



SME FINANCE
FORUM



Webinar - Value Chain Finance: How Banks can Leverage Growth Opportunities for SME Banking Customers

Qamar Saleem, Global SME Banking and Value Chain Specialist, IFC

Dr. Eugenio Cavenaghi, Managing Director - Trade, Export & Supply Chain Finance, Banco Santander

A dark red world map is centered on the slide, set against a lighter red grid background. The map shows the outlines of continents in a slightly darker shade of red.

Value Chain Financing

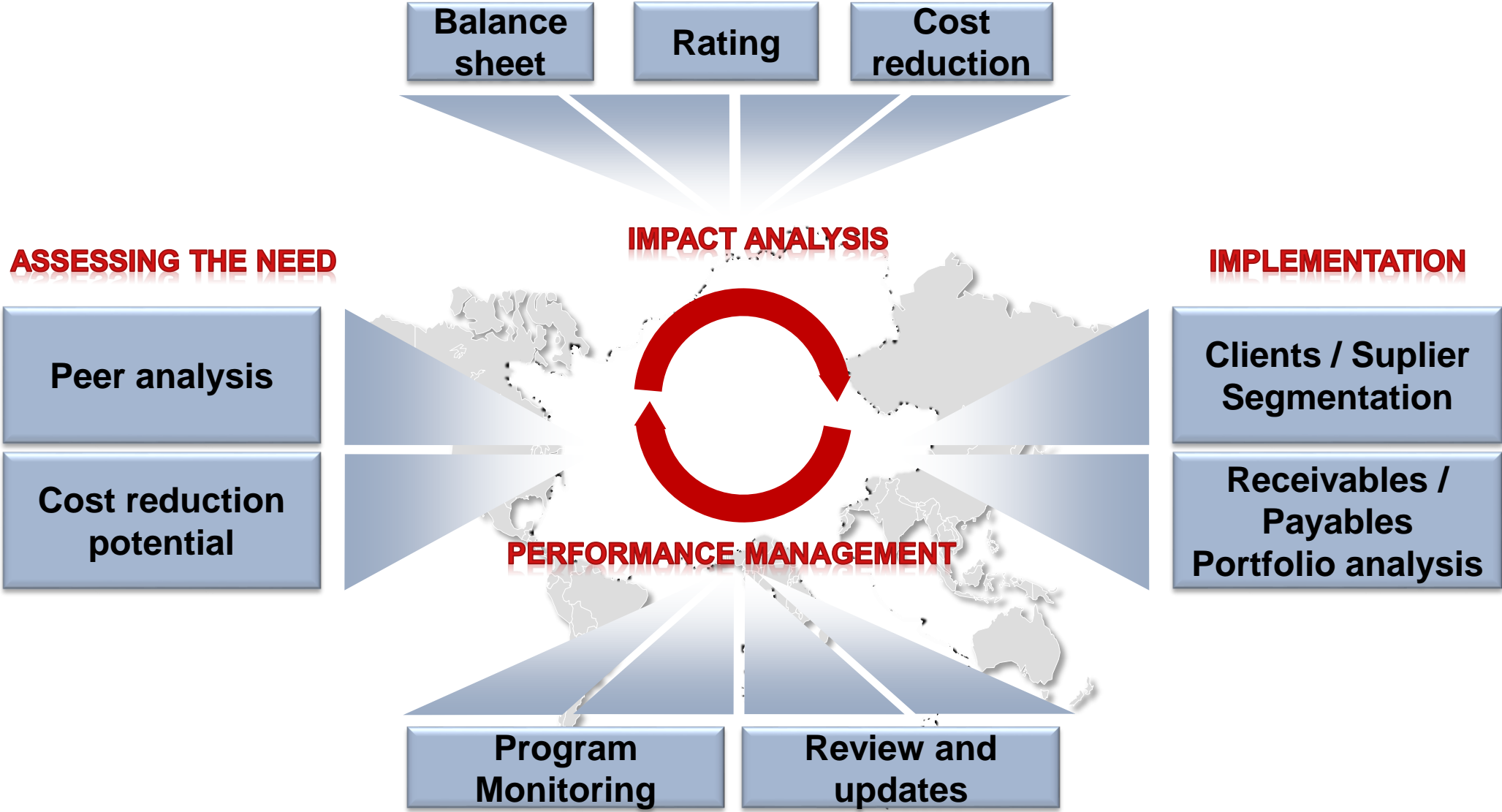
Current best practice

24th Feb 2016

Value Chain Financing

- Assessing the Need: Industry Benchmarking
- Working Capital: Solutions and Alternatives

Working Capital Improvement Cycle



Value Chain Financing

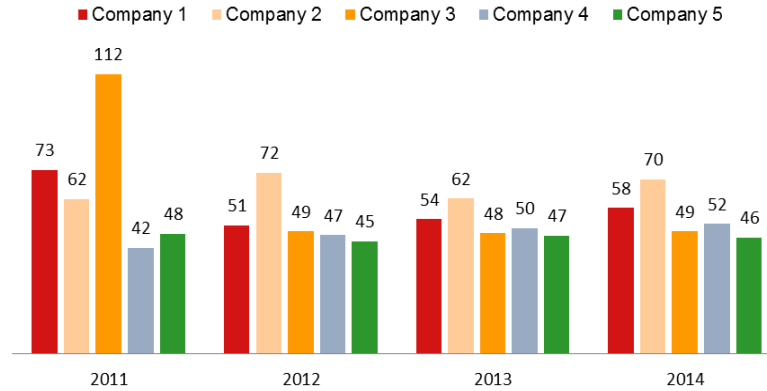
- **Assessing the Need: Industry Benchmarking**
- Working Capital: Solutions and Alternatives

