

FACTORING

- What Is Factoring?
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WHAT IS FACTORING?

- ▶ Factoring is the purchase of accounts receivable for immediate cash. It is not a loan.
- ▶ Factoring companies normally look to the obligor of payment on the invoices to get repaid and not the client.
- ▶ In essence the factoring company pays the client immediately and the client's customer pays the factoring company on due date.



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WHO USES FACTORING?

- ▶ Companies with Business to Business sales
- ▶ Companies offering payment terms between 30 - 90 days.
- ▶ Companies with annual revenue over \$50,000.
- ▶ Companies that sell on a “Final Sale” basis, not on guaranteed, consignment or contingent sales.



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WHY DO COMPANIES FACTOR?

- ▶ They are a startup or newer businesses with limited experience.
- ▶ They are experience a high growth rate.
- ▶ They have a seasonal business.
- ▶ They are experiencing industry downturns.
- ▶ They have little or no credit history.
- ▶ They lack financial strength and history.
- ▶ The business's owners have poor personal credit.
- ▶ The businesses has a concentration of customers.



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INDUSTRIES THAT CAN BENEFIT

- ▶ Manufacturing
- ▶ Distribution
- ▶ Temporary Staffing
- ▶ Transportation / Trucking
- ▶ Business Services
- ▶ Commercial Janitorial Services
- ▶ Security Guard Services
- ▶ Technology
- ▶ Oil and Gas
- ▶ Trading



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BUSINESSES WHO DON'T QUALIFY

- ▶ Progress Billings, Pre-Billings, Installment Billings
- ▶ Guaranteed or Consignment Sales
- ▶ Payments contingent upon payments from a third party.
(i.e. medical payments, etc.)
- ▶ Businesses with past due Federal or State Taxes *
- ▶ Businesses with outstanding judgments or liens *
- ▶ Accounts Receivable already pledged *
- ▶ Client's customer has no credit or bad credit

* Some exceptions apply



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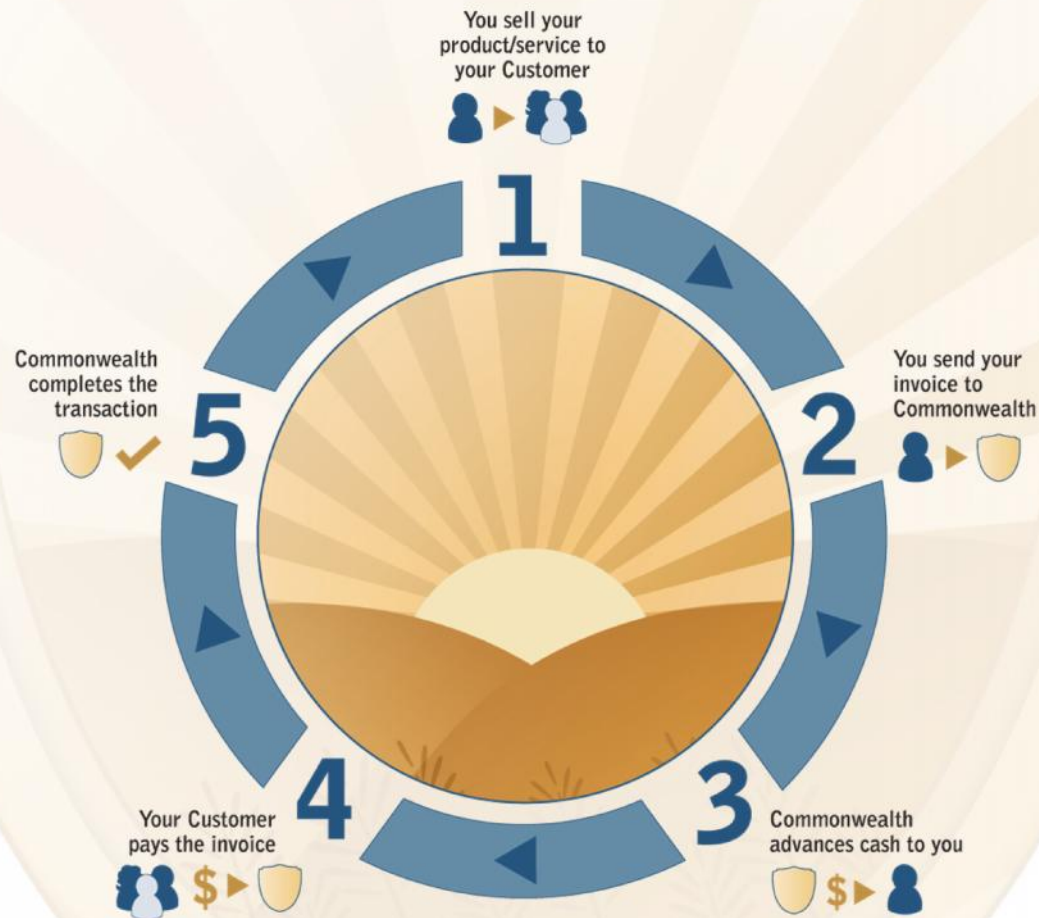
HOW FACTORING HELPS

