



Start Up Your SCF Business with Payables Finance

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www.convergence-capital.com

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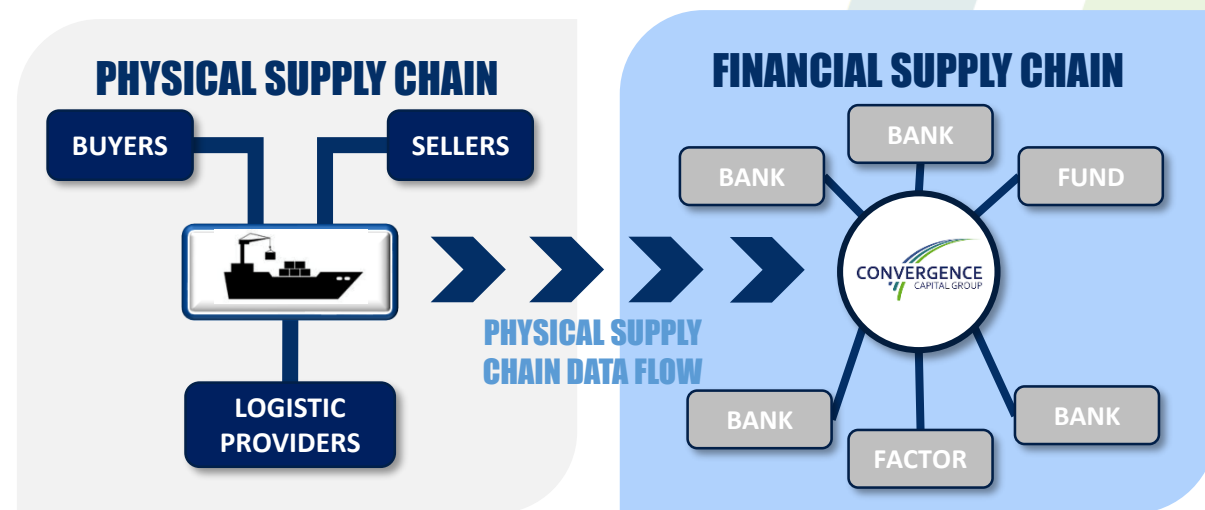
PAYABLES FINANCE

CONVERGENCE CAPITAL OVERVIEW

CONVERGENCE CAPITAL OVERVIEW

Convergence Capital Group (CCG) is a Hong Kong based service provider that delivers trade finance services to suppliers, funders, and corporates globally.

CCG works with 3rd party funders to provide the necessary capital to drive their clients' trade finance programs. By partnering with existing physical supply chain technology providers, CCG is able to access documentation and data from existing trade flows which provide effective risk management for their funding providers.



CCG provides trade finance advisory services in the areas of:

- Payables Finance / Dynamic Discounting
- Receivables Finance (Factoring and Invoice Discounting)
- Distributor Financing
- Risk Mitigation

GLOBAL FOOTPRINT WITH ASIAN FOCUS



Convergence Capital Group

Hong Kong

Competency

CCG is staffed by individuals from major banks, consulting firms, and Fintech providers such as BAML, JP Morgan, Citi, CIMB, QBE, the World Bank, Accenture Strategy, PrimeRevenue and GT Nexus.

Key Project Experience

Corporates: Michelin, Kellogg, Canon, Wesfarmers, Aldo, Abercrombie & Fitch and Ralph Lauren

Funders: ANZ, BNP Paribas, HSBC, NAB, Westpac, BAML, Mizuho, UOB, and a variety of alternative lenders



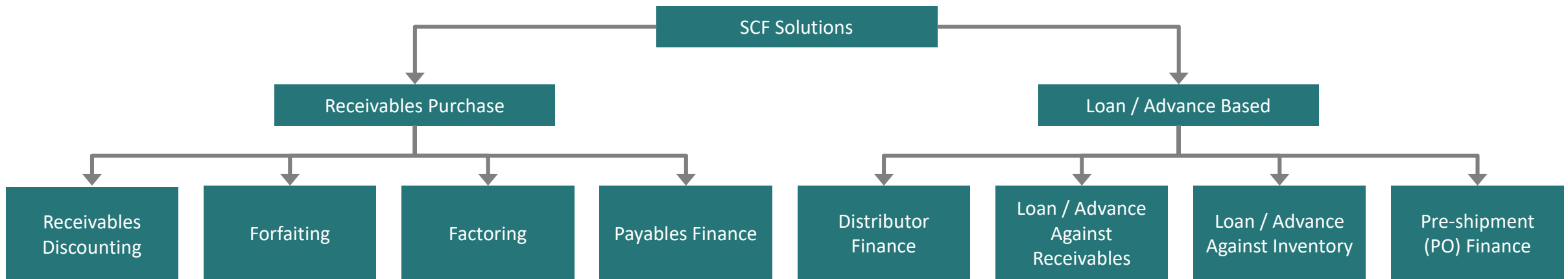
PAYABLES FINANCE

SOLUTION OVERVIEW

BREADTH OF SUPPLY CHAIN FINANCE SOLUTIONS

Supply Chain Finance is defined as the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions . Payables Finance is typically applied to open account trade and is triggered by supply chain events

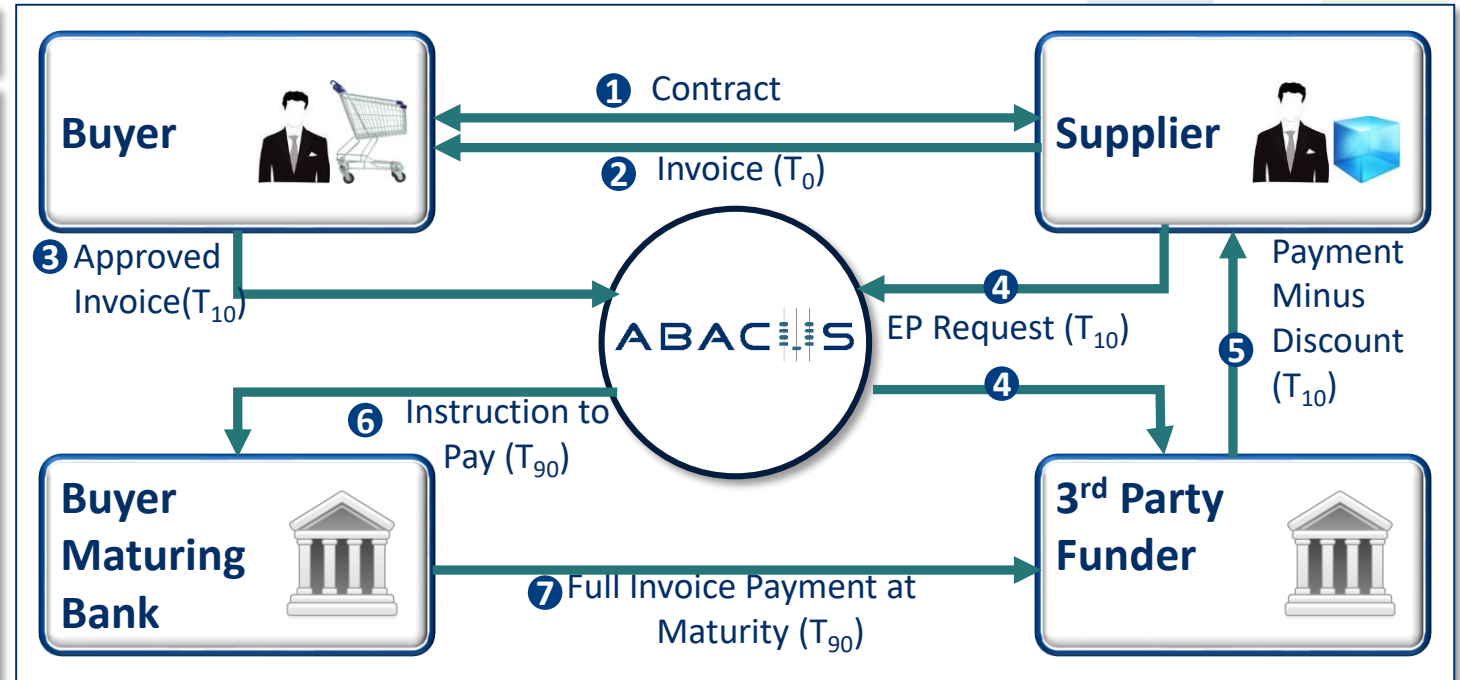
SCF solutions are broken down into 2 categories by the ICC:



PAYABLES FINANCE

Overview

Payables Financing allows a buyer to drive working capital enhancement with payment term extension. It allows suppliers to get paid early through a 3rd party funder. The buyer guarantees full payment of the invoice which results in a lower financing rate. In return, the buyer negotiates extended payment terms.



BENEFITS

SUPPLIER

- Complete control over when the supplier gets paid via an online request process
- Low cost of financing based on buyer's credit rating because of invoice guarantee
- Full non-recourse financing of invoices

BUYER

- Provides cash flow to fund growth and other internal initiatives
- Allows executive team to effectively meet corporate metrics and objectives
- Mitigates supplier default risk

WHY PAYABLES FINANCE?

Benefits for SME Banking

- New segment opportunities
- Market distinction

- Faster scalability
- Sales effectiveness

- Better portfolio risk profile
- Access to data and info

- Stronger relationships
- Enhance transactional business



Benefits for Corporate Banking

- Competitive differentiation
- Key corporates access

- Enhance transactional business
- Cash & payment mandates

- Increases float income share
- Enhance fee income stream

- Increased business retention
- Increased limit utilization



PAYABLES FINANCE

VALUE PROPOSITION

VALUE PROPOSITION

The primary key to success of any buyer led financing program is to ensure there is a significant value proposition for the buyer.