Assessing the Need: Working Capital Analysis in the Chemicals Sector

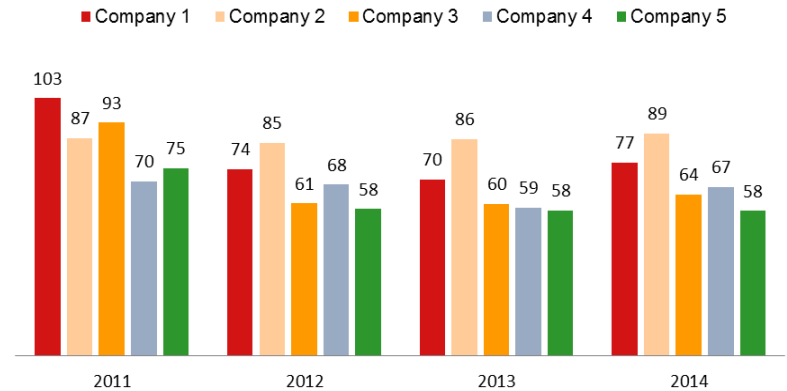
Top 5 Chemical Companies - Peers Comparison



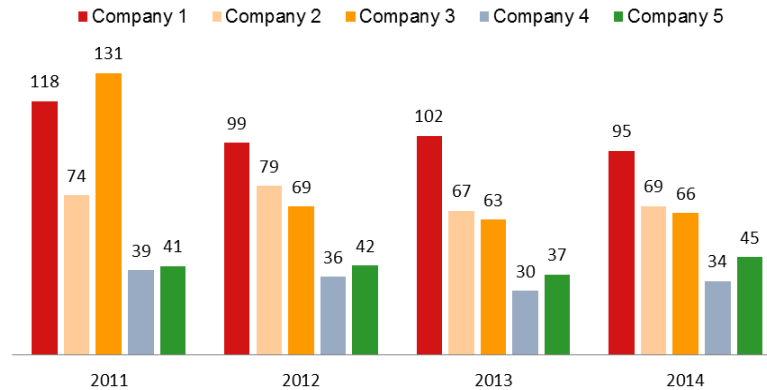
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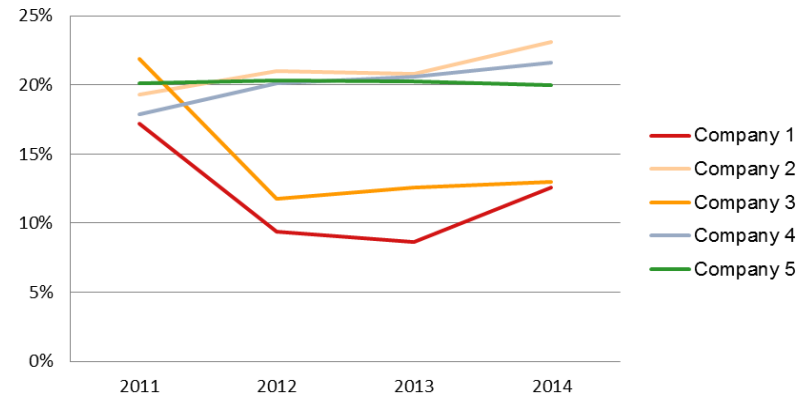
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Working Capital as % of Sales



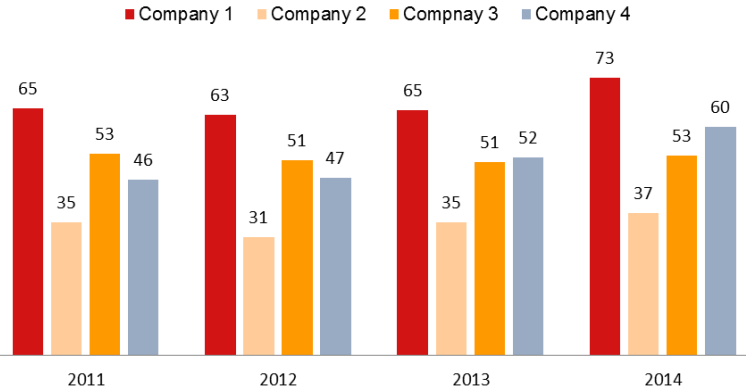
Source: Annual Reports

Assessing the Need: Working Capital Analysis in the Consumer Goods Sector

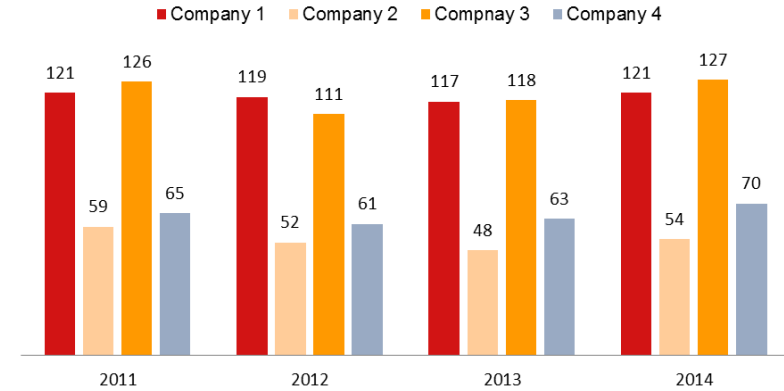
Top 5 Consumer Goods Companies - Peers Comparison



