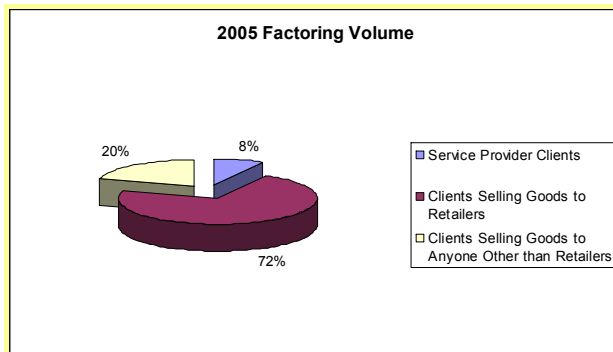


DREAM OR REALITY: INVENTORY FINANCING & FACTORING: A WINNING COMBINATION

By Lee Haskin, President of Crossroads Financial, LLC

The major premise of factoring has changed very little, even going as far back to the days of Colonial America. Indeed factoring was a well known form of finance in Colonial America as London bankers would routinely advance funds to the colonists when ships, laden with timber and fur were still on the high seas. Fast forward almost 300 years where we see a businessman selling plasma TVs to Circuit City on 30 day terms and receiving payment within three days. What's the common thread which binds these two disparate periods? In both scenarios, **inventory** (goods) was shipped and the cash conversion cycle was shortened by the factor's involvement. The Yanks did not have to wait for the ship to dock at an English port to get paid from the Brits and our 21st Century businessman does not have to wait 30 days to get paid by Circuit City.

It appears it's never been a better time to be in the factoring business. According to the 2005 (2006 is still unavailable) factoring survey conducted by the Commercial Finance Association www.cfa.com, the U.S. factoring market achieved its strongest year to year growth since 2000 with almost \$113 billion in volume, a 9.3% increase over 2004. 72% of that volume involved client sales to retailers, that's \$81 billion! Chances are then, that the lion's share of a factor's client portfolio is in the wholesale sector; companies that sell goods to the retail trade.



Inventory whether pre-sold or not is the engine which drives the invoice. No inventory, no invoice, no receivable to purchase...well, you get the picture. According to <http://www.bizstats.com/currentratios.htm>, in the wholesale industry, accounts receivable represent 29% of the assets on a balance sheet. **Inventory is 24%**. Imagine for a

moment that lying beneath your lawn in the backyard is an undiscovered gold vein. Well this is what your client's inventory potentially means to you, if only you had the resources to mine it. Most factoring companies provide little or no funding against inventory while Traditional inventory lending provides for typical advance rates up to the lesser of 50% of inventory cost or 75% of liquidation value. On average, 12% (½ of 24%) of a balance sheet's assets could be converted into cash for more inventory purchases turning into more sales, thus generating more receivable volume for the factor. **By working in tandem with factors, a revolving inventory facility creates maximum asset based lending and a one stop shop platform for the factors' clients.**

Furthermore, there is no need for the factor to dilute its focus from its core competencies of buying invoices. The inventory part of the asset mix is handled by the inventory lender and the attendant receivables by the factor.

A factor should never have to lose an existing client to a competitor who's willing to do an inventory over-advance or fail to acquire a new client because receivable advances alone are not sufficient to take out another lender. Nor would an asset based lender have to fear putting a client out of business, should it decide to exit a relationship. By using a revolving inventory facility lender to provide revolving inventory loans, **A FACTOR CAN:**

- Acquire new clients
- Maintain longer, larger and healthier relationships with its clients
- Maximize availability under its line for its clients
- Create more A/R to factor
- Help its clients increase sales
- Never have an over-advance issue again
- Can help its client keep A/P current

According to the SBA, small and medium-sized enterprises (SMEs), broadly defined as independent businesses with 500 or fewer employees, account for 99.7% of all businesses in the USA and employ half of all private sector employees. Nevertheless, SMEs usually fight an uphill battle trying to secure financing from traditional lending sources such as commercial banks and unfortunately fall short of the lending guidelines of most asset based lenders who typically require a \$3.5M minimum outstanding revolver on inventory and accounts receivable.

The solution is finally here. The factor and the asset based lender now have a long needed and required arrow in their respective quivers to help fast-growing, undercapitalized companies ramp up the sales curve. This niche has traditionally been fragmented, filled by rich uncles or equity investors which forced the principals of the firm to give up equity to receive the necessary cash infusion to grow. Unfortunately, there appears to be currently very few stand alone inventory financiers providing revolving inventory lines. One of these white knights is Crossroads Financial, LLC, a nation-wide lender with corporate offices in Boca Raton, Florida. Crossroads has recently introduced this innovative financing vehicle to the factoring community, which allows factors to generate more revenue by priming the inventory pump. In addition to revolving inventory lines, Crossroads provides PO financing...the financing of finished pre-sold goods underpinned by Purchase Orders from factor-approved end customers.

The firm is managed by seasoned, entrepreneurial professionals with asset-based lending and trade finance experience who have the ability to analyze transactions from a business perspective rather than on the basis of a balance sheet. The management team recognized that the inventory needs of the SME market was not been adequately serviced and decided the best way to fill this financial void was for Crossroads to align itself with the factoring community. For the last three years, Crossroads has funded factor-referred inventory and purchase order deals ranging from \$200K to \$5M.

As inventory and purchase order financiers, Crossroads works in tandem with the factoring and A/R lending community to structure short term working capital solutions for fast growing, undercapitalized trading companies and has recently closed on several deals referred by and closed with Wells Fargo Business Credit, Bibby Financial, LSQ Funding and Marquette Factors.

We look forward in establishing a long and mutually successful relationship with your firm. For more information, please feel free to contact Lee Haskin at (561) 988-7098 x 204.