

Receivables Finance International 2006

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Breathing new life into the German factoring market



Klaus Taube

General Manager
EUROFACTOR AG

EUR  FACTOR

Crédit Agricole Group

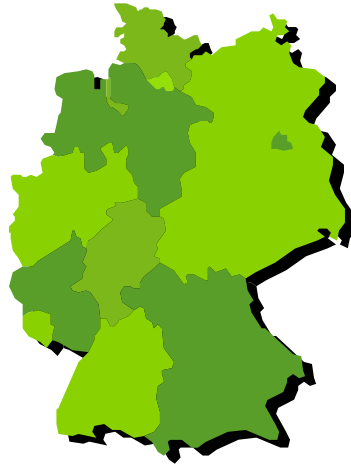
Premier partner for
receivable finance
solutions

Germany

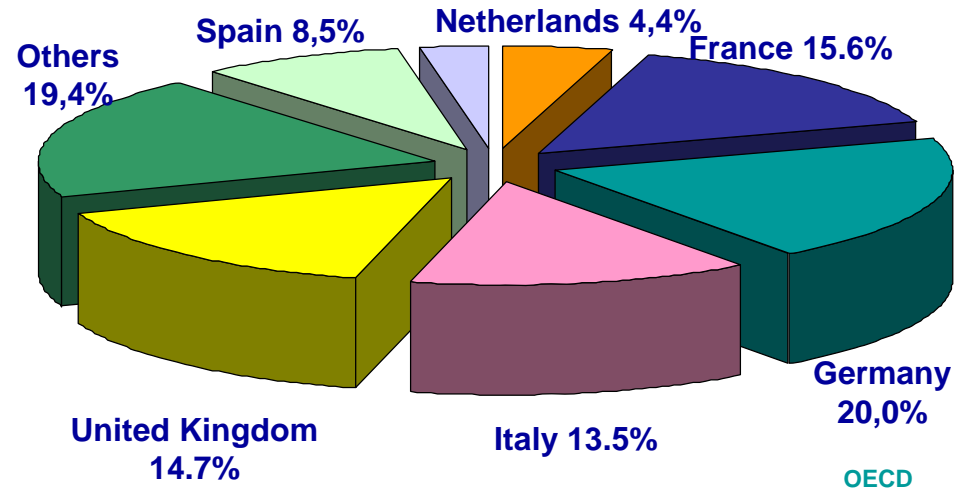
Overview

Germany

- 82.500.000 inhabitants
- GDP 2.240 bn €
- flat growth rate (0,9% in 2005)
- unemployment rate 9,2%
- public deficit in % of GDP 3,5%

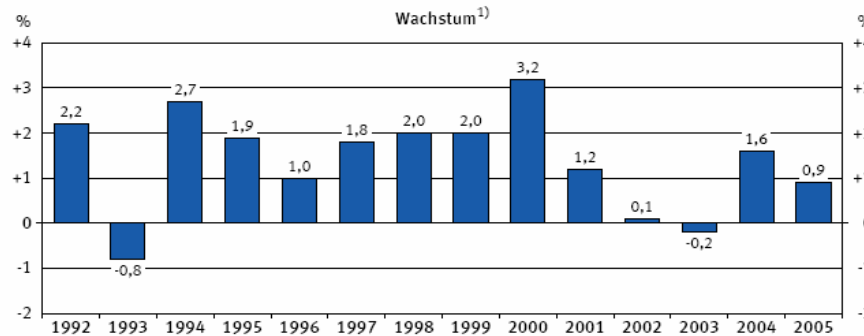


Country share in GDP Europe (2004)