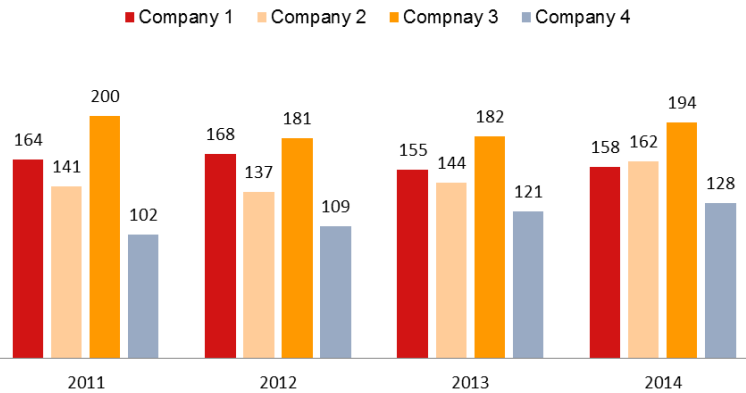
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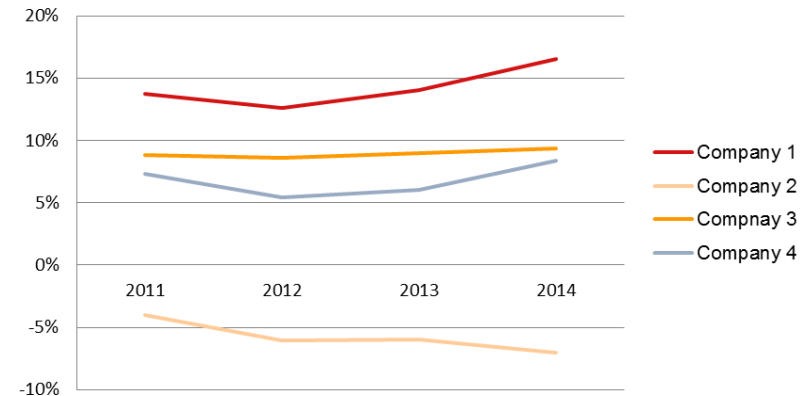
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Working Capital as % of Sales



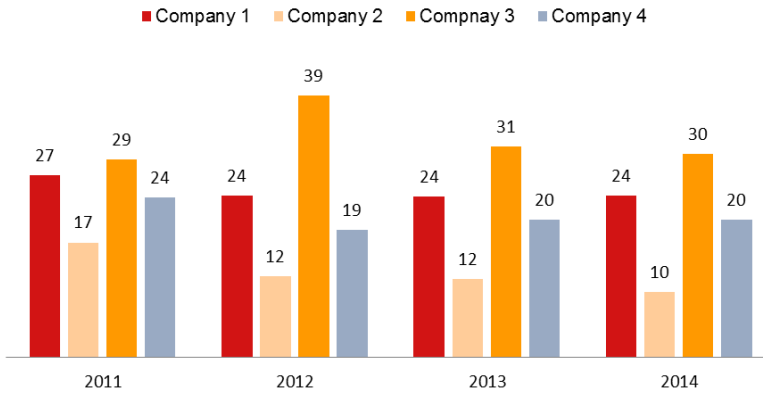
Source: Annual Reports

Assessing the Need: Working Capital Analysis in the Automotive Sector

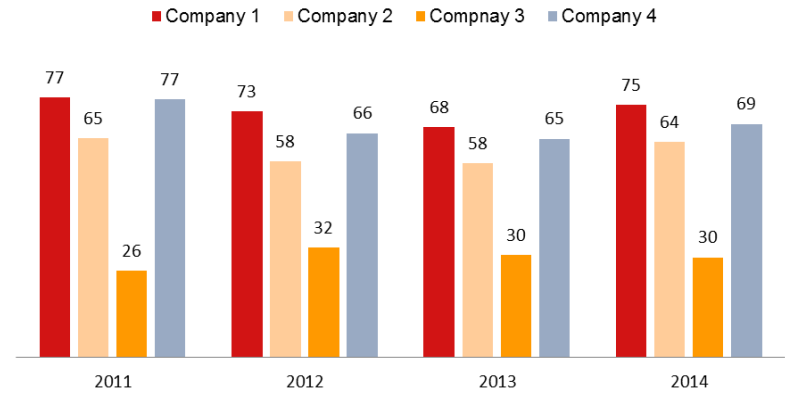
Top 5 Automotive Companies - Peers Comparison



