QUARTIX

Unlocking
Digital Supply Chain Finance
for Commercial Banks

Models and **Use Cases**

White Paper
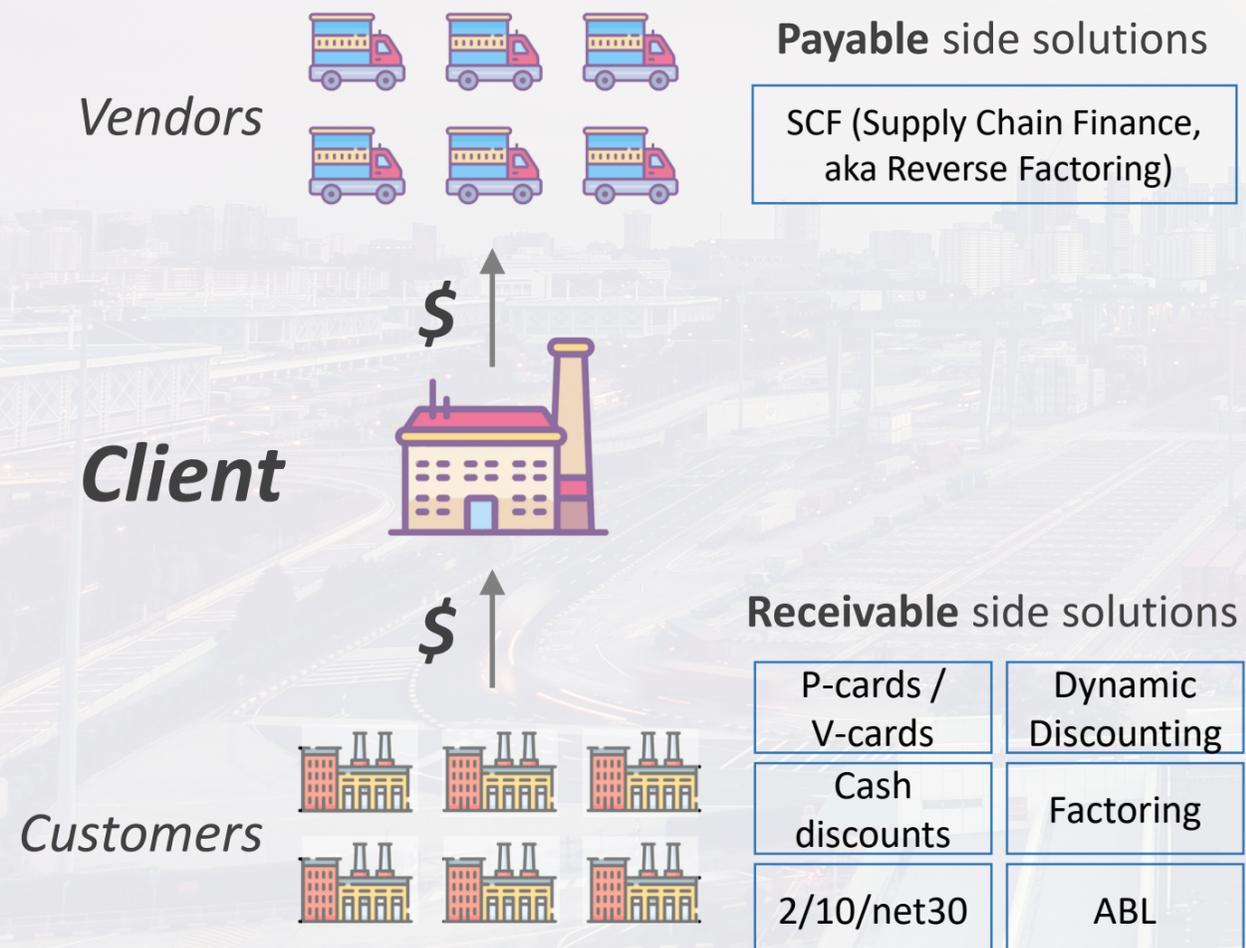
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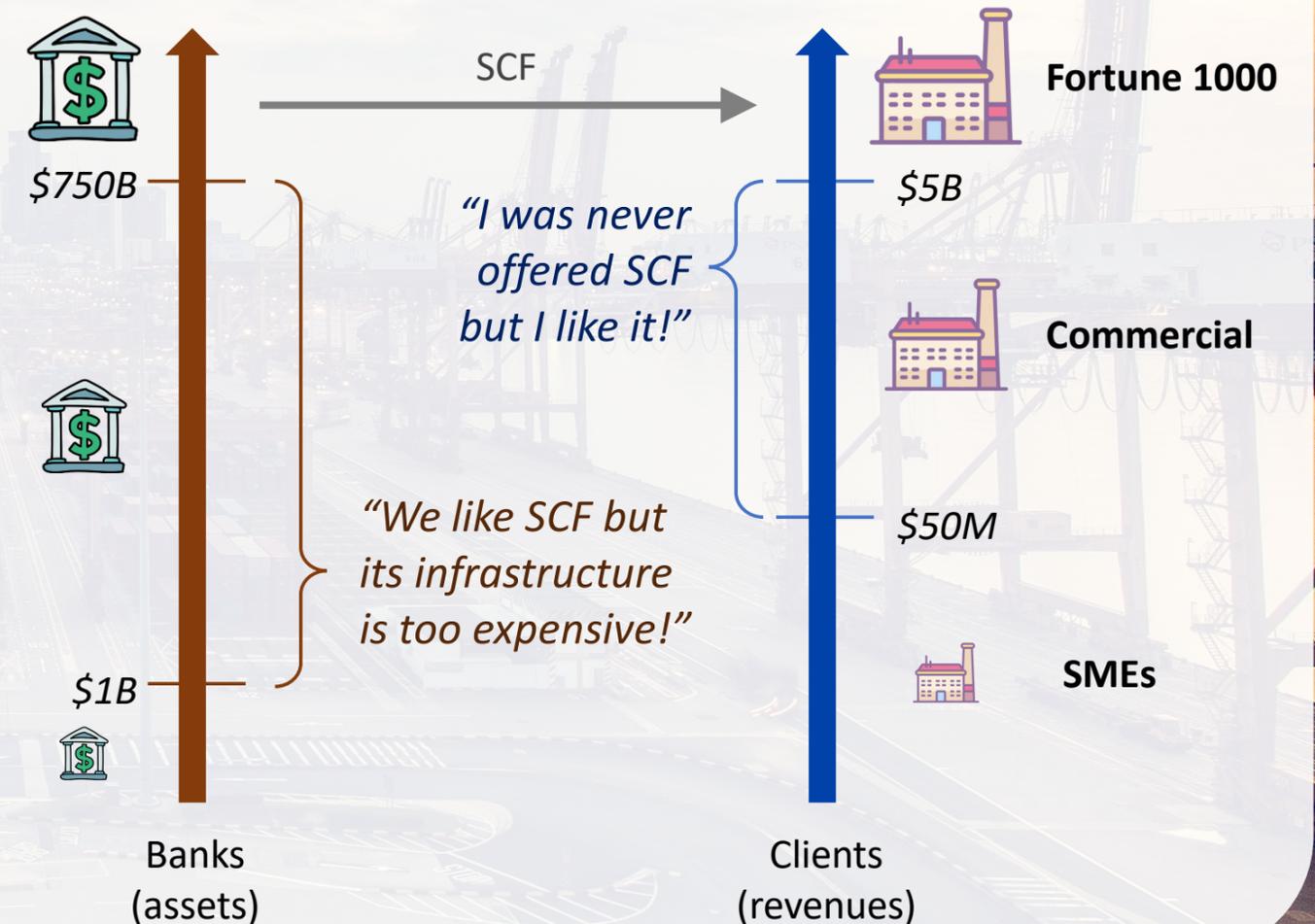# Table of Contents