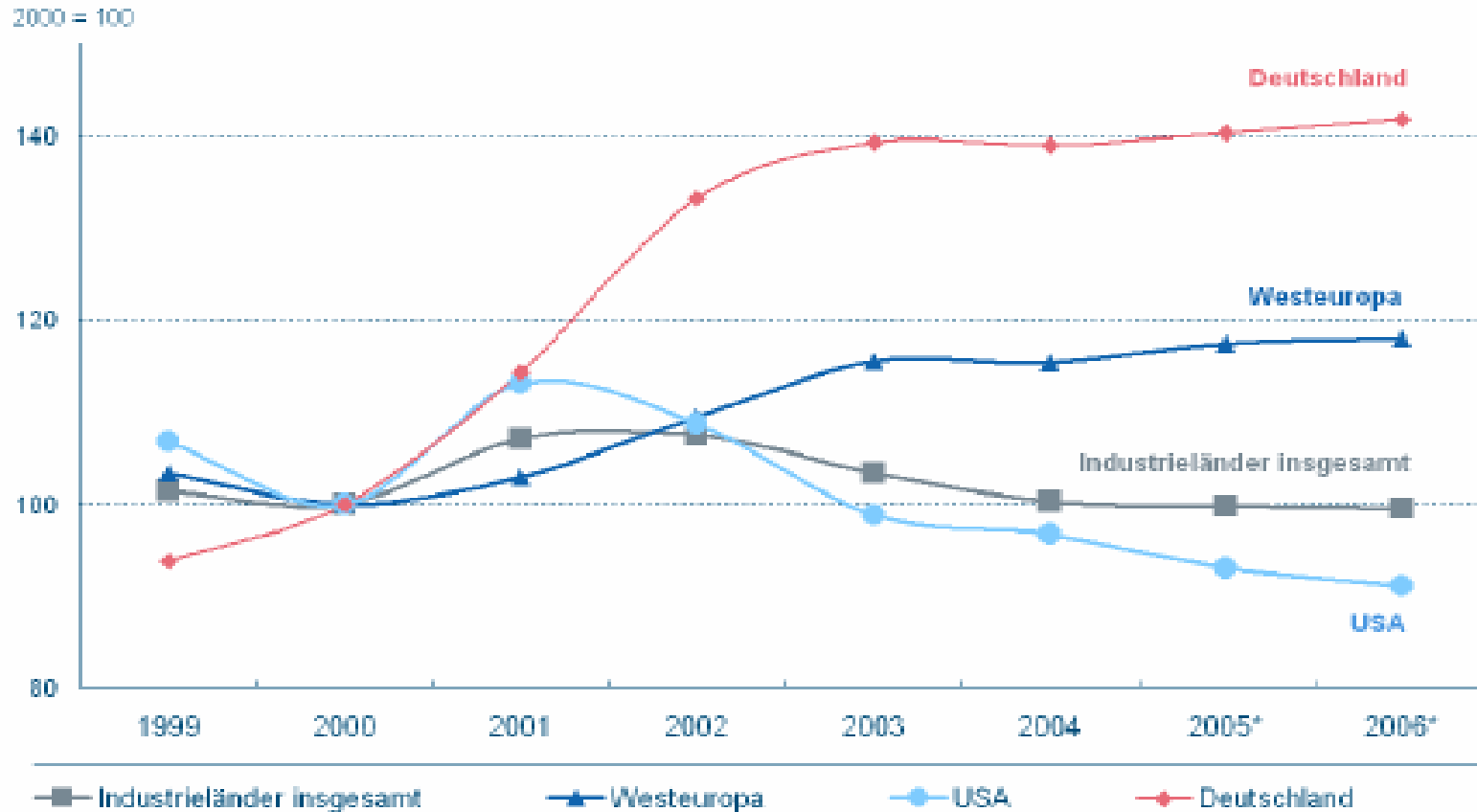


Growth rate of GDP from 1992 to 2005

Konjunkturzyklen in Deutschland
Veränderung gegenüber dem Vorjahr in %