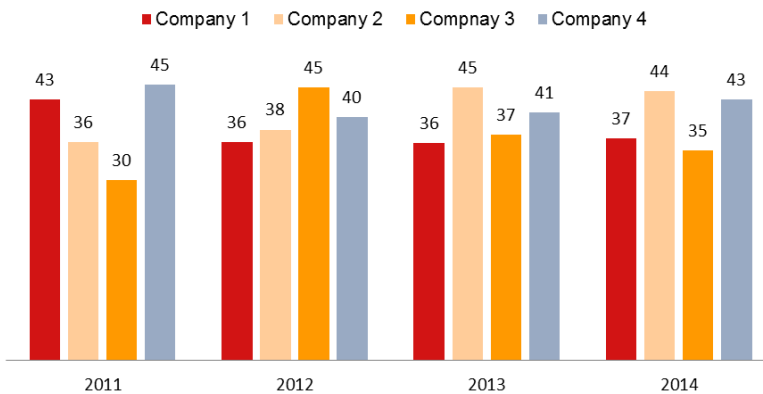
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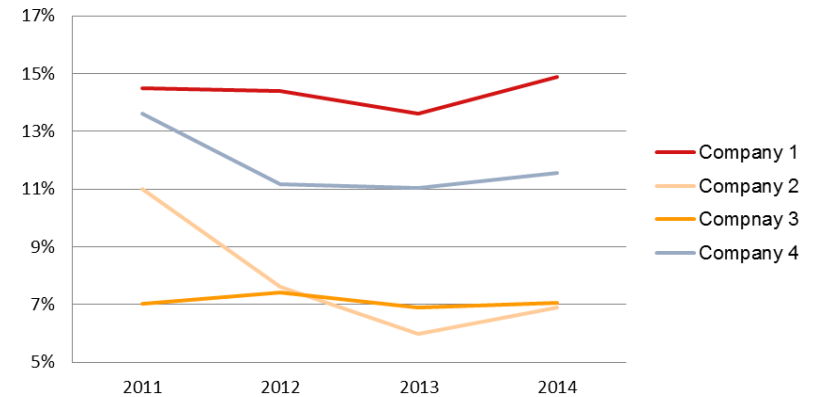
DIO



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Working Capital as % of Sales



Source: Annual Reports

Working Capital Summary View

	WC change 13/12
Major industry	Europe
Cyclical	
Automotive supplies	-5%
Chemicals	-1%
Industrials*	-1%
Semiconductors	7%
Steel	4%
Non-cyclical	
Food producers	-7%
Food and general retailers	-2%
Household and personal care –	-6%
Pharmaceuticals	-2%
Other	
Electric utilities	3%
Oil	1%

* diversified industries and electrical components

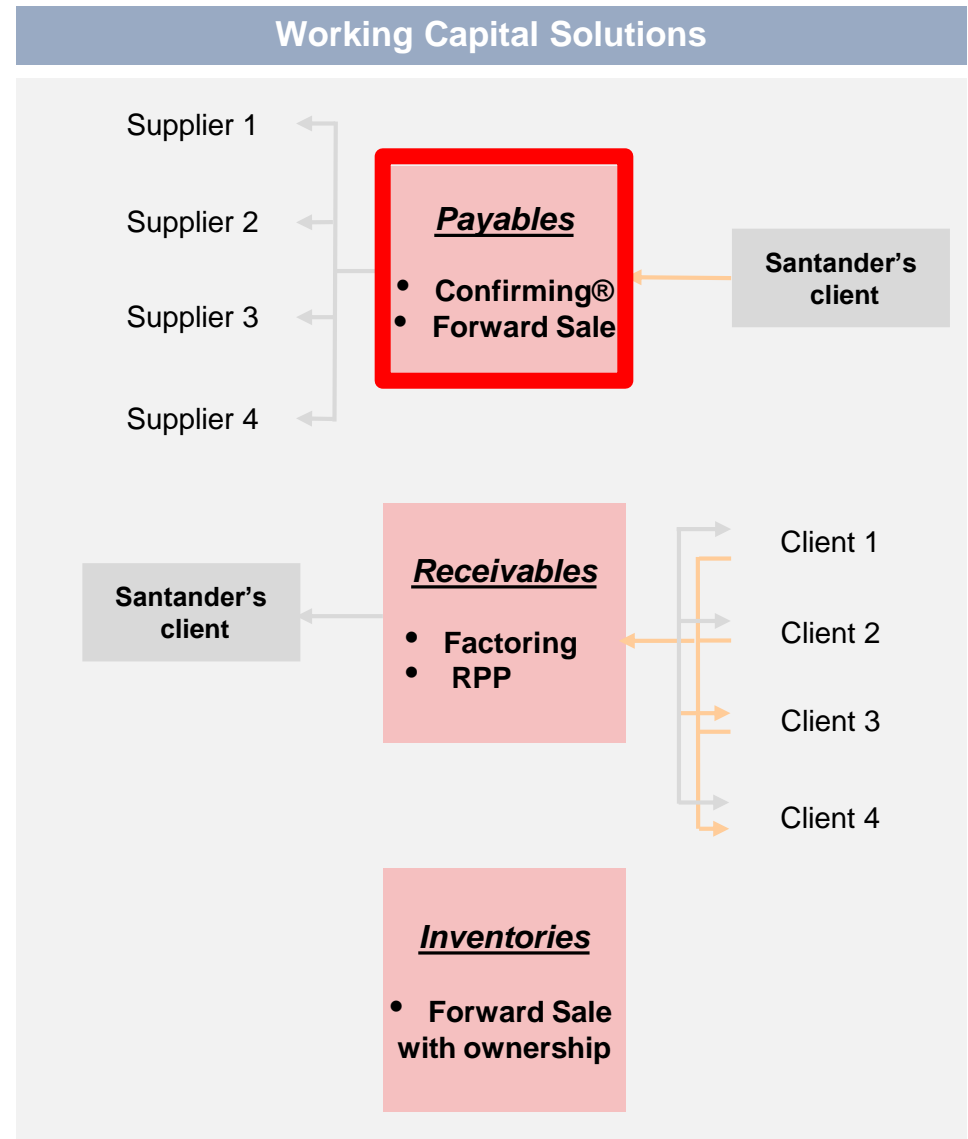
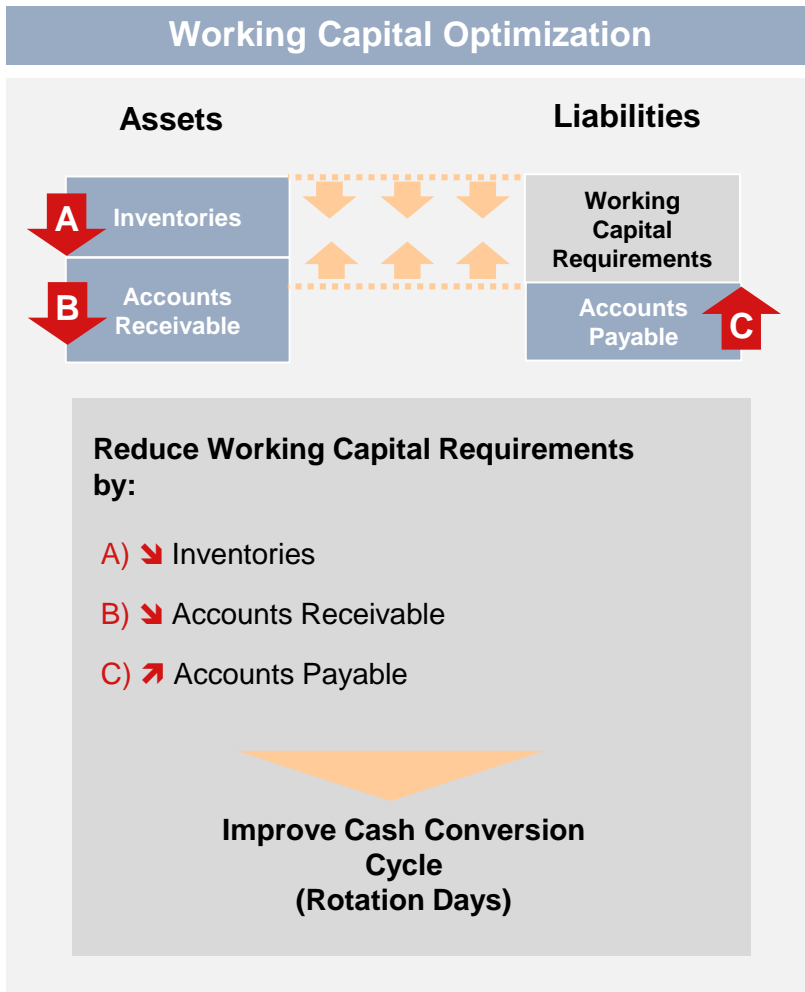
Source: EY analysis based on publicly available annual financial statements.