Introduction

Supply Chain Finance (**SCF**, aka Reverse Factoring) is the only trade-finance solution that helps clients optimize working capital and cash flow from the **payable side** of their balance sheet.

Vendors

Payable side solutions

SCF (Supply Chain Finance, aka Reverse Factoring)

$

Client

$

Receivable side solutions

P-cards / V-cards	Dynamic Discounting
Cash discounts	Factoring
2/10/net30	ABL

Customers

Today, SCF is mainly available to **Fortune 1000s** clients since existing solutions are an overkill in terms of cost / complexity for smaller clients while most banks lack the required SCF tech / operational infrastructure.

SCF

Fortune 1000

$750B

$5B

"I was never offered SCF but I like it!"

Commercial

"We like SCF but its infrastructure is too expensive!"

$50M

$1B

SMEs

Banks (assets)

Clients (revenues)

How Do Fortune 1000s Pay Later Today?

Paying a dollar later is as valuable to a company as having it collected faster. This is the simple underlying idea behind the Supply Chain Finance (SCF) product. However, while many trade finance products help companies get paid faster, SCF is the only one helping them pay later.

SCF is offered today mainly by global banks to Fortune 1000 clients.

When a Fortune 1000 client launches an SCF program, the bank offers the client **vendors** optional discounting of invoices that were approved by the client. This newfound early payment flexibility for the vendors enables the client to **negotiate and extend payment terms** with vendors.