Continuous high level of insolvencies in Germany



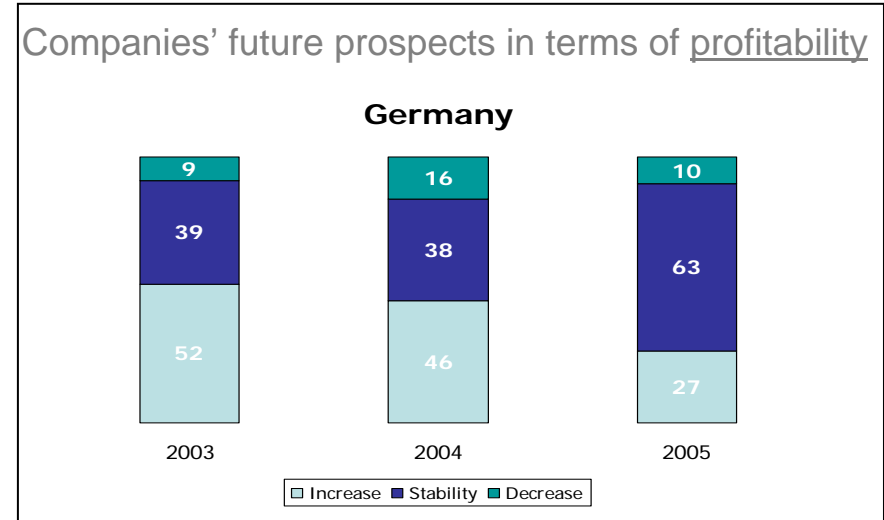
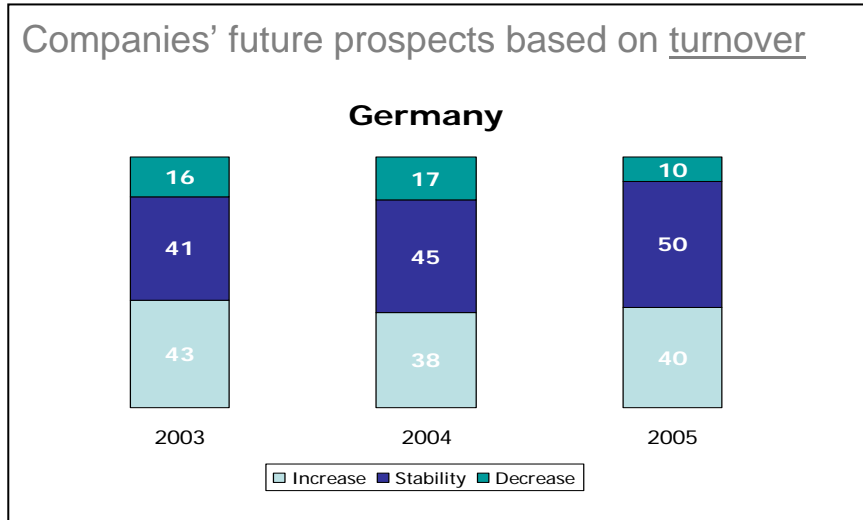
* Schätzung von Euler Hermes