Value Chain Financing

- Assessing the Need: Industry Benchmarking
- **Working Capital: Solutions and Alternatives**

Holistic approach to Working Capital solution

- 3 main drivers: receivables, inventories and payables
- Most Corporates are concentrating the monitoring of all 3 drivers and decision-making in one place
- Banks also needs to cover the whole spectrum of Working Capital needs



→ Payment flow → Finance flow

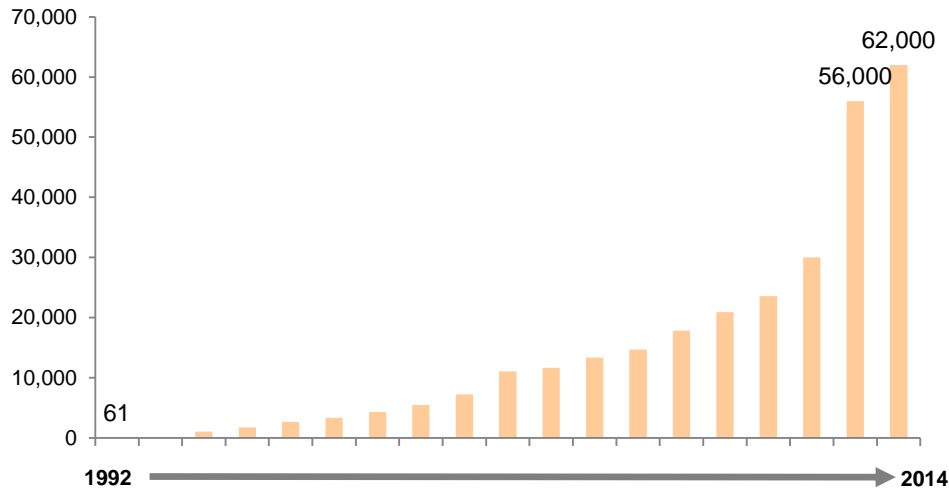
Global Confirming®

Santander is committed to provide effective and valuable supply chain finance solution for more than two decades

Leading provider of Confirming

- More than **20 years of experience**
- Over **200,000 companies** (buyers & suppliers)
- **56,000 invoices** settled daily
- Programs in **17 countries**
- **Experience** across a wide range of industries and sectors