The result: The client starts paying these vendors later permanently, at no cost to them.
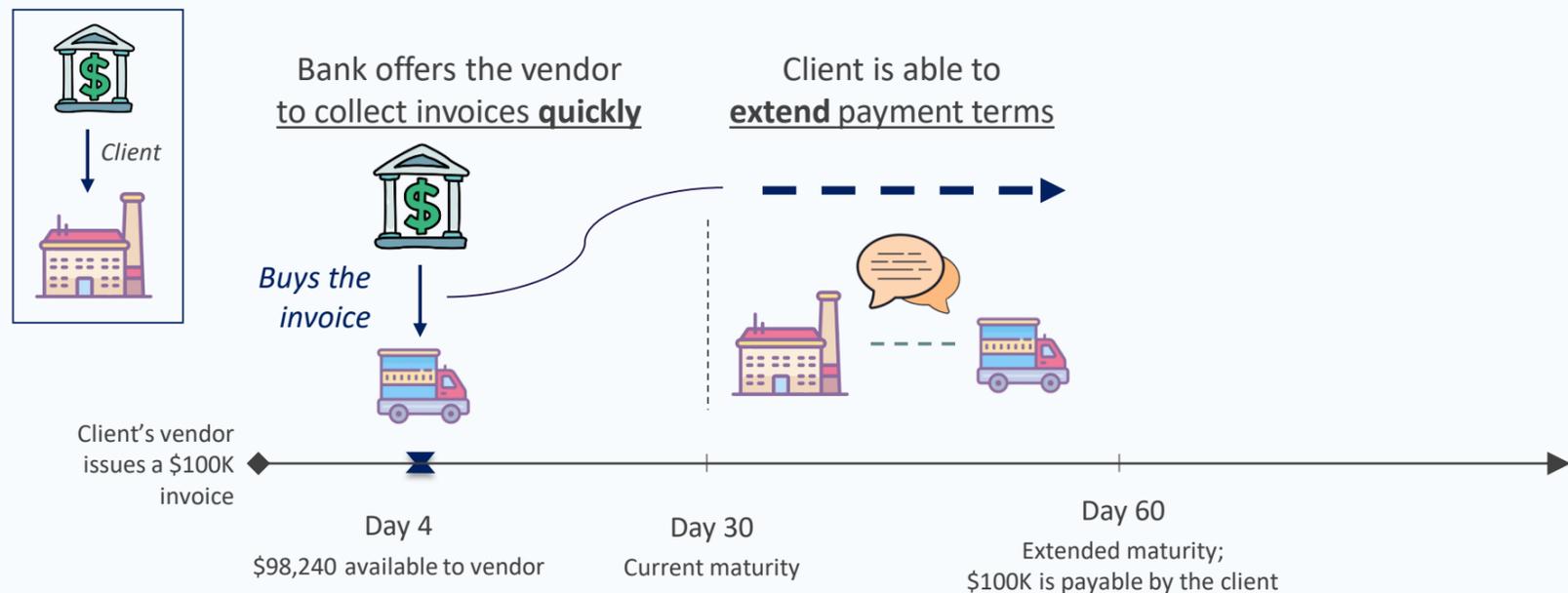
Step by step process (original maturity 30 days; extended maturity 60 days):

1. Day 1: A vendor issues a $100K invoice
2. Day 4: The client approves the invoice
3. Day 4 onward: The bank offers to buy that invoice from the vendor at a discount
4. Day 60: The bank collects $100K from the client

Client benefits:
- Days Payable Outstanding (DPO) increased, Accounts Payable (AP) volume increased
- Net Working Capital decreased; cash is freed up from the client's working capital cycle

Client Costs:
- SCF incurs no out-of-pocket expense to the client (discount fees are paid by the vendors)
- However, today's solutions require complex ERP integrations, consume client IT resources

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Why Doesn't SCF Trickle Down To The Commercial Space?