- ▶ Provide immediate cash against invoices for between 80%-85% of the invoice amount. Balance is released to client back once we get paid on the invoice.
- ▶ Manage the complete Accounts Receivable portfolio if needed.
- ▶ Provide customer credit approvals and limit recommendations.



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HOW FACTORING WORKS



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IMMEDIATE CASH HELPS

- ▶ Obtain better supplier terms
- ▶ Meet payroll
- ▶ Purchase inventory
- ▶ Purchase capital equipment
- ▶ Meet other overhead
- ▶ Meet tax requirements



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WORKING WITH COMMONWEALTH

- ▶ Helps improve AR performance by outsourcing credit management
- ▶ Provides pro-active, soft collection calls
- ▶ Allows you to concentrate on enhancing your business
- ▶ Helps reduce overhead for Seasonal Businesses
- ▶ Helps reduce bad debts
- ▶ Helps improve decision making on new customers



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WHY COMMONWEALTH CAPITAL?

- ▶ Local ownership and underwriting
- ▶ Run by entrepreneurs – we understand their challenges
- ▶ A vast network of referral sources for other business needs (i.e. accounting, attorneys, equipment financing)
- ▶ Attention from company principals
- ▶ No bureaucratic structures
- ▶ Specialize working with smaller companies with a focus in the Upper Midwest

THE UNDERWRITING PROCESS

- ▶ Client completes an Application Form and provides some basic information and documentation.
- ▶ Commonwealth provides a Term Sheet setting out the basic terms and conditions which the client signs back.
- ▶ The legal contract documentation is then completed and signed by the client and Commonwealth.



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THE FUNDING PROCESS

- ▶ Client bills as usual and sends out the invoices to the customers.
- ▶ The invoices note that payments are to be made to Commonwealth.
- ▶ Client sends us a schedule of invoices to be purchased, along with copies of invoices and relevant supporting documentation.
- ▶ We approve your customer's credit.
- ▶ We verify receipt of product or service with the customer.
- ▶ We purchase the invoices, advancing up to 85% of the invoice amount.
- ▶ We perform follow-up calls on payments.
- ▶ Once payment is received, the balance amount of the invoice, less our fee, is released to our client.



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SAMPLE TRANSACTION

- ▶ Type of Business – Medical Temporary Staffing
- ▶ Business Challenge – Highly leveraged and previous loans used up to start the business. They needed working capital for day to day operations and to book new business.
- ▶ Solution – Senior lender agreed to subordinate the AR to us so we provided them with immediate cash for their outstanding AR.
- ▶ Factoring facility - \$50,000



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SAMPLE TRANSACTION

- ▶ Type of Business – Auto Detailing for Luxury Auto Dealers.
- ▶ Business Challenge – Start-up with good customers and needs capital to grow.
- ▶ Solution – We provided them cash against their AR which allowed them to meet payroll and take on new business.
- ▶ Factoring facility - \$25,000



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