Payment volume through Confirming
EUR Mn



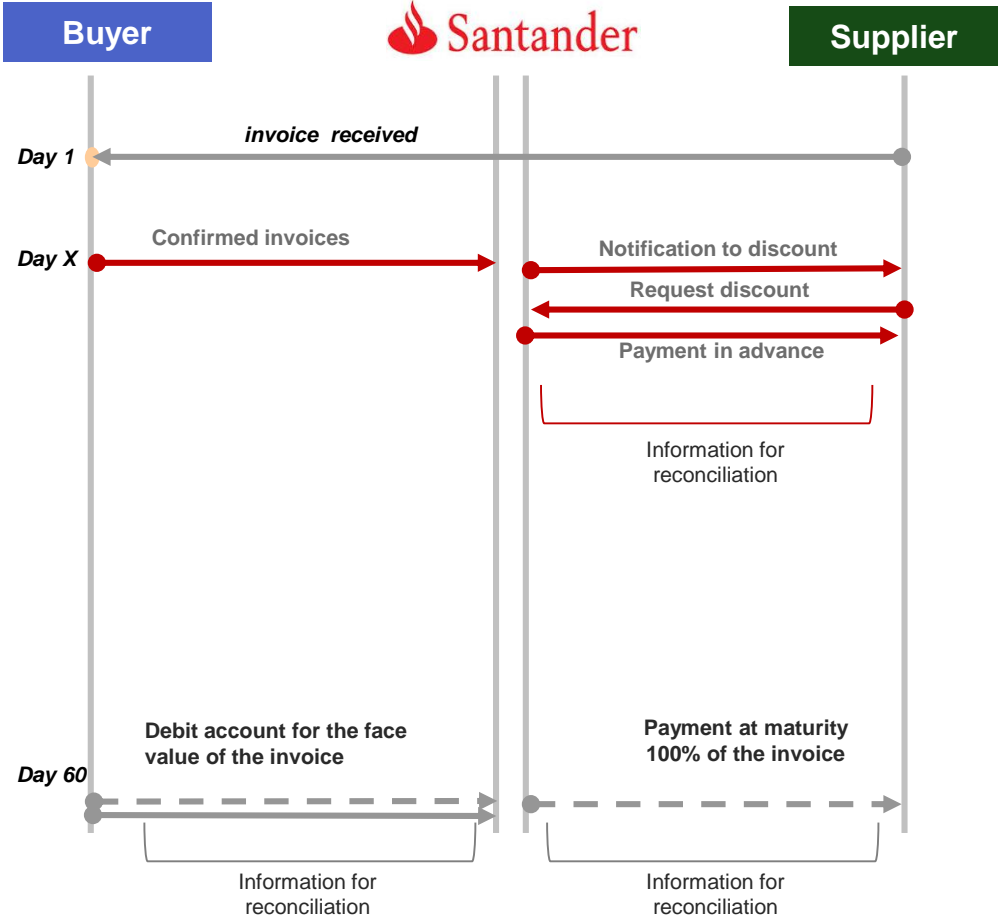
Selected credentials



How Confirming® works

Quick and simple operating flow

Global Confirming® - product designed by Santander being adopted by industry as a standard



Day 1: Buyer records receipt of invoice(s)

Day X: Buyer validates the invoice(s) and sends the *Confirmation File*

Santander sends the Supplier a *Notification Letter* and a discounting offer



Supplier accepts discounting

- Two options for the Suppliers:
- Request one-off discount
 - Request an automatic discount for any current or future invoice

Supplier does not accept discounting

Supplier does nothing and at **day 60** receives the payment at the same account. Santander debits the Buyer's account

Day X: Santander pays the discounted amount (discount is non-recourse against the Supplier)

Day 60: At maturity, Santander debits the Buyer's account

Benefits for Buyer and Suppliers

Flexible solution for suppliers to get access to non-recourse financing while the Buyer is able to optimize its P&L

Off Balance Sheet financing

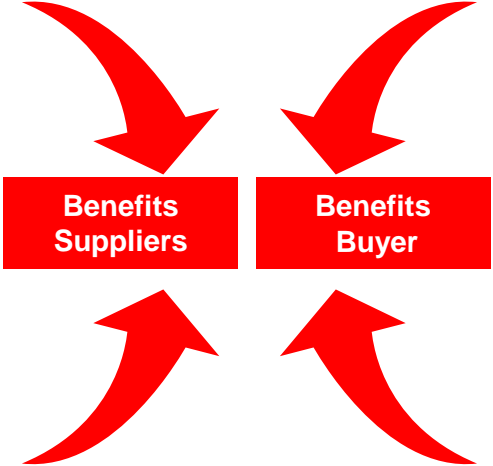
- Provides liquidity: 100% of the invoices' value is financed
- No recourse
- Doesn't consume existing credit lines

Competitive conditions

- Price based on the Buyer's credit rating profile
- Lines without commitment
- Short-term (60 days)
- Better risk management for the bank as transaction is known from origin

Simplicity

- No need to:
 - Sign three party contract: only a **2 page** contract
 - Register into a new platform
 - Present financial info (no KYC)
 - Open an **account** with Santander
- Discount request by fax, email or SFC website (based on multilingual web & contact centres)
- Absolute flexibility to discount some, all or none of the invoices
- Control on payments certainty
- Supplier Management Team available in their local language



P&L improvement

- Reduction of Cost of Goods Sold
- Operating margin improvement
- Improve Net Income