	IT challenges		Program economics		Bank's upside		
	ERP Variety	**Implementation challenge**	**Client Ticket Size**	**Client IT Resources**	**SCF Assets Potential**	**SCF Penetration**	**Credit products innovation**
Fortune 1000 Clients *$5B+ in annual sales*	Concentrated Mainly Oracle, SAP	Scale Multi-jurisdiction, multi-entity, multi-currency support	Larger Costly SCF implementations / maintenance can be supported	Ample Large, skilled IT teams, broad specialties	$1.25T	15%-20%	High More and more innovative credit products are offered
Commercial Clients *$50M-$5B in annual sales*	Fragmented Dozens of ERPs, versions, operational processes	Data integrity Myriad of ERPs / versions, customized operational processes	Smaller Low cost of solution delivery is a must to balance program gains	Limited Smaller IT teams, limited bandwidth	$1T	~1%	Low Being offered mainly traditional credit products

| *1st Challenge*	*2nd Challenge*	*Result*	*Opportunity*
Commercial clients pose different **Implementation complexities**	Commercial clients **and** their banks have **low tolerance** for costly, complex implementations.	Commercial SCF is today a **huge unaddressed** opportunity	A bank that finds a 'way in' to commercial clients' ERPs gets an **unfair advantage**

SCF+: Tailored For Commercial Clients

Quartix offers commercial clients an enhanced SCF solution compared to the one available to the Fortune 1000s: **more value** at **reduced cost**.

From a product functionality standpoint: Slow Pay by Quartix is offered as an extension of the basic SCF solution. Slow Pay is a complementary product that's a natural extension of SCF. It allows the client to pay beyond payment terms when extra time is needed to make a payment. This is a new real-time borrowing product that's embedded in the client operational flow.

From an implementation standpoint: Quartix removes the need for an ERP integration. A robust back-end allows for almost any existing client file format to be accepted by Quartix, eliminating the need to perform changes in the client ERP system.
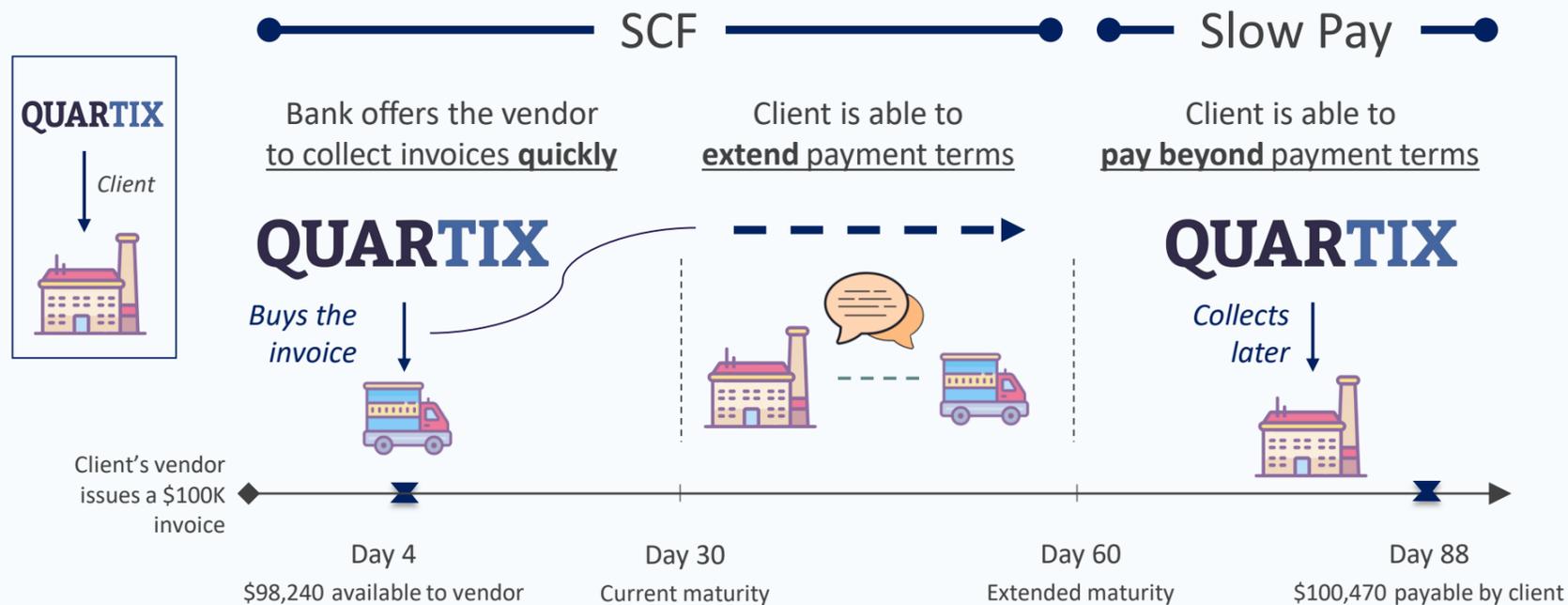
Step by step process (assuming maturity date is now Day 60)

1. (A few days prior to) Day 60: Client requests to delay payment of the invoice by 28 days
2. Day 88: Quartix collects the invoice amount, plus a financing fee

The case study from this link highlights how Quartix helped a client significantly improve DPO and AP by **over 30**% in **less than 90 days**.

