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HADRIAN
CAPITAL FINANCE

Invoice Finance

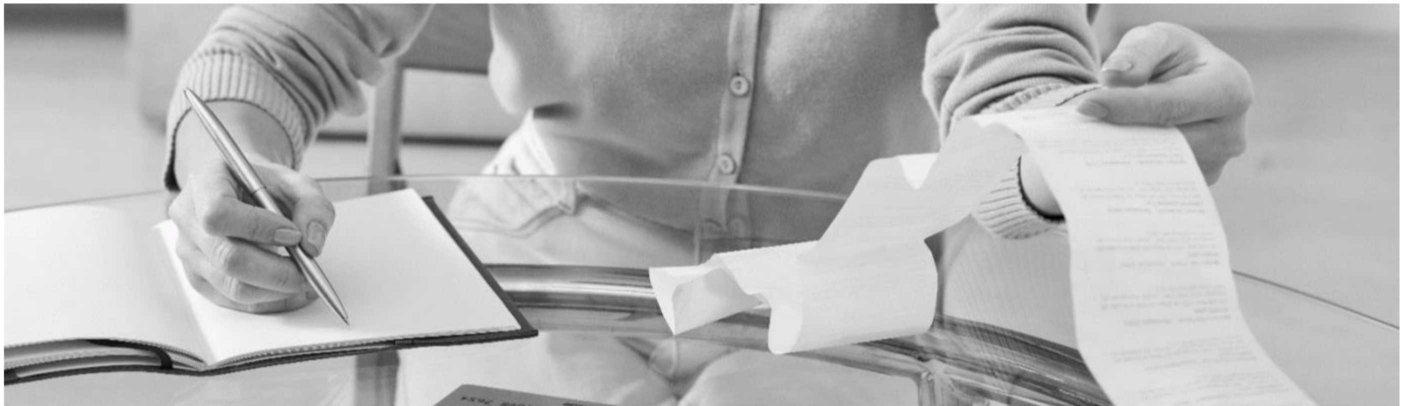
The effects of COVID-19 on S.M.E businesses across the UK has been profound, so let's be clear, if you're a business owner worrying about how the market uncertainty is impacting on your business already, or may in the future, you are not alone!

We've been assisting lots of clients new and old, who are confused about what funding is available to their business. We thought putting together a series of summaries around the various financial products available to businesses would be a fantastic way to give something back.

The document focuses on invoice finance, you may be aware of how these facilities work. If not, we'll help answer the question; "What is Invoice Finance?".

Invoice Financiers use unpaid invoices as security for providing funding. Approved businesses access a percentage of an invoice's value, typically 85 or 90% and quickly; sometimes within 24 hours. The amount of funding given is based on the risk appetite of the Finance provider.

Invoice Finance is growing in popularity among UK SMEs, particularly those with long cash collection cycles like construction, manufacturing and recruitment.



<u>There are two main types of Invoice Finance, Factoring and Invoice Discounting:</u>

1. Factoring allows businesses to generate money against unpaid invoices. The finance provider will lend you up to 90% of the value of your invoices. It will also manage your sales ledger and collect payment for your invoices directly from your customers, hence the term 'disclosed invoice finance'. They will then deduct the costs of the factoring service, before paying you the remaining balance.

2. Invoice Discounting works similarly to Factoring but as a business, you retain control of customer payments, hence the term 'undisclosed invoice finance'. Your business pays a fee and a 'discount charge' (similar to interest) if the funding is utilised, similar to a standard Overdraft.

<u>There are also a few different ways you can finance your debtor book within the two above structures, as illustrated below.</u>

- Selective or Spot Factoring essentially means only funding a select few or single debtor. For example, as a business you may only have one customer who you supply on terms, the rest may pay as soon as the invoice is raised. In this scenario, you would only need to finance that customer's invoice, for which a selective invoice finance line would work.

- Whole ledger finance is used when all of your customers pay on terms, and as a result, you require your whole debtor ledger to be funded, not just a select one or few.

A question to ask yourself is "How much cash have I got stuck in my debtor book, could having access to 85% or 90% of that capital help my business?"

If you'd like to arrange a no obligation exploratory call to discuss, please get in touch.