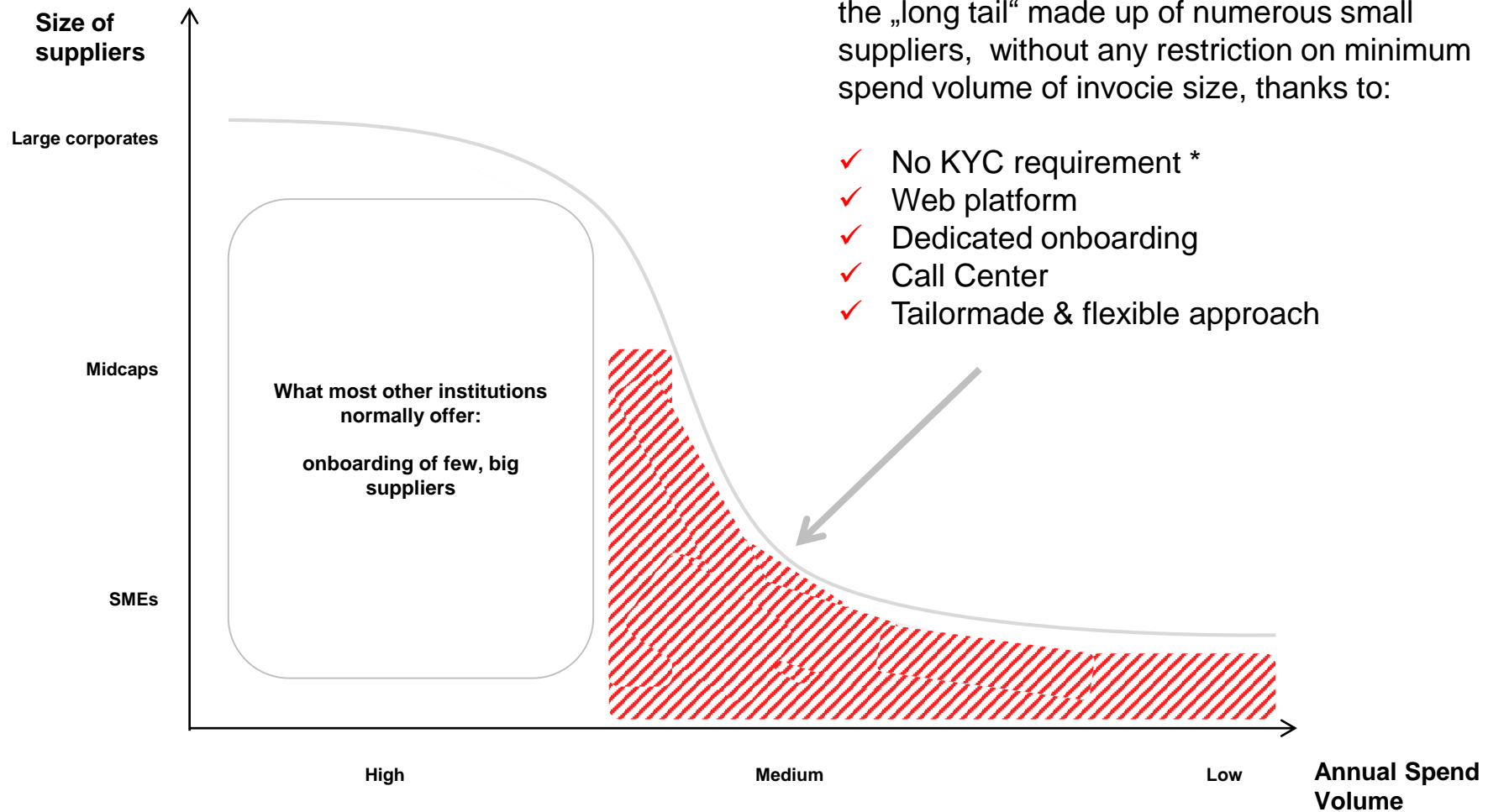
Balance Sheet upside

- Improving liquidity position
- Provide a platform that would facilitate the extension of payment terms

Internal procedures optimization

- Release burden of suppliers inquiries through the Supplier Management Team (e.g. Santander will take care in case suppliers have payment issues)
- Simple process for payment orders
- Optimize reconciliation process

The Supplier is in our focus



*: Thanks to its 20-year track record, Santander is the only bank that could obtain from the relevant authorities that allowance to run Confirming without requesting KYC („Know Your Customer“) documents from the Suppliers

Supplier On Boarding Process

Introduction

- Santander® is **committed** to support the Buyer in any communication to their supplier for the implementation of the Confirming program.

Training for Procurement

- In our experience the **procurement team** is a key stakeholder to ensure the success of a program.
- Santander offers **training sessions to the procurement** community to help them communicate to suppliers.

Strategy of Communication

- The Buyer and Santander agree on a strategy to communicate the new payment method to suppliers.
- The Buyer and Santander will also agree on the level of support that the Buyer requires for the communication to suppliers

Support

- We offer to the Buyer the possibility to organise **workshops** with suppliers to present the Confirming®
- The **Confirming® Calculator** will be used to demonstrate the advantages to the supplier.
- **one-to-one meetings** with suppliers are also possible.

Service

- Our **Supplier Management Team** is an important element of support throughout the lifetime of the Confirming® Program.
- This team is multilingual and supports suppliers in the operational or commercial questions (calculation, etc.).

Overview of our solution: implementation methodology

The implementation plan to be structured along three main work streams: (1) Legal, (2) Operation, (3) Suppliers



Our implementation approach is based on a consensus with the Buyer on an implementation plan. Our recommendation is to start the project with a kick-off meeting where all responsible parties of each stream are reviewing in detail every task and assign individual responsibilities and deadlines.