Incremental client benefits:

- Slow Pay makes it easy for the client to bridge temporary cash flow gaps without impacting the vendor in a digital way that's integrated to its existing operational flow.

Decremental client costs:

- No ERP integration needed; therefore, no client IT resources needed
- Launching an SCF+ program with selected vendors typically takes 2-3 weeks

Unlocking The SCF Opportunity For Banks

For banks with a substantial commercial client base, SCF is a unique solution capable of providing **out of the box benefits**

High **infrastructure costs** and lack of internal capabilities to support **specialized** SCF elements **deter** banks from tapping into this opportunity

Quartix offers banks two collaboration models. Each model unlocks SCF benefits to banks in a different way.

SCF+ as a Service model: Banks add SCF+ as a new portfolio product, time to market of 3-6 months, no capital investment

Referral model: Banks refer selected clients to Quartix, solving clients' edge cases and assessing the product fit

SCF+ As A Service Model: Use Cases

Bank's Client   Vendors
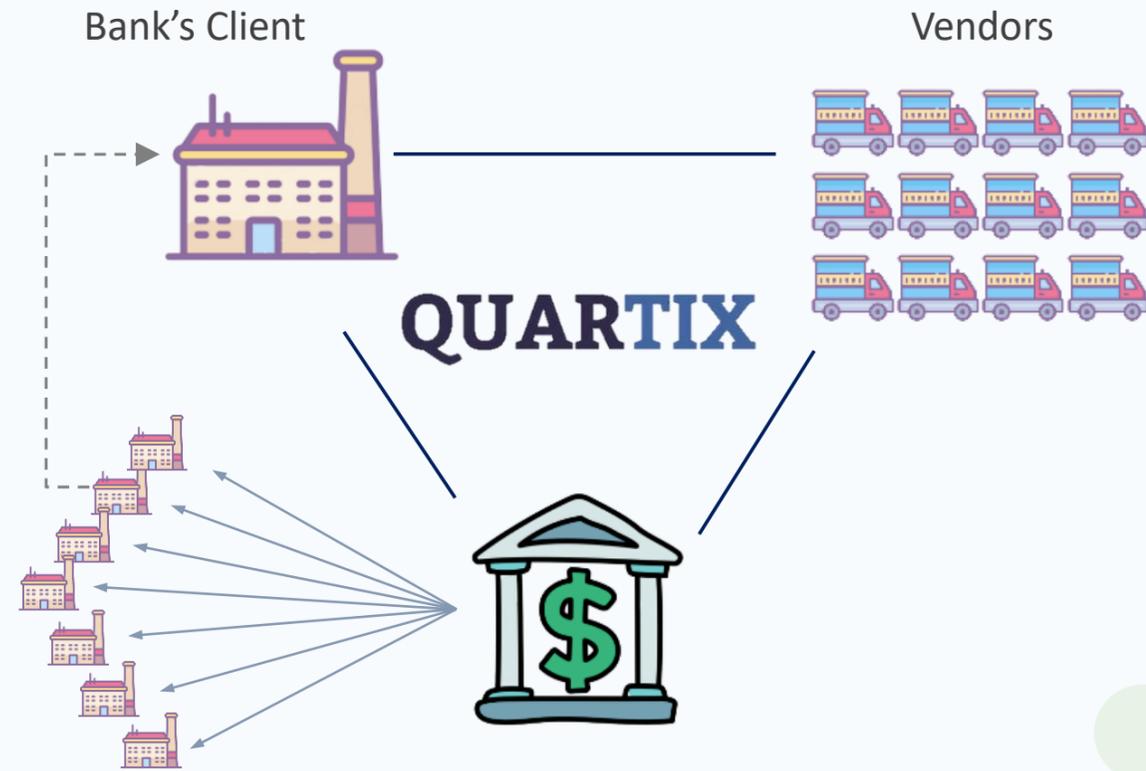
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- Bank adds SCF+ as a new branded portfolio product, focusing on selling the product to its clients and providing liquidity
- All specialized SCF activities are outsourced to Quartix:
  - Providing the technology platform
  - ERP integration (when needed)
  - Vendor on-boarding, support
- A turnkey solution with low cost of delivery that enables the bank to innovate in the commercial space without investing in technology / increasing overhead
- Risks, time to market significantly decreased
- No fixed costs (Quartix only charges a spread)

Use Case 1
Increase wallet share & profitability with creditworthy clients

Banks that offer SCF unlock unique benefits compared to traditional direct lending products (ABL, LoC, etc.):

1. **Profits**: Above-average Net Interest Margins for a high velocity deployment of unused bank credit capacity.
2. **Cross-sell**: SCF unlocks cross-sell opportunities with the client – investment / liquidity mgt, cash mgt and other trade finance products.
3. **Access to new bank prospects**: Participating vendors become future prospective bank clients.
4. **Syndications**: SCF strengthens the bank's ability to lead syndications in the world of trade finance.