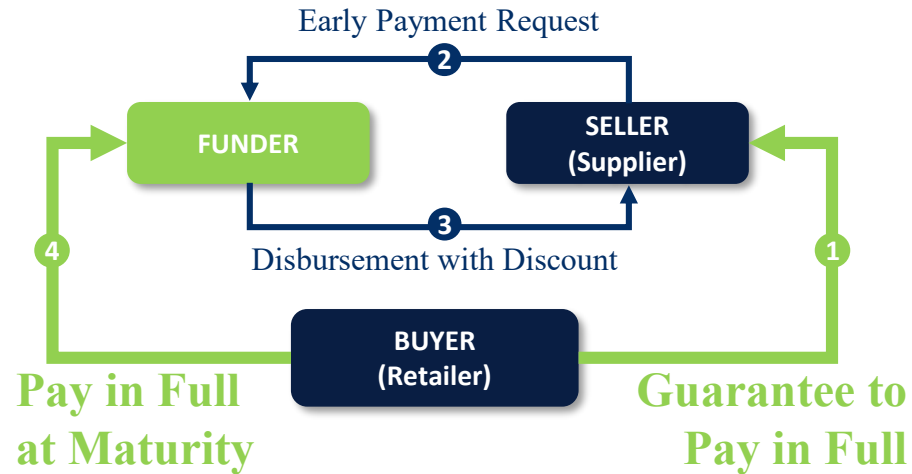
The buyer ***MUST BE INVOLVED*** in supplier onboarding and will only be enticed to do so with some tangible benefit to be extracted from the process.

There are 4 key areas Convergence works to provide value to drive successful buyer led programs.



PAYABLES FINANCE

Drive Working Capital Enhancement with Payment Term Extensions



Buyer provides a payment guarantee on approved invoices to supplier allowing them to access funding at lower costs

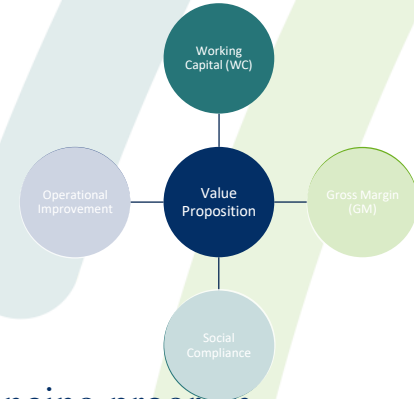
How It Helps

The buyer provides supplier access to the Payables Financing program only after they have negotiated a shared benefit with the supplier, usually in terms of **extended payment terms**

What's More

To make Payables Finance a success, CCG will facilitate the whole process with our proprietary technology:

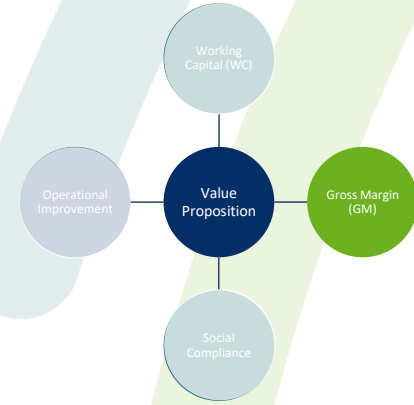
- Devise a **negotiation strategy** for each supplier based on analytics of supplier cost of capital, DSOs and industry specific payment term metrics
- Provide real-time **negotiation and benefit tracking**
- Automate the whole financing process with our **cloud-based, trade finance technology platform**



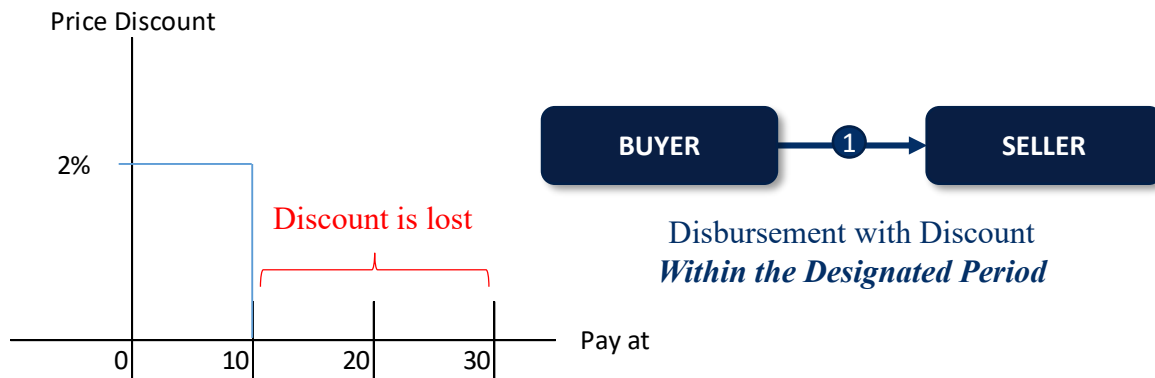
DYNAMIC DISCOUNTING

Paying suppliers early out-of-pocket to enjoy price discount

Utilizing one's excess cash, companies could offer early payment to suppliers while driving up gross margin

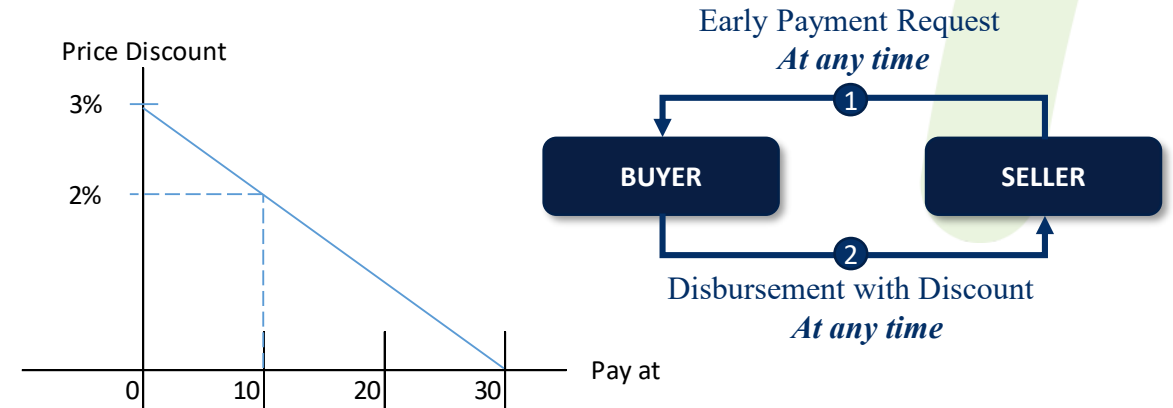


2% 10 NET 30 Payment Term



- Traditional NET 30/60 etc. payment term offers no incentives for buyer to pay early
- Even when early payment discount like above is offered, buyers can only enjoy the discount within a certain period of time.
- If buyers take a long time to approve invoices, the discount is lost

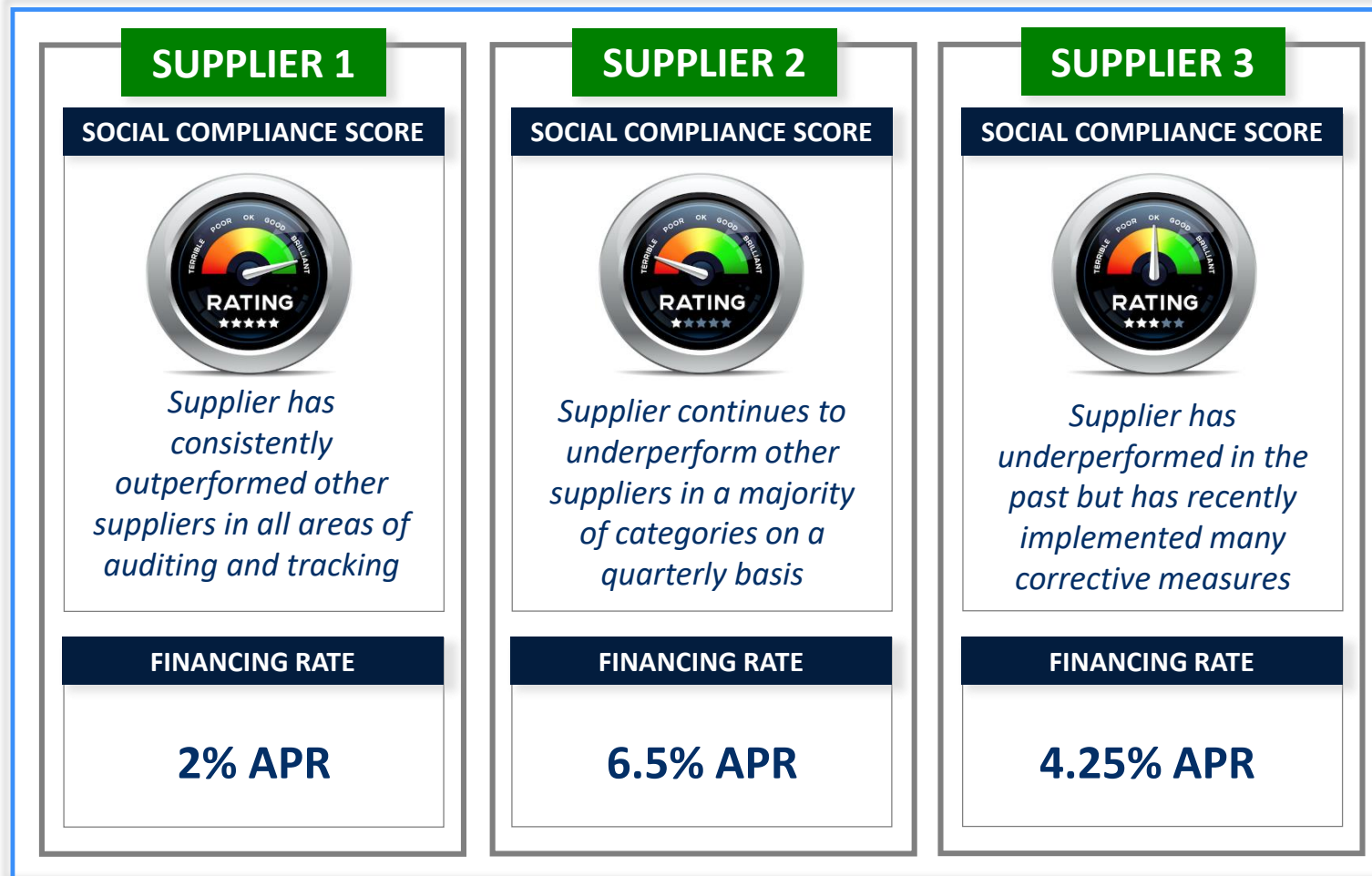
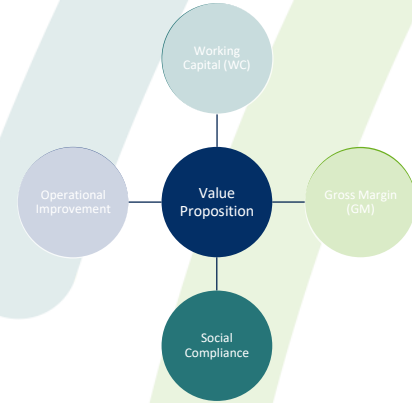
Dynamic Discounting



