INSIGHT



The concept of corporate financing has changed radically over the past three years. While in the past, most large multinationals could rely on bank borrowing for most of their financing needs, scarcer credit and shorter credit lines, coupled with a desire to invest in more balance-sheet friendly structures, now mean that companies of all sizes are seeking to diversify their sources of financing. New demands for alternative forms of financing, such as factoring of receivables and supply chain finance (reverse factoring) have resulted in a rapid evolution in the types of structured trade solutions that are available (figure 1), with greater sophistication, and a significant focus on how these structures are reflected on the balance sheet. When credit was cheap and readily available, the way that a business was financed was typically not a strategic or competitive differentiator; today, companies that can leverage alternative structures position themselves for success by enabling maximum financing flexibility.

A Changing Landscape

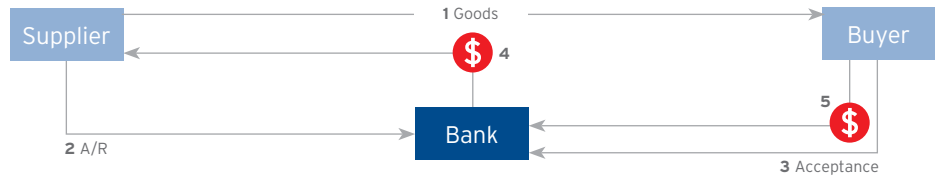
The increasing demand for alternative financing solutions amongst the largest and most respected companies in the world has introduced increased sophistication in financing structures on both sides of the balance sheet. Financial flows resulting from structured trade solutions need to be supported by timely, transparent information flows that can be integrated easily within existing processes and systems, enabling a high degree of operational efficiency and control. In addition, solutions need to support companies' balance sheet objectives with clarity in their accounting treatment. For example, while traditional balance sheet lending is recorded as debt on the balance sheet, with a direct impact on debt ratios and gearing, structured trade solutions that are underpinned by specific transaction flows can result in these flows continuing to be treated as payables, or extinguishing receivables from the balance sheet by recognizing them as a sale.

Structured trade transactions bring other advantages too. With the cost of financing now significantly higher than in previous years for all but companies with the strongest credit rating, we are helping provide cost effective liquidity to many of our clients by leveraging the strongest rated companies in their supply chains.

Supply Chain Finance Structures

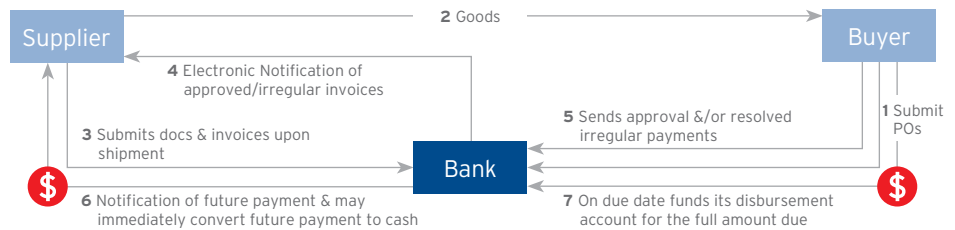
Buyer Centric – Supplier Finance

- Buyer nominates supplier for non-recourse discounting program
- Buyer accepts invoices i.e. Supplier's A/R for goods and authorizes Citi to debit their account to make payment on payment date
- The Program helps the Supplier reduce DSOs at a cost associated with the Buyer's credit worthiness



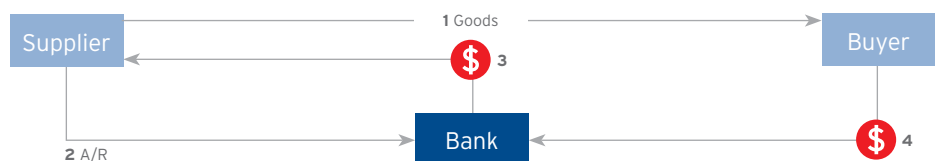
Open Account Processing w/Supplier Finance

- Supplier Finance with Citi processing paperwork similar to Commercial L/C documentation processing
- Once Citi accepts documents or gets Buyers to consent to exceptions, Citi informs Seller of payment date and offers to discount future payments



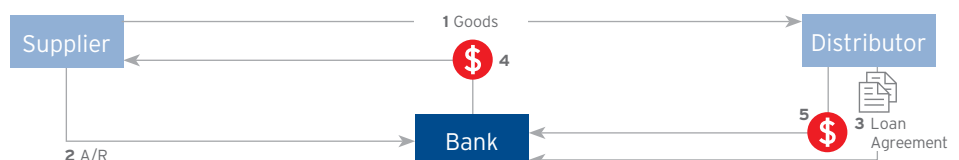
Seller Centric – A/R Credit Program (ARCP)

- Bank purchases A/R from Seller by taking Buyer risk
- Provides the supplier with liquidity, risk mitigation and balance sheet optimization
- Bank retains control over the cash flow; at maturity the buyer pays directly into a bank controlled account



Distribution/Distributor Finance

- Provides liquidity to distribution chain by extending effective selling terms to approved Buyers
- Primary purpose of program is balance sheet management, risk mitigation and sales promotion
- Provides distributors with longer payment terms



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Ensuring Success in Structured Trade Solutions

As structured trade solutions become more common, and the transaction value increases, consistency of supply chain financing and related solutions also becomes a greater consideration. Once a structure has been put in place, which can take time and resources, treasury and trade finance departments do not then want to make frequent changes in order to maintain balance sheet efficiency, to reflect cyclical changes in their business or to address an increase in the value of financing. Ensuring the ongoing stability and consistency of solutions requires a strong financing partner with deep financing capabilities and experience at syndication. This is one of the risk factors that many companies considering alternative financing solutions will consider when choosing a partner bank and putting together a financing program.