Use Case 2
Better address select client groups

Some client groups are more challenging than others:

1. **Overbanked**: Served / pursued by multiple banks, all offering similar products at similar rates
2. **Price sensitive**: Seek to extensively negotiate rates and fees
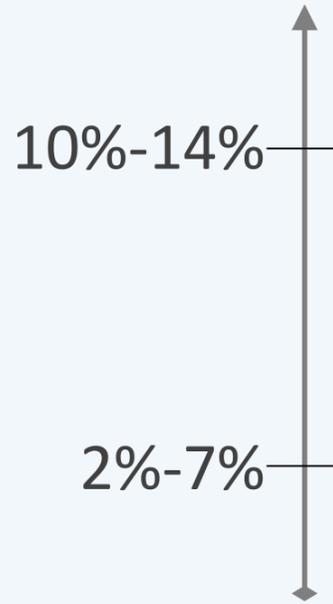3. **Underutilizing**: Rarely draw on their existing credit lines

For **overbanked** clients, SCF helps banks address and increase wallet share with these clients since it's a unique product that helps the bank to differentiate itself from the pack.

Since SCF involves no cost to the client, it could be a winning value proposition for **price sensitive** clients, and can swing **underutilizing** clients toward using their credit too.

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Sizing the opportunity

Client's AP volume (example)

- Quartix covers 20% of the vendor spend (example)
- As the client extends terms with its vendors, their AP volume grows
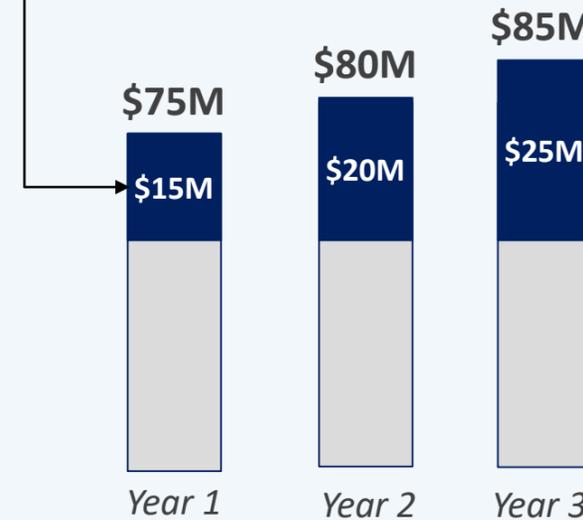
Bank's incremental revenue (example)

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Typical SCF APR charged by Quartix

10%-14%

Capture the arbitrage

Achieve higher interest margins for a similar risk profile

Bank**ABC**

Typical RCL APR of a sponsoring commercial client

2%-7%

	$75M	$80M	$85M
	$15M	$20M	$25M
	Year 1	Year 2	Year 3

Capacity Deployed		APR (example)		Incremental Annual Revenue
$25M	x	12%	=	$3M

Further monetize clients

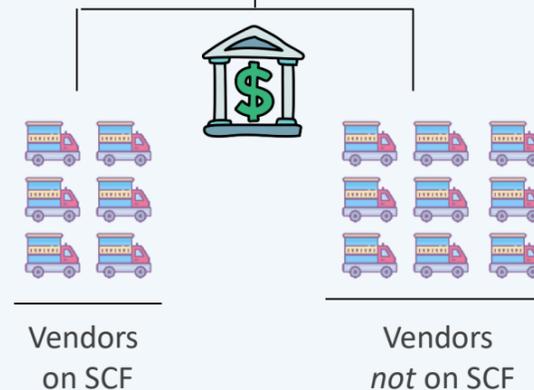Deploy high velocity of unused bank credit capacity