- A sliding scale payment term which offers the greatest flexibility to suppliers and buyers at the same time
- In the above example, by paying suppliers immediately buyers can enjoy a 3% discount
- Financially it is equivalent to depositing a sum of money ahead at T=0 at 3% per 30 days to meet the obligation at T=30, $APR = 3\% \times 360 / 30 = 36\%$

SOCIAL CAPITAL SM

Enhance social compliance with financial incentives



OVERVIEW

- Social Capital SM programs have the ability to provide financing on preferential rates based on a suppliers social compliance scoring
- Available through buyer approved payables programs and audit procedures are conducted by the buyer with relevant data scoring shared with financing partner
- Receivables financing is also available with this program by conducting 3rd party audits, according to global standards, that are share with the financing partner to enable financing for an entire portfolio of obligors
- Done in coordination with development banks to provide additional credibility

SCORECARD FINANCING SM

Enhance vendor performance with financial incentives

Scorecard Dimension	Explanation	Weight	A 100%	B 75%	C 50%	D 25%	E 0%	Score
Costs/Pricing			30%					19%
Payment Terms	Ranks Vendor according to Payment Terms	10%	Criteria A	Criteria B	Criteria C	Criteria D	Criteria E	B
Product Pricing	Total Quantity of Items Purchased in Quarter Compared with Price Quotes from All Capable Vendors	15%	>2.5% Less Than Average	Average +/- 2.5%	>2.5% More than Average	>5% More Than Average	>10% More Than Average	C
Costs/Pricing Metric 3	Cost/Pricing Metric Explanation 3	1%						D
Manufacturing Supply Agreement	Has the Vendor Signed and Abided by the MSA?	4%						A
Supply Chain and Production			30%					16%
Weighted Average Lead Time	The duration of time from when an order is acknowledged by the vendor to when it is accepted by the freight forwarder. Weighted by Units Shipped.	15%						D
Email Response Time - Purchasing	Average time taken to respond to emails with purchasing (buyer or assistant buyer)	3%						A
Communication Quality - Purchasing	Quality of communication, especially emails, with purchasing	3%						A
Flexibility	The flexibility of the vendor to accommodate business requests to the best of their ability	3%						C
Late Orders	Number of POs that were shipped after agreed upon ship date without approval	3%						A
MOQs	The minimum quantity we can place an order for without any further commitment to buy	3%						C
Quality			20%					14%
QC Issues	Definition of QC Issues Metric	5%						A
Quality Metric 2	Definition of Quality Metric 2	5%						E
Quality Metric 3	Definition of Quality Metric 3	7%						A
Quality Metric 4	Definition of Quality Metric 4	3%						C
Product Development			20%					17%
PD Metric 1	PD Explanation 1	6%						A
PD Metric 2	PD Explanation 2	4%						B
PD Metric 3	PD Explanation 3	4%						B
PD Metric 4	PD Explanation 4	6%						B
Total			100%					65%

Scorecard Financing SM programs provide a financial framework for buyers to enhance vendor performance by offering variable early payment discount to vendors based on their performance. Those who score higher may be supported through reduced rates

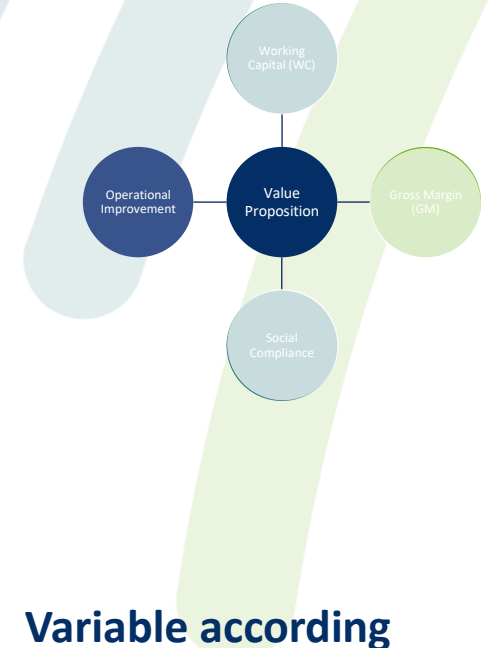
Key Benefits

Buyer

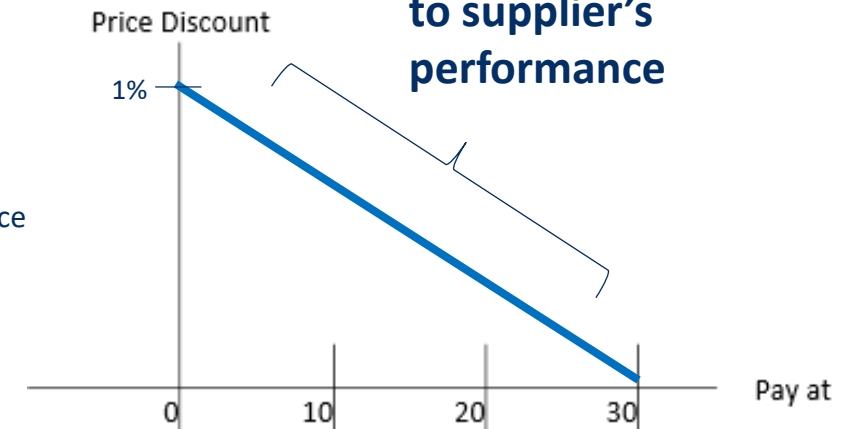
- Create a win-win solution to enhance vendor performance
- Improved buyer-supplier relationships
- Utilize excess cash to enjoy price discount and increase in GM%

Supplier

- Decreased finance costs
- Increase in cash flow can be reinvested to further enhance vendor performance



Variable according to supplier's performance

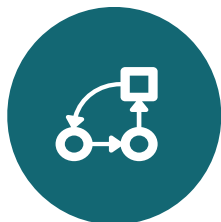




PAYABLES FINANCE

IMPLEMENTATION APPROACH

IMPLEMENTATION APPROACH



Program Design

- Identify key Anchor Prospects within existing portfolio
- Discuss and determine key metrics and strategic goals with the buyer (e.g. working capital, gross margin, etc.)
- Gather Payments Profile
- Run analytics on supply base
- Select initial Suppliers for launch
- Construct roll out strategy and approve accounting treatment



Operational Setup

- Develop buyer and supplier communication medium and training plan
- Confirm IT implementation plan with buyer and supplier IT resources (minimal resource needs)
- Integrate ERP data files (matched invoice from Abacus, approved invoice from client ERP, etc.)



