Guidance from Aegis Business Credit on Non-bank Financing Alternatives for Small Businesses

Purchase Order Financing

- Works well for importers and distributors of finished product.
- Must have a confirmed PO from a US Customer
- PO Financing provides cash advances for payments to vendors required to release and ship product.
- Once product arrives from vendor, it is shipped to the end customer creating a receivable
- Receivable is financed or collected with proceeds paying off PO advance

Purchase Order Financing Candidates have:

- Confirmed and written purchase orders from their customers
- Healthy profit margins on imported product
- Ability to import and distribute finished product
- Creditworthy customers
- Good relationships with vendors
- Have internal accounting functions with the ability to produce financial statements on a monthly basis

Purchase Order Financing does not work for:

- Importing or purchasing product on speculation (not supported by a specific purchase order)
- Products with thin profit margins
- Products requiring assembly or fabrication after they are received from supplier.
- Customer base with little or no credit history
- Companies without an internal accounting function or inability to produce financial statements

Factoring

- Works well for a variety of business including manufacturers, distributors, and service providers
- Works especially well with seasonal products, transportation, and staffing
- Works well for companies with a relatively high rate of growth in sales
- Works well for companies with weekly cash disbursement requirements that receive payments from customers in 30 to 60 days.
- Provides advances on accounts receivable bridging the gap between the invoice date and actual collections
- Allows companies with limited operating history and or financial performance to obtain financing
- Factoring advances are paid off by the collection of Accounts Receivable
- Factor can assist clients in billing, collections, monitoring and reporting freeing up resources to focus on other business functions.

Factoring candidates are companies with:

- Sales to other business
- Creditworthy customers
- Means to document delivery of product or service
- Healthy profit margins on products or services
- Growing customer and revenue base
- Internal accounting function and ability to produce financial statements on a monthly basis

Factoring does not work for:

- Companies with third party receivables and/or progress payments (like medical practices or construction companies)
- Business to consumer sales (like retailers)
- Customer base with little or no credit history.
- Companies with poor accounting functions or inability to produce financial statements
- Companies with the inability to document, confirm, and track confirmation of product or service delivery.

Asset Based Lending (ABL)

- Provides advances on Accounts Receivable (AR) as well as inventory.
- Provides companies with less than bankable performance history with a revolving line of credit based on their level of working assets (AR and Inventory)
- Works well for a variety of industries
- Works well for companies with a relative high growth rate
- Allows companies to leverage working assets to fill new orders

ABL candidates are companies with:

- Although limited, some history of profitable operations and/or stable collateral (AR and Inventory) value
- Reliable internal accounting function and ability to produce financial statements as well as forecasts and projections at most anytime requested.
- Ability to generate enough cash flow to cover fixed charges by at least 1.15X
- Historical and projected sales growth

ABL does not work for:

- Companies without a reliable accounting function and ability to generate forecasts and projections
- Impaired collateral value
- Declining revenue and customer base

- Concentrations in customer base
- Inability to generate positive cash flow.

Bank Financing

- Generally provides the lowest cost of working capital financing for small and medium sized companies
- Works well for established companies with a history profitable operations and net worth
- Works well for companies in traditional industries
- Works well for companies with a history of relatively low leverage (debt)
- Works well for companies with an abundance of collateral
- Loan covenants that may restrict companies with relatively high revenue growth

Banking candidates have:

- Books and records reviewed or audited by an independent CPA
- At least 3 years of profitable operations and net worth
- Business owners with good personal credit
- Additional collateral over and above AR and Inventory such as Real Estate and equipment
- Strong and stable management teams especially in the finance and accounting function

Bank financing does not work for:

- Fast growing or emerging companies and industries
- Companies without a reliable accounting function and assistance of an independent CPA
- Companies without an established record of profitable operations and operating history
- Companies without an abundance of collateral

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