Differentiate yourself from the pack

With a unique product very few banks offer

3. The bank is also in a great position to cross-sell other cash mgt, trade finance products

1. Client has to put SCF vendors on the bank's payment rails

2. The bank improves odds of winning more of the client payment business

Increase transactional wallet share

SCF puts you in a better position to cross-sell other products

Vendors on SCF

Vendors *not* on SCF

Referral Model: Use Cases

Bank references a client
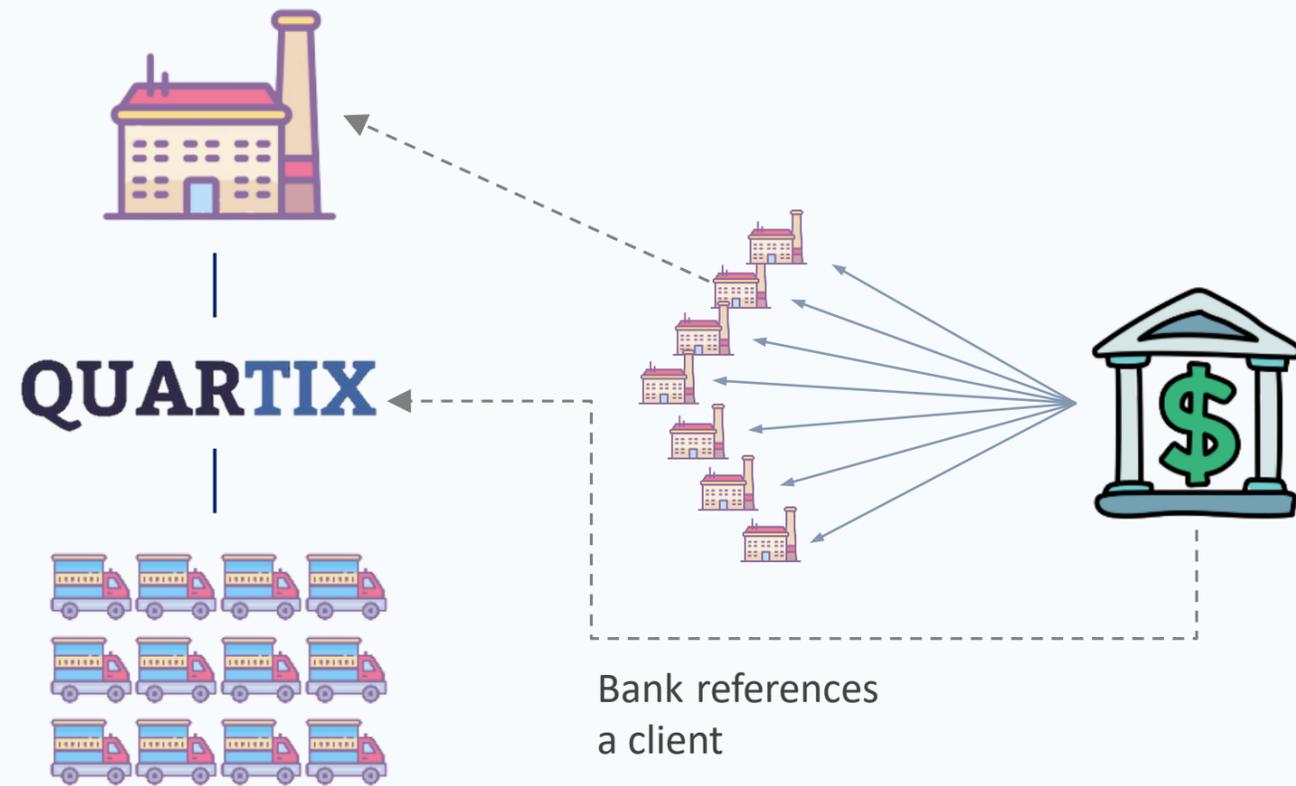
- Bank refers a client to Quartix
- Quartix contracts the client, funds the program, services it end to end
- 100% hands-off for the bank (only an introduction is required)
- Quartix isn't a bank vendor; no bank integration needed
- Banks gain a financial upside, solve clients' problems and more
- Bank's options:
  - Whether Slow Pay is offered
  - Participating in funding the program

Use Case 3

Test client SCF adoption *(Refer and Observe)*

A bank considers adding SCF as a new product in its portfolio but is not quite sure yet how it would be received by clients…

Referring clients to Quartix allows the bank to get clients' direct feedback without committing to anything but an intro, and then make a decision.

Use Case 4

Gain most SCFaaS benefits, without going 'all in' *(Refer and Fund)*

A bank realizes that SCF is a good fit for its portfolio, but can't commit the resources for an implementation at this time…