Pilot Launch

- Develop marketing plan and materials to educate Suppliers
- AP and Procurement Training
- Train buyer on supplier negotiation
- Create support channel to answer any questions
- Continue to expand outreach to target both large and small suppliers
- Monitor pilot to fix any problems and optimise



Program Rollout

- Compare initial supplier selection in pilot to determine rollout suppliers
- KYC and AML check of supplier
- Work with bank to ensure credit limits can meet expected demand
- Get feedback from Suppliers to help improve for future



Ongoing Monitoring

- Monitor usage from Suppliers, observing seasonality and if credit limits appropriate
- Ongoing credit review of buyer especially in case of major economic shock

IMPLEMENTATION APPROACH

Program Design - Anchor Prospects (Working Capital)



- Investment Grade Companies or Equivalent (e.g., Obligor Risk Rating of 1-4)



- Companies with:
 - Direct Material Supply Chains and Spend (COGS)
 - Greater Than 25 M USD annual volume



- Access to Chief Financial Officer, Treasurer or Chief Procurement Officer



- Companies coming from:
 - Retail
 - Automotive
 - Manufacturing
 - Consumer Goods
 - High Tech



- Initiatives around Working Capital, Cash Flow Conversion, Free Cash Flow or income or use of short term cash

OPERATIONAL ASPECTS

- **Primary Driver - Payment Terms**

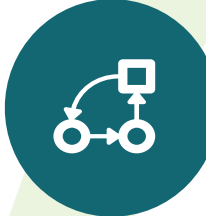
- Long Payment Terms 60 Days Or More
- Looking To Increase Payment Terms to 45 days or longer
- Looking to Eliminate Discount Terms
- Concerned About Financial Health Of Supply Chain

- **Secondary Considerations**

- Time to approve invoices is short
- De-centralized procurement and accounts payable
- Running an Payables Finance program today
- Number of suppliers and jurisdictions

IMPLEMENTATION APPROACH

Program Design – Anchor Value Analysis



Process Overview



IMPLEMENTATION APPROACH

Program Design – Strategy Discussion



Strategy

Working Capital Focus



- Receivables
- Cash
- Raw Materials Inventory
- Finished Goods Inventory

Approach

- Negotiate terms to 60 day standard terms
- Offer 3rd party financing on invoices
- Offer 3rd party financing on PO for suppliers willing to move to 90 day terms

Gross Margin Focus



- Negotiate terms to 60 day standard terms
- Offer Invoice as well as PO financing utilizing buyer excess cash
- Invoice financing will pay off PO financing

Balanced Focus

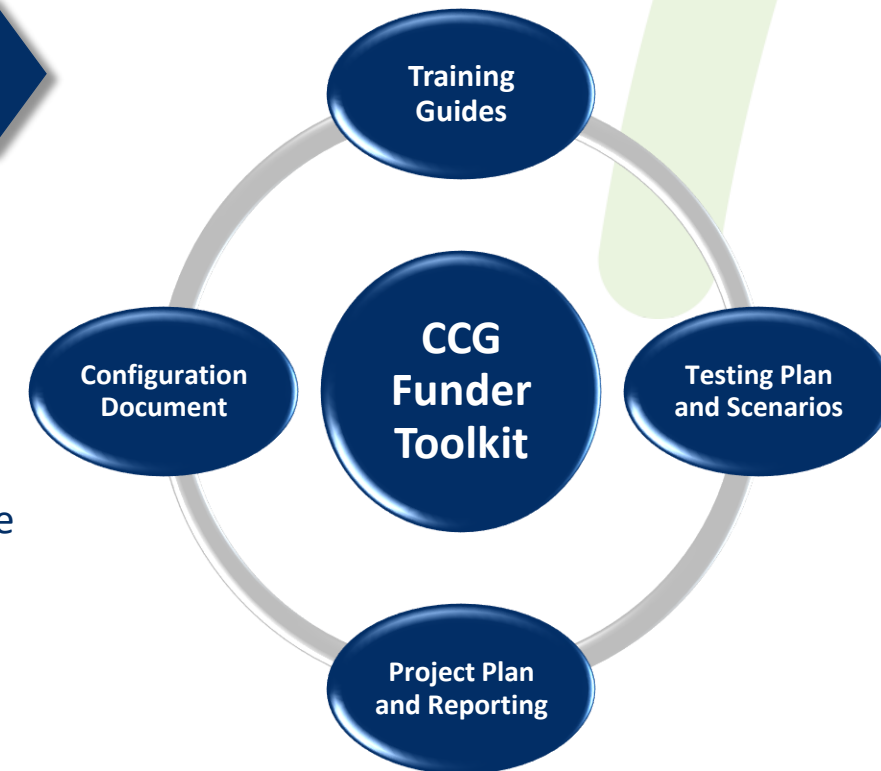
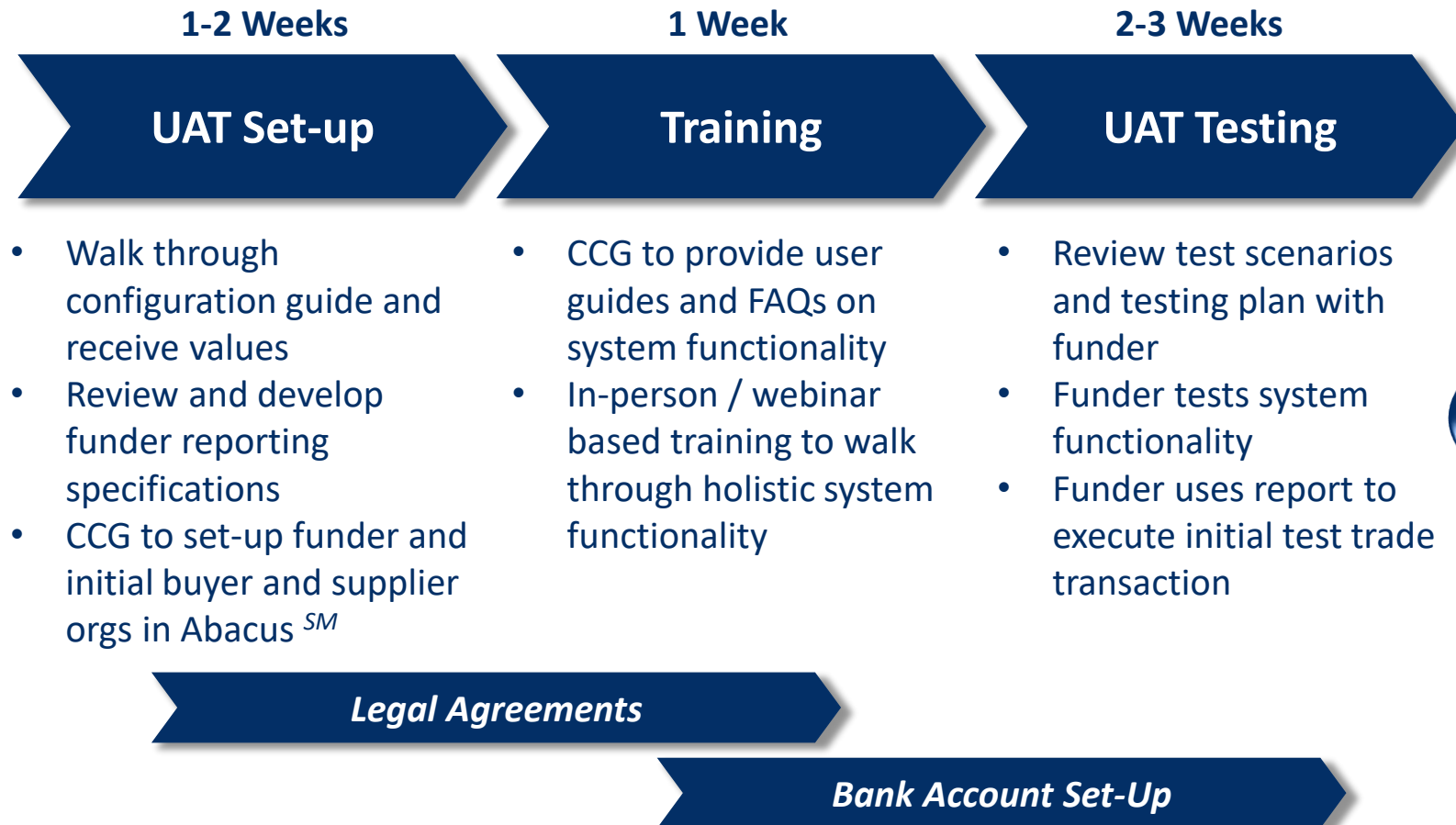


- Negotiate terms to 60 day standard terms
- Offer 3rd party financing on invoices
- Offer invoice financing from buyer excess cash to improve gross margin on long-tail suppliers

**the above approaches are generalized examples / detailed approaches will be allocated to individual supplier and distributor segments in the analysis phase*