Syndication Capabilities in Confirming

Santander has the experience, systems and investor network to manage the large Confirming programs also as as Lead Arranger of a syndicate

Two main methodologies are possible:

A

Unfunded Risk Participation

- Santander purchases invoices without recourse from Suppliers, assuming the Buyer's default risk.
- Santander signs a Master Risk Participation Agreement (MRPA) with another Investor, who shares pro-rata the risk on the total exposure on the Buyer.
- The MRPA functions effectively like a credit insurance.
- Santander uses its own liquidity to discount all the invoices, but shifts parts of its credit exposure to the Investor.

B

Re-Sale of Receivables

- Santander purchases receivables without recourse from Suppliers, assuming the Buyer's default risk.
- Some of the receivables are kept by Santander, while others are sold down on a regular basis to another Investor.
- The Investor purchases the receivables by transferring the money to Santander, who is still responsible for paying out all the discounted invoices to the Suppliers.

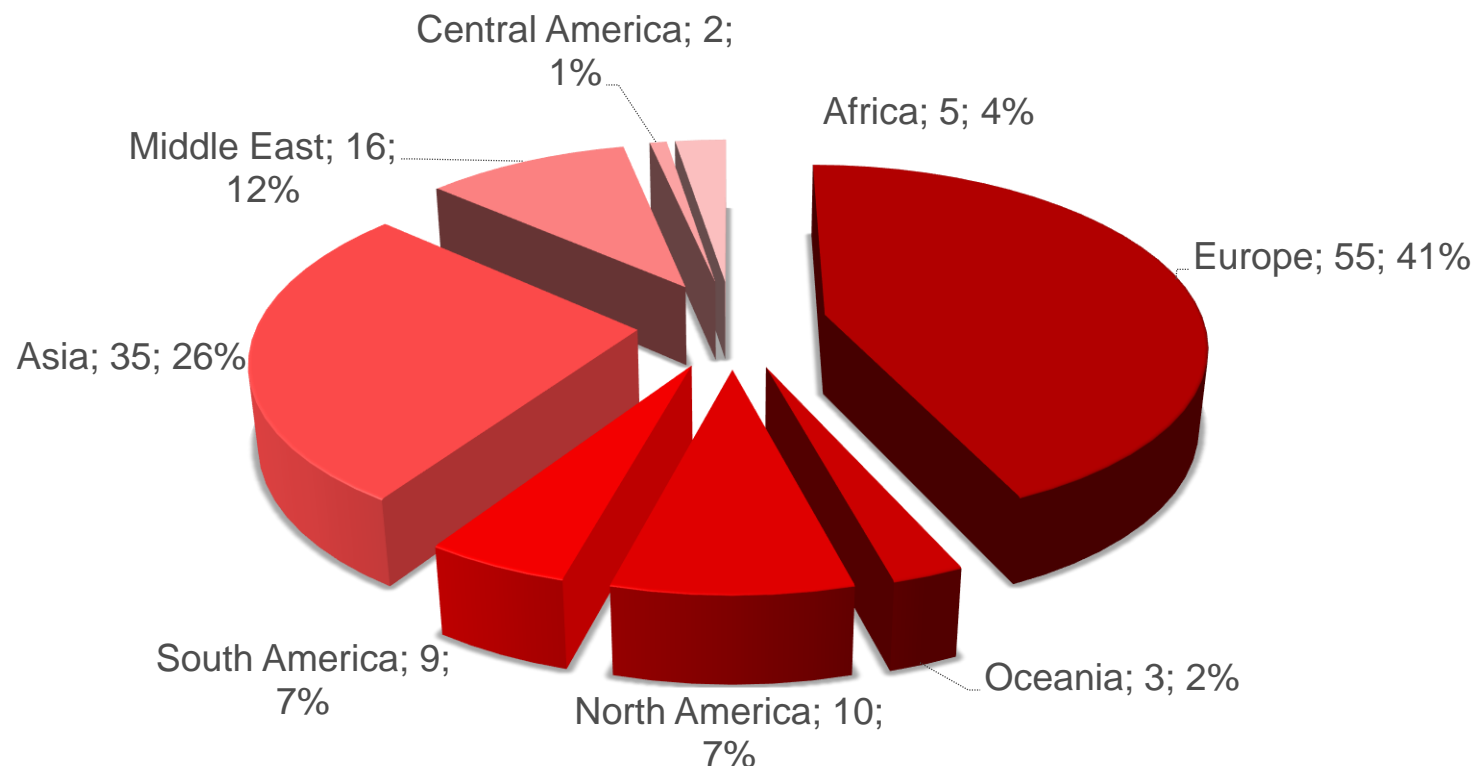
In both cases:

- Santander runs the entire program on its IT infrastructure, keeping a single interface to the Buyer and to the suppliers.

Overview of our solution: our syndication capabilities

Santander has direct access to 135 Financial Institutions distributed across all continents.

Most of them already have a MRPA (Master Risk Participation Agreement) in place with Santander.



MRPA Status: open channel to 135 Financial Institutions in all continents

*** 104 signed + 31 under negotiation**

Contacts at Santander

Banco Santander S.A., Frankfurt Branch Trade, Export & Supply Chain Finance



Eugenio Cavenaghi
Managing Director

Head of Trade, Export & Supply Chain Finance
Santander Global Banking & Markets

Bockenheimer Landstrasse 39
D – 60325 Frankfurt am Main
Tel: + 49 69 59 676 532
Mob: + 49 15155860038
E-mail: eugenio.cavenaghi@gruposantander.com



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