Since the credit crisis, financial risk management is firmly established as a vital discipline, including ensuring continued access to financing. Consequently, the way in which transactions will be structured, and how they will be adapted to meet changing financial or business conditions is now an essential part of the initial planning of a structured trade transaction. In addition, treasurers and finance managers also actively monitor other risk factors such as cross-border trade issues, regulatory, tax, structural, counterparty credit, reputational and operational risks. While these factors have always been important, there is now greater scrutiny and transparency over risk-related issues.

Leveraging the Global Advantage

World trade is set to rise from 61% of world GDP in 2010 to 84% in 2030 and 86% in 2050, with the bulk of the growth occurring in emerging markets. Developing Asia is set to become the largest region for trade by 2015. As many companies expand their international footprint, treasurers and finance managers are not only attracted to alternative financing techniques in order to reduce the cost of capital, but also to leverage financing opportunities through lower interest rate environments, such as RMB funding in Hong Kong or Singapore. In some of the supply chain structures that we have established with our clients, cash rich companies are taking the opportunity to invest in their own programs, thereby increasing their investment yield.

Alternative Financing in Practice

Industries of all sorts are attracted to alternative financing structures, with commodity firms such as oil and gas typically taking the lead by setting up financing or risk mitigation structures using commodity flows as collateral. However, manufacturing, chemical, consumer goods, telecoms and automotive industries, amongst many others, are also deriving benefits from these solutions. We are seeing Asian companies taking the lead in growth of cross-border business, both within Asia and into regions such as Europe and North America. As cross-border flows have increased, the range of trade financing options available to these companies, and their counterparties, have also developed.

While the legal environment in many countries in Asia limits the variety of structures that can be deployed, many companies are taking advantage of their international presence to establish alternative financing solutions in less restricted locations such as Hong Kong, Singapore and other parts of the world. The following four examples give examples of some of the innovative structures that we have implemented with multinational firms based in, or operating in Asia. Key to the success of these programs is the lead bank's commitment to solution flexibility, syndication experience, geographic reach and depth of financing capability.

Example 1 – Receivables Financing

A Chinese supplier of electrical components had a substantial value of receivables due from highly rated companies overseas, with export guarantees in place to reduce the company's export risk, despite the credit quality of its customers. We worked with the company to put in place a non-recourse financing structure located outside China at a considerably lower financing rate than the cost of financing available in China. As lead bank, this involved establishing a syndicate of five banks, including defining the documentation, term and policies within a short timeframe. The structure resulted in huge cost savings as well as greater predictability of the timing of cash inflows.

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Example 2 – Supply Chain Financing

On the other side of the balance sheet, an oil and gas company had a large and diverse supplier base with huge trading volumes, including many smaller companies that were experiencing a squeeze on working capital and high borrowing costs. The company was able to leverage our international footprint and strong relationships to offer financing at a lower rate in a mature market at a much lower cost with stable financing.

Example 3 – Outsourcing Receivables

A large Korean components manufacturer with \$3bn annual revenues derived from long term contracts with global electronics companies was seeking a receivables financing solution for \$1.5bn of receivables, whilst also outsourcing the accounting of these transactions and without reducing balance sheet efficiency.

Example 4 – Supply Chain Financing and Dynamic Discounting

A European company was seeking to establish a supply chain financing program for its Asian suppliers that would enable suppliers to discount their receivables due from the company at a competitive rate, while the company itself could benefit from longer payment terms. Having worked with Citi to put the arrangement in place, the company has not created debt on its balance sheet, while creating considerable working capital benefits and given vendors access to non-recourse financing without having to approach lenders directly and provide security. The other advantage of this structure is that it includes a dynamic discounting capability, so the company can invest surplus cash back into the structure and gain the benefit of discount rate paid by suppliers as a return on investment.

As these examples illustrate, alternative financing structures can be highly specific to each company's circumstances, and have a significant role to play in supporting a company's growth strategy. Not only can they create advantages both for liquidity and working capital management, structured trade solutions also help to manage risk by reducing supply chain risk and creating better relationships with suppliers. As Asian companies expand their international footprint, they are becoming increasingly reliant on global banks with wide geographic reach, regulatory expertise in each country, comprehensive solutions and depth of financing capability. By doing so, these companies are able to leverage financing solutions that support their business growth and increase the resilience of their supply chains.

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