IMPLEMENTATION APPROACH

Operational Setup

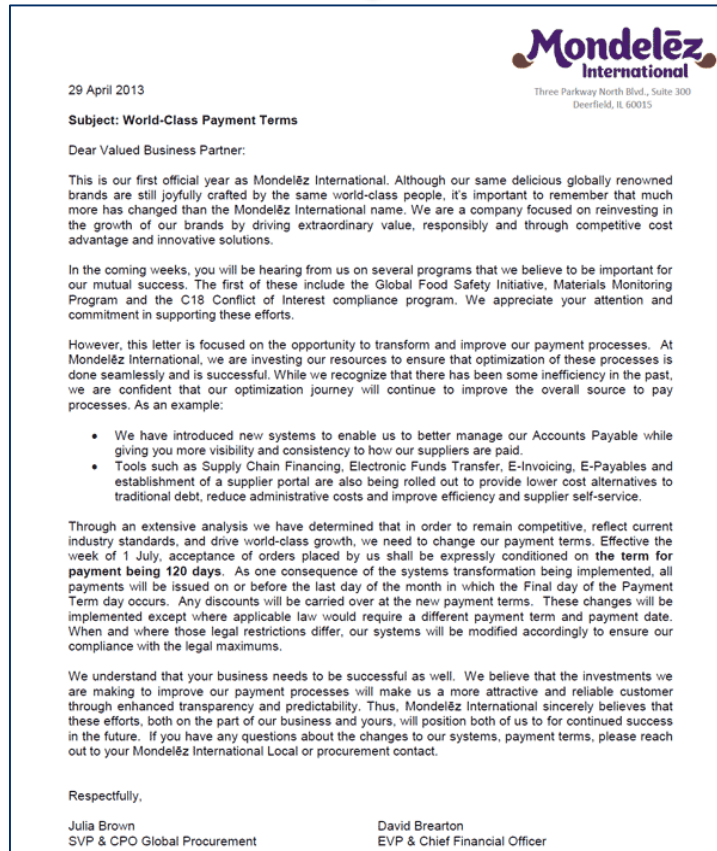


IMPLEMENTATION APPROACH

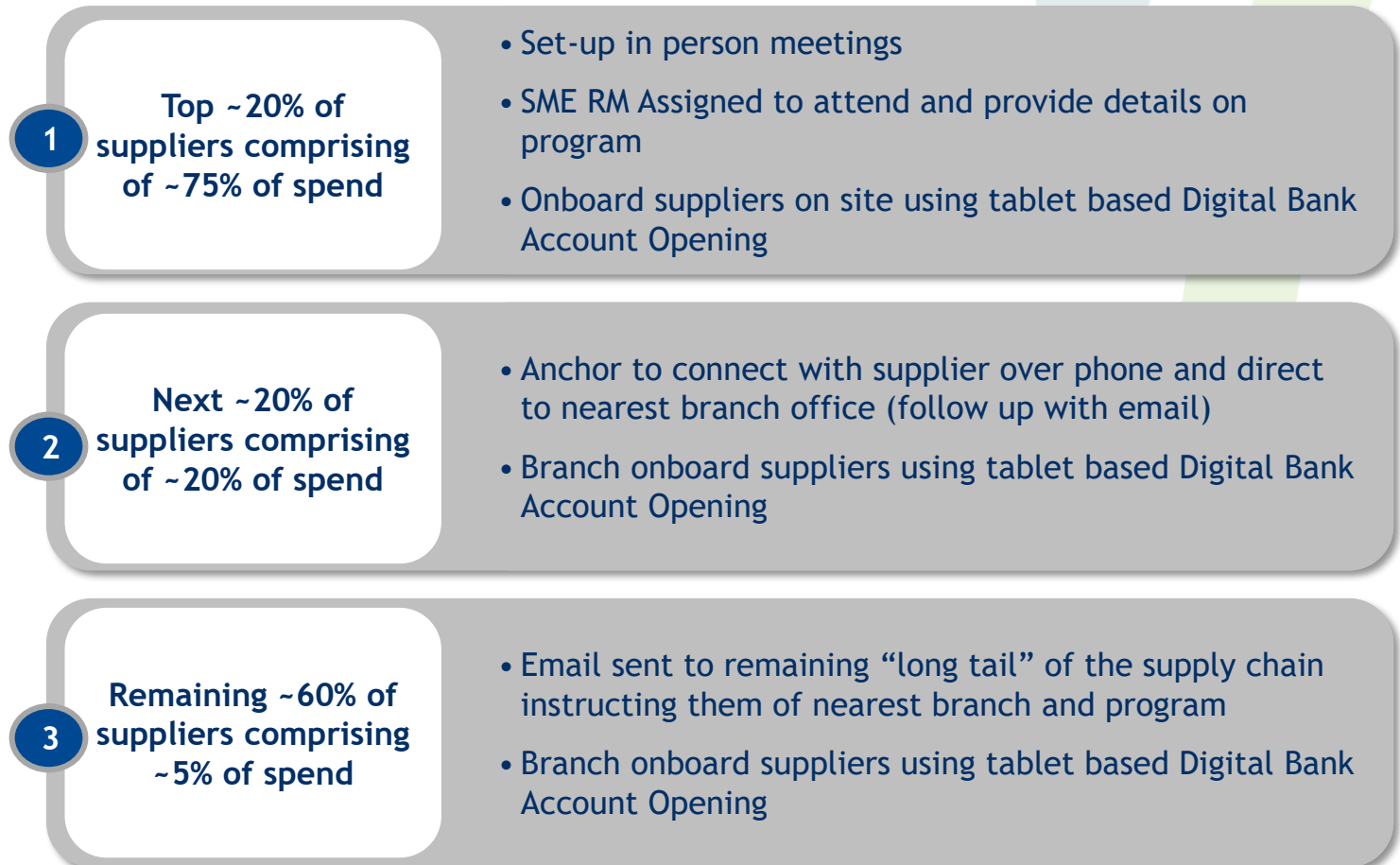
Pilot Launch



SELLER ON-BOARDING INITIATED WITH FORMAL LETTER FROM ANCHOR



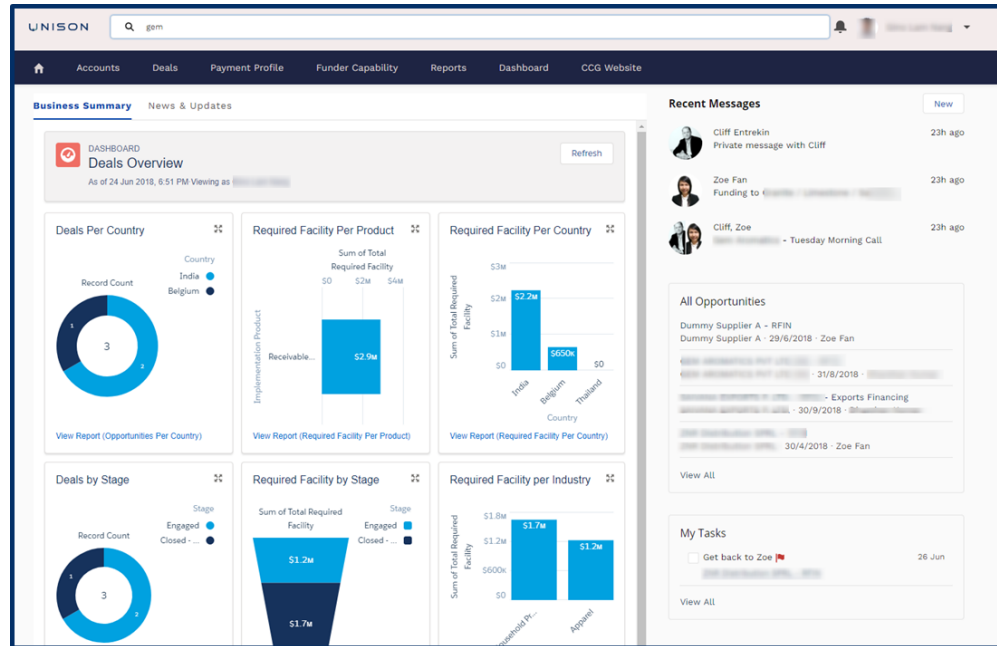
ON-BOARDING



ACTIVATION SHOULD ONLY FOCUS ON CUSTOMER ONBOARDING AND KYC / AML - BANK ACCOUNT NOT MANDATORY (BANK ACCOUNT OPENING OFFERED AT REDUCED FINANCING RATE)

IMPLEMENTATION APPROACH

Ongoing Monitoring



Take a glance of everything you need to manage your day to day business with Unison SM.

Reports

Reports give you access to your deal data. You can examine your deal data in almost infinite combinations, display it in easy-to-understand formats, and share the resulting insights with others.

Dashboards

Dashboards help you visually understand your deal progress summary and get important updates on critical tasks so you can make decisions based on the real-time data you have gathered with reports.