Referring clients to Quartix AND (participating in) funding their programs provides the bank most of the financial upside, without committing resources.
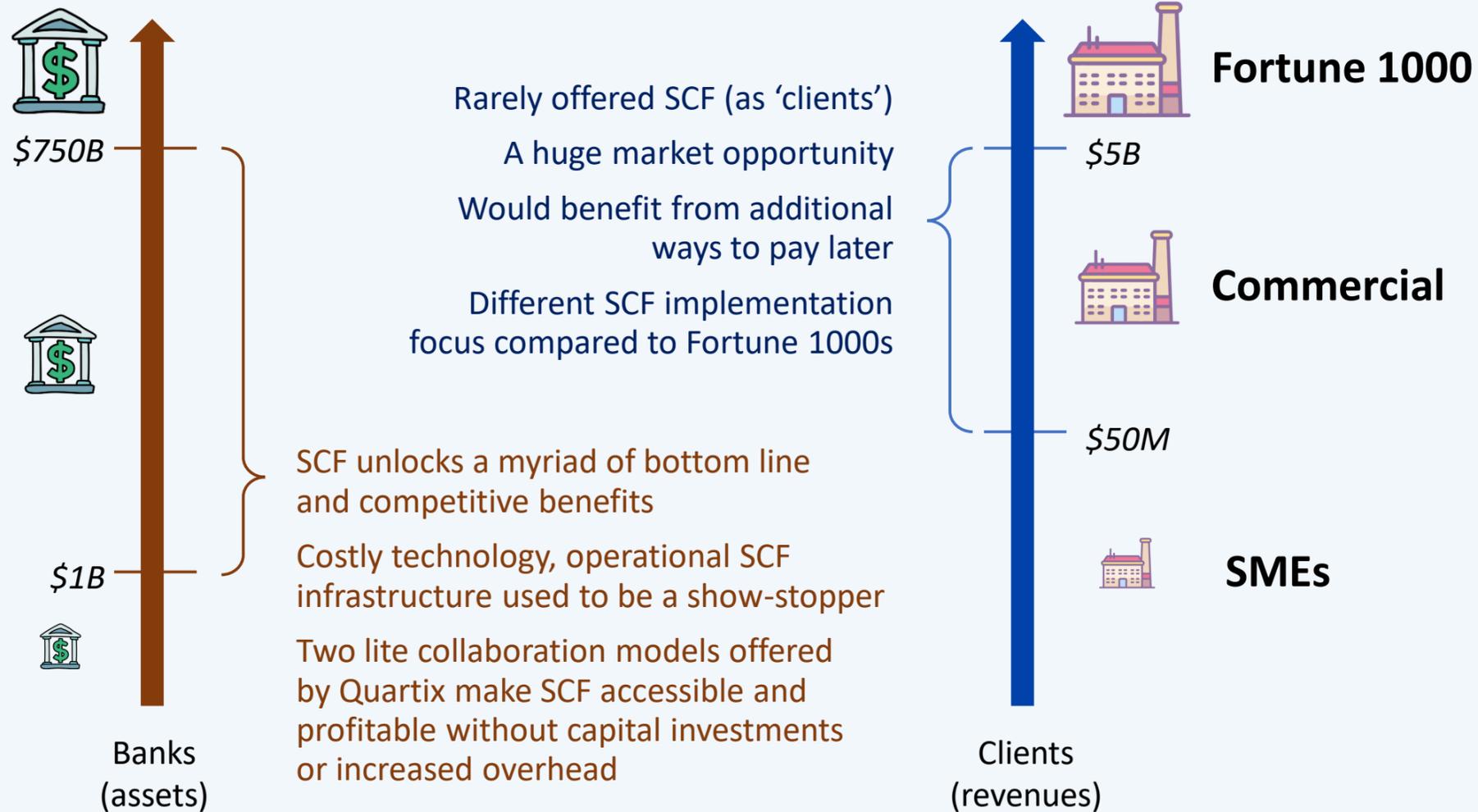
Use Case 5

Solve a problem for a client with credit limitations *(Refer and Relax)*

A bank has clients that need capacity beyond their ABL / credit limit, go through turnaround situations or have high seasonality needs, but the bank prefers to avoid increasing its credit exposure towards them…

By referring them to Quartix, the bank:

1. Solves the client problem without increasing its exposure or the client leverage
2. Strengthens its relationship with the client
3. Increases clients' resiliency, reduces probability of default
4. Avoids competition – if they go to Quartix, they don't approach another bank!

Summary

Banks (assets)
- **$750B**
- **$1B**

Clients (revenues)

- **Fortune 1000** — $5B
- **Commercial** — $50M
- **SMEs**

Rarely offered SCF (as 'clients')

A huge market opportunity

Would benefit from additional ways to pay later

Different SCF implementation focus compared to Fortune 1000s

SCF unlocks a myriad of bottom line and competitive benefits

Costly technology, operational SCF infrastructure used to be a show-stopper

Two lite collaboration models offered by Quartix make SCF accessible and profitable without capital investments or increased overhead

Banks (assets)

Clients (revenues)

info@GoQuartix.com

www.GoQuartix.com