SUCCESS FACTORS IN PAYABLES FINANCE

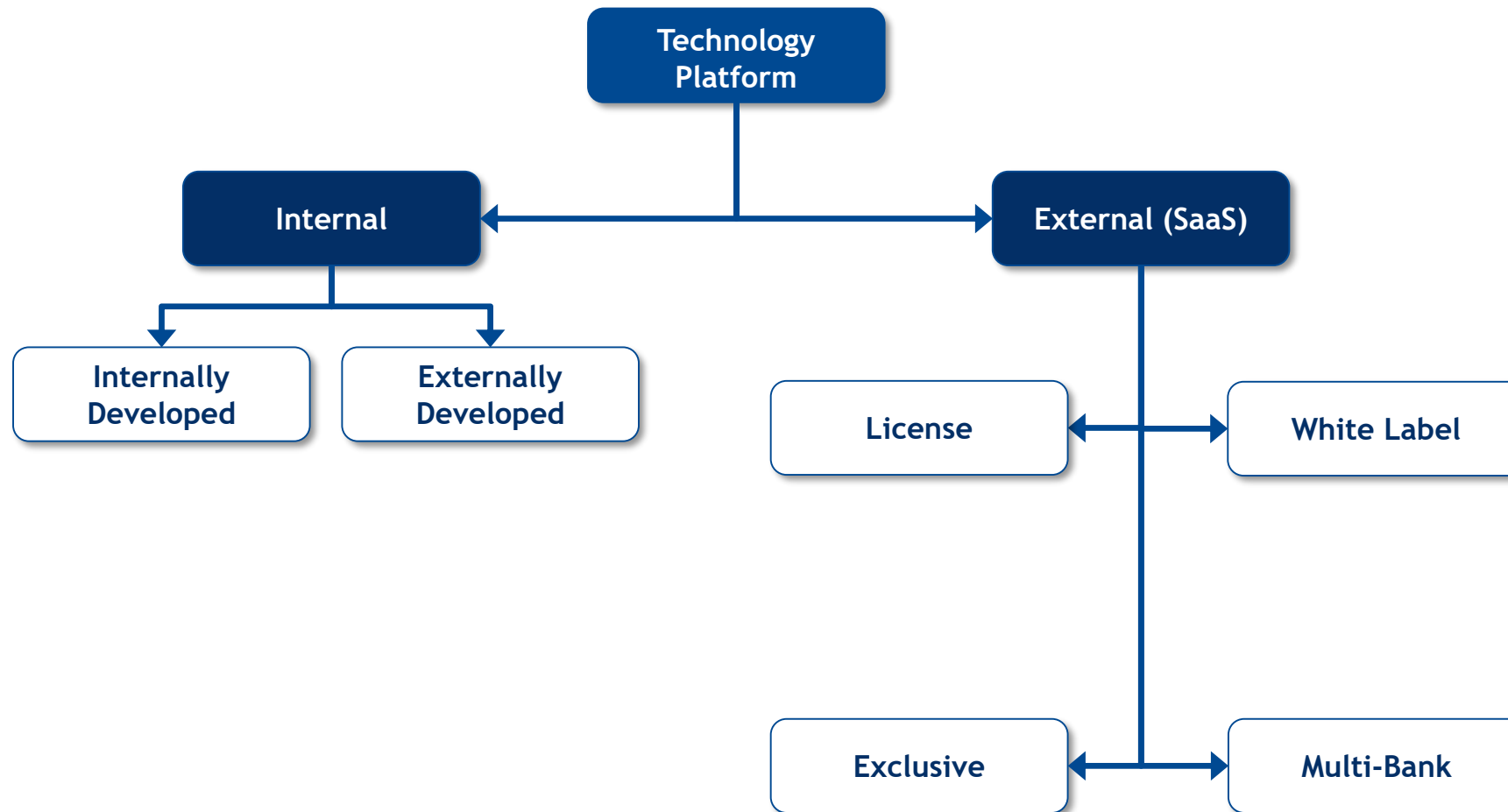




PAYABLES FINANCE

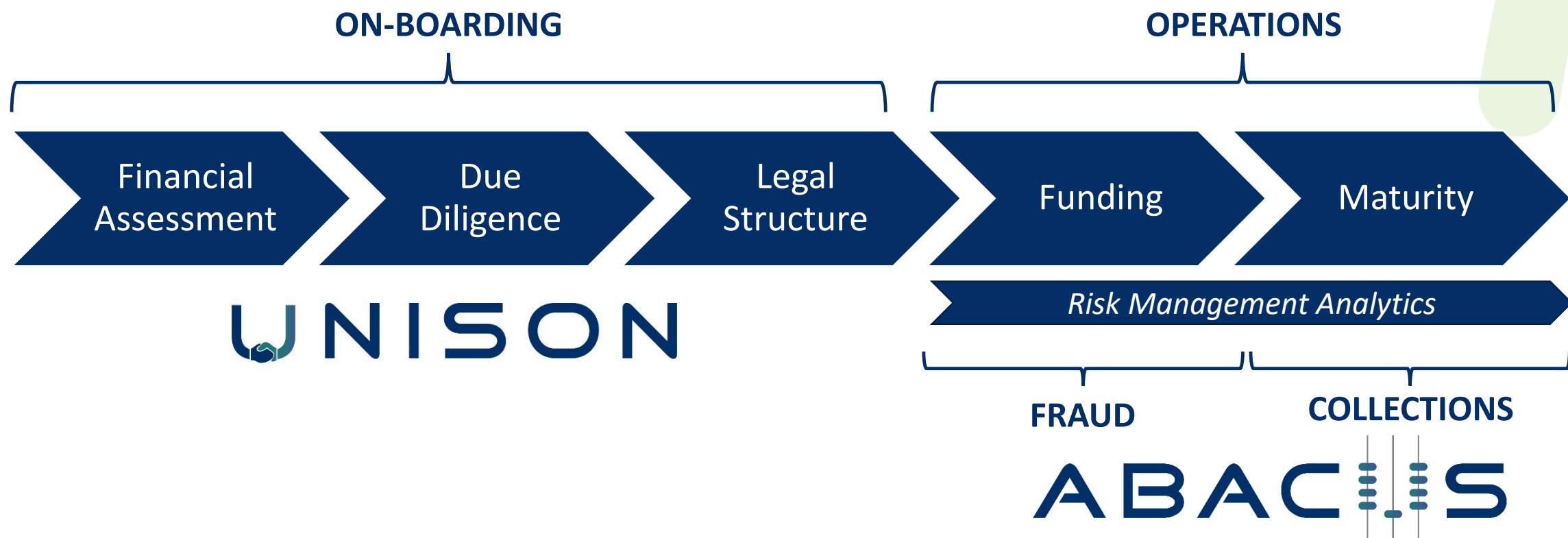
TECHNOLOGY ENABLERS

SCF TECHNOLOGY – DECISION FACTORS



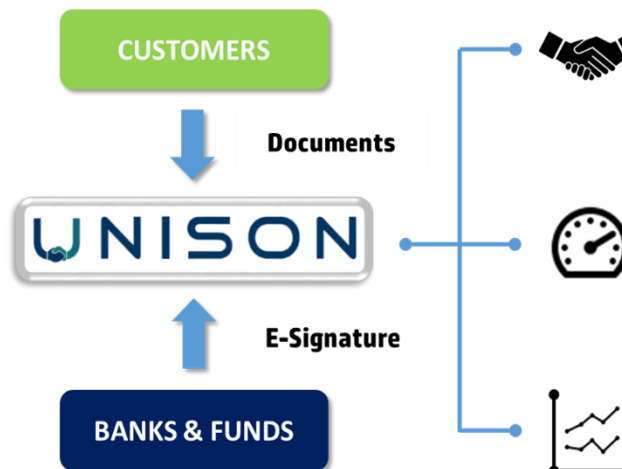
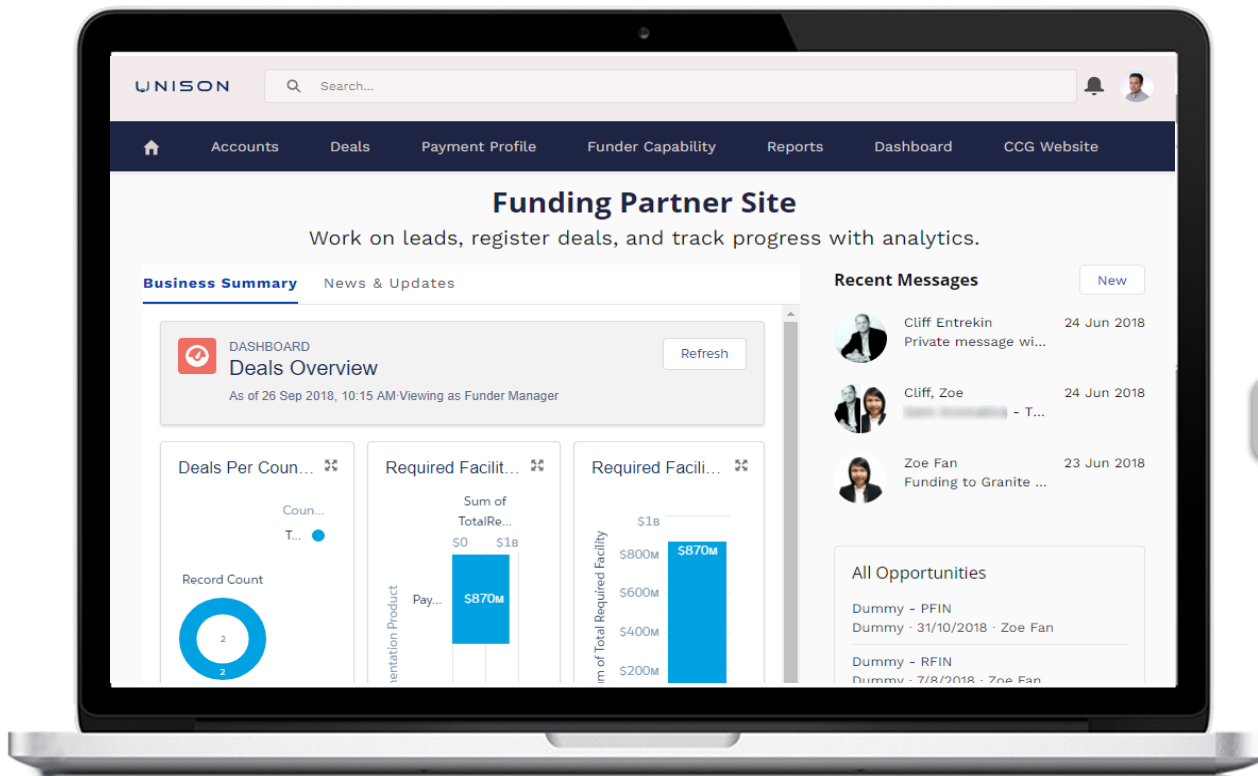
CONVERGENCE TECHNOLOGY OVERVIEW

The following process gives a high level summary of how all parties will work together to provide funding to clients using CCG technology.





STRUCTURING AND ONBOARDING PLATFORM



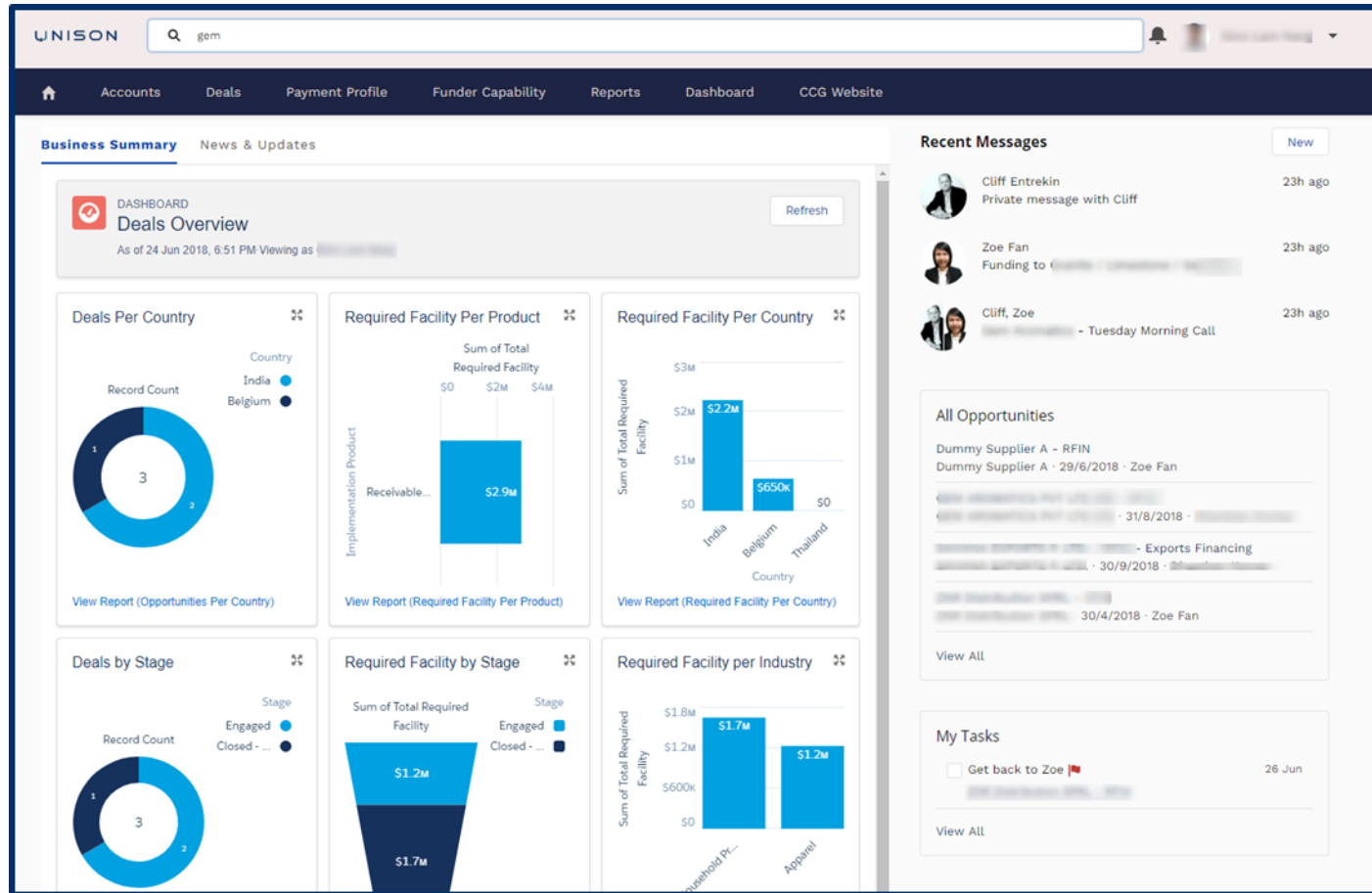
Collaborative On-boarding
Cloud platform that links customers and funders together for credit analysis and KYC documents submission / approval

Streamlined Process
Keep everything on the platform, no back-and-forth email communication. Reduces communication errors and saves time.

Real-time Tracking
Configurable Reports and Dashboards shows KYC operational metrics on a real-time basis

Can configure reporting to give immediate extract of client financial or due diligence data in any format

PROGRAM IMPLEMENTATION AND REPORTING



Take a glance of everything you need to manage your day to day business with Unison SM.

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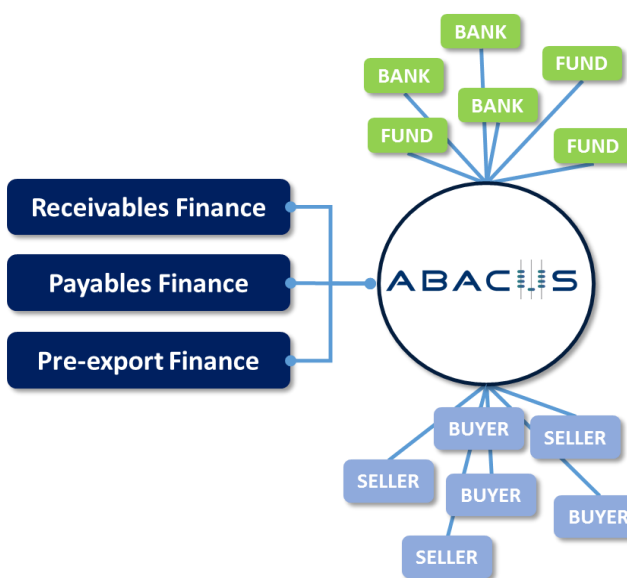
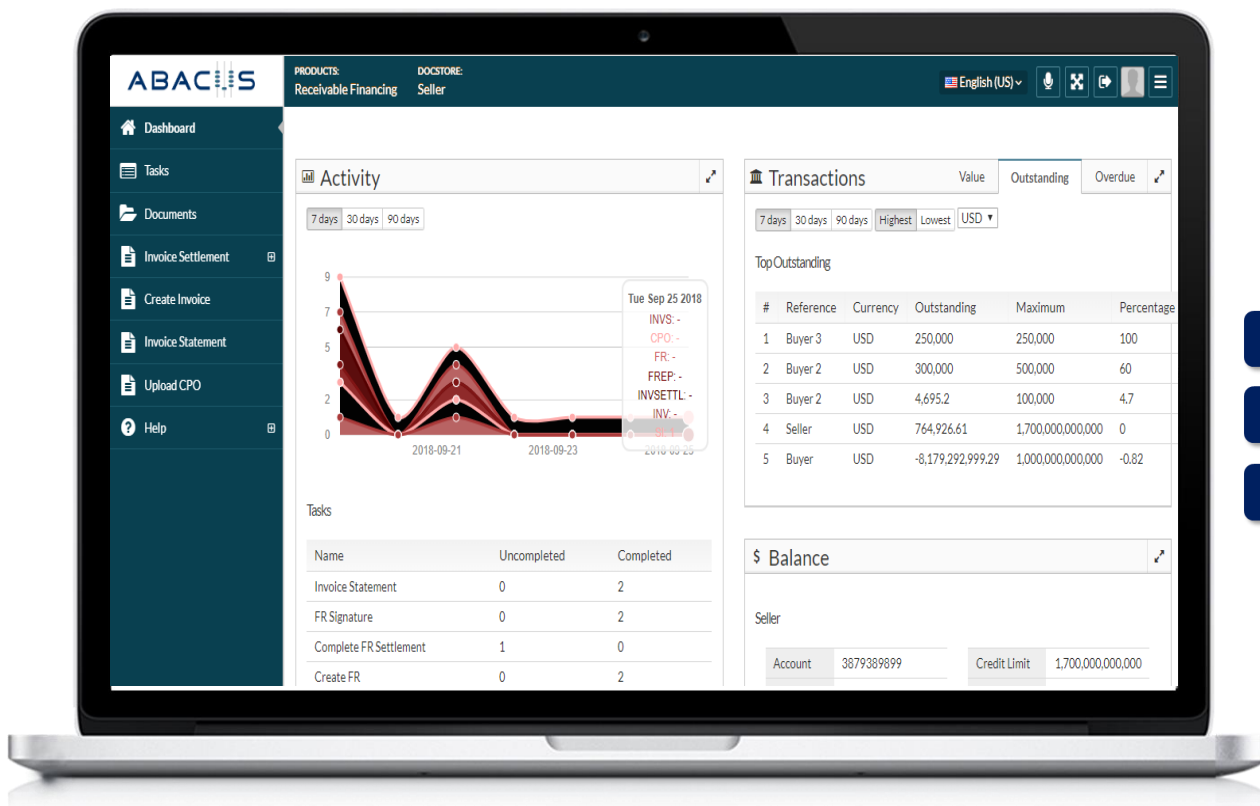
Dashboards

Dashboards help you visually understand your deal progress summary and get important updates on critical tasks so you can make decisions based on the real-time data you have gathered with reports.



ABACIS

FUNDING AND RECONCILIATION PLATFORM



Multi-funder Connection

Access to global, regional and local funding institutions using a single platform

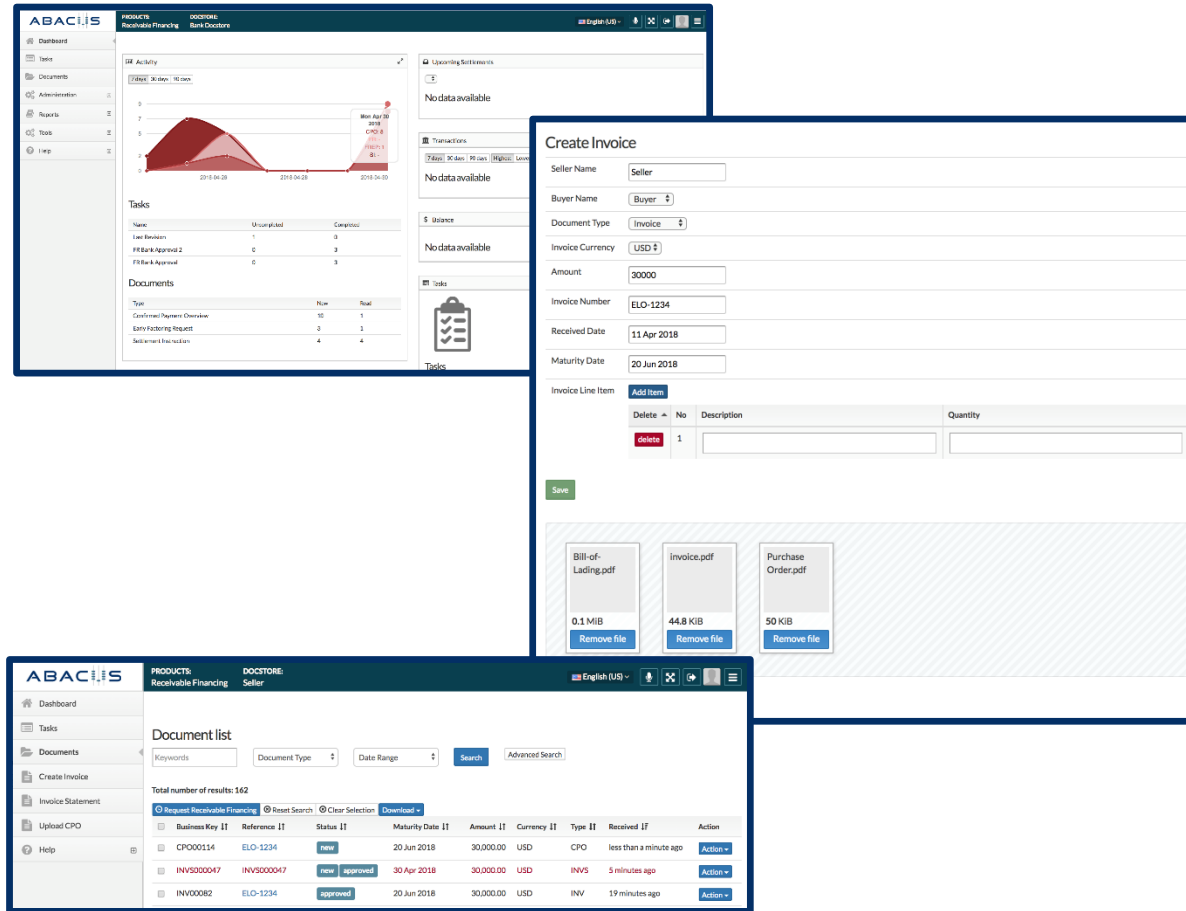
Holistic Package of Solutions

Unique in the industry for its breadth of product functionality

Client-facing Platform

Single process for funding both sides of the balance sheet, removing operational hurdles that normally exist when utilizing multiple funding sources

FUNDING REQUEST AND APPROVAL



The image displays two screenshots of the AbacusSM platform interface. The top screenshot shows the 'Create Invoice' form, which includes fields for Seller Name, Buyer Name, Document Type, Invoice Currency, Amount, Invoice Number, Received Date, and Maturity Date. Below these fields is a table for 'Invoice Line Item' with columns for Delete, No, Description, and Quantity. The bottom screenshot shows the 'Document list' table, which displays a list of documents with columns for Business Key, Reference, Status, Maturity Date, Amount, Currency, Type, Received, and Action.

Business Key	Reference	Status	Maturity Date	Amount	Currency	Type	Received	Action
CPO00114	ELO-1234	new	20 Jun 2018	30,000.00	USD	CPO	less than a minute ago	Action
INVS000047	INVS000047	new approved	30 Apr 2018	30,000.00	USD	INVS	5 minutes ago	Action
INVS000082	ELO-1234	approved	20 Jun 2018	30,000.00	USD	INV	19 minutes ago	Action

AbacusSM makes the process of funding request and approval easy and convenient for funders and corporates.

- **Buyer Maker** may create manually or upload multiple invoices and attach supporting documents on the platform.
- **Buyer Checker** receives a task to Accept the Invoice Statement. Once **Accepted**, a CPO document is available on document list, and if **Rejected**, the Invoices will be Released.
- **Seller Maker** select the invoices to discount and creates a Funding Request for early payment.
- **Seller Approver** receives a task to Approve the Funding Request. Once **Accepted**, a Funding Request must be electronically signed by designated Seller Signatory, and if **Rejected**, the Invoices will be Released.
- **Seller Signatory** receives a task to Electronically Sign the Funding Request. The Seller Signatory must **View** the necessary Funding Requests which are awaiting electronic Signature in their Task List.





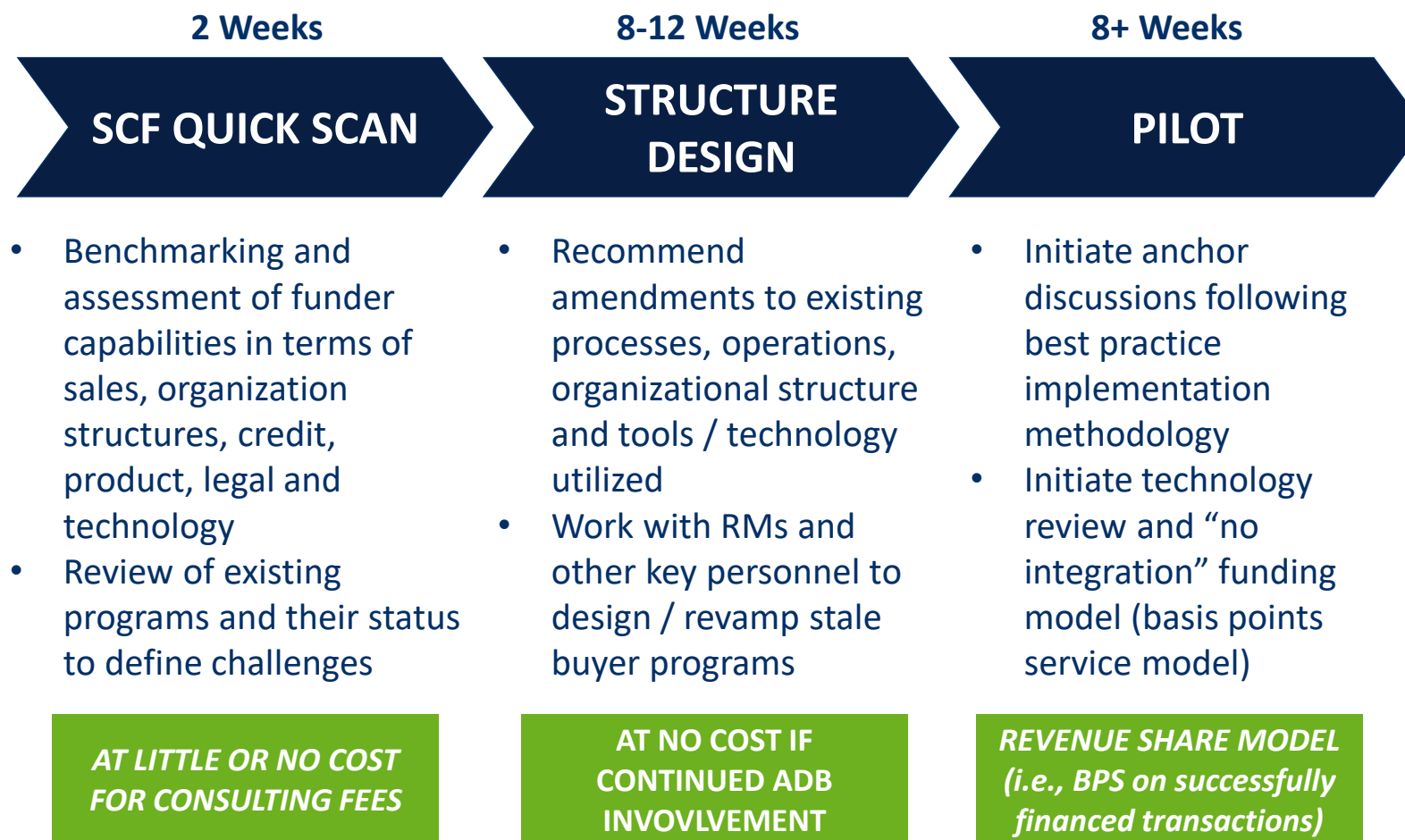
PAYABLES FINANCE

ROLE OF CONVERGENCE

ON-SITE CONSULTING



CONSULTING TIMELINE AND COSTS



ABOUT US:



Convergence Capital is a global expert in Trade Finance solutions. We support international buying organizations, based primarily in the US and Europe, as well as their supply chains, primarily in Asia Pacific, by providing working capital to drive success within their businesses.

Convergence Capital has the connectivity to support over 6,000 suppliers and 60+ buying organizations. With access to global and regional funding institutions, we have the capital necessary to drive successful supply chain finance programs as well as traditional receivables financing transactions.

We facilitate supply chain finance, or reverse factoring, programs with global buyers while supporting both local and international suppliers, as well as funders during each step of the process. Our support to local and international suppliers expands to include financing of receivables across their entire customer portfolio at rates and terms much more favorable than traditional factoring.

For more information, visit: www.convergence-capital.com



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