Quelle der Grunddaten: Nationale Statistiken; Berechnungen von Euler Hermes

Stand: 05/2006

Germany – stable future prospects

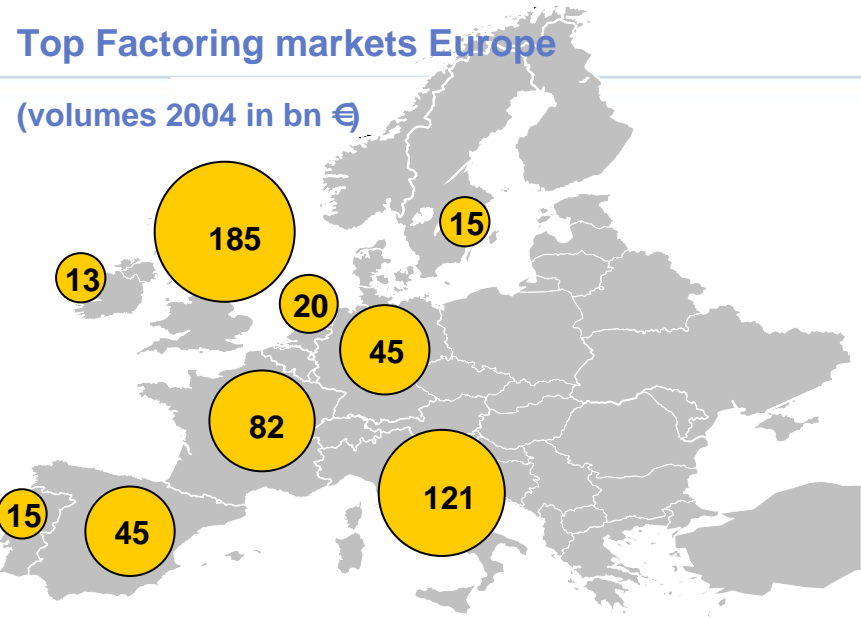
Annual Survey on customer accounts



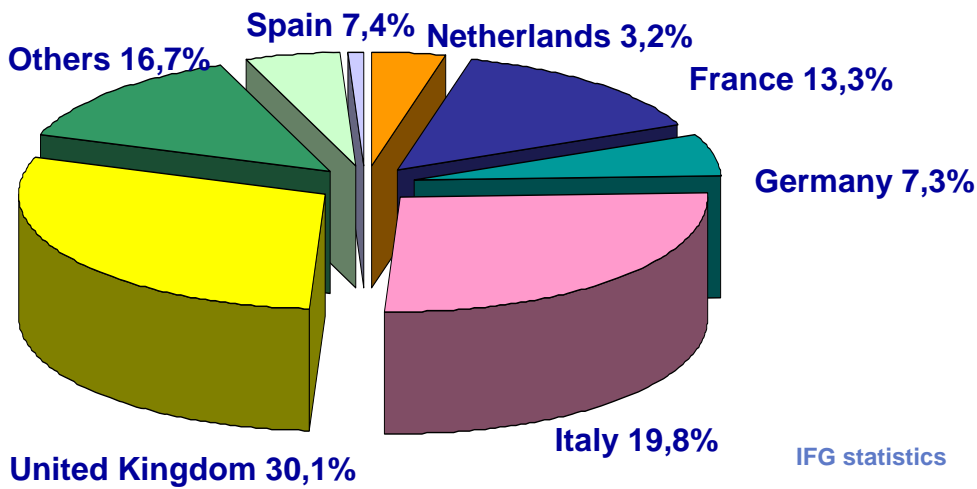
Development of German Factoring market

Top Factoring markets Europe

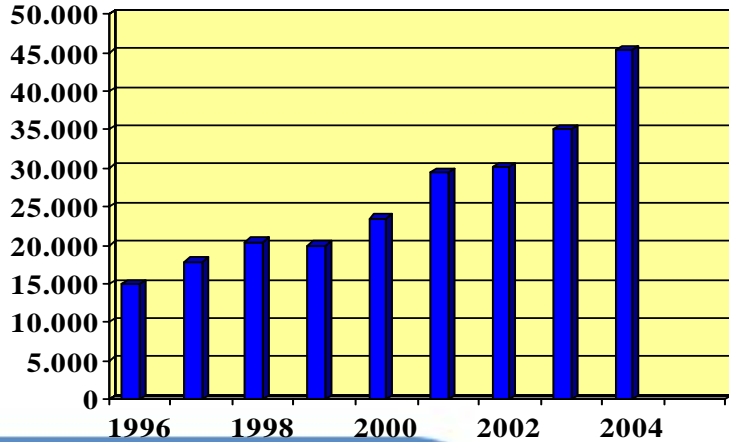
(volumes 2004 in bn €)



Market share in Factoring (European market volume in 2004: 612,5 bn €)



Development of turnover in Germany (Mill. €)
(average growth rate over last 5 years: 18,2%)



Development of German Factoring Market

Only 0,7% of companies with turnover > 500 T€ use factoring in Germany

Average turnover much higher than in other European countries

	France	UK	Italy	Germany
Factoring-Turnover	81,6 bn €	184,5 bn €	121,0 bn €	45,3 bn €
% of GDP	5,1 %	10,9 %	9,0 %	2,1 %
Factoring- clients	45.000	100.000	71.000	3.612
Average factoring Turnover per client	1,7 Mio €	1,8 Mio €	1,7 Mio €	12,5 Mio €

Source: Factors Chain International, World Bank, National Factoring Associations

Development of German Factoring Market

Reasons for low level of market penetration

- **Factoring not yet recognized as a substitute for credit business**
 - Information and marketing problem
 - Lack of transparency and prejudices about factoring in the market
 - Fragmented banking market with overcapacities providing easy access to unspecified overdrafts
 - Main commercial banks have given up former factoring activities
 - Large corporates have direct access to the capital market (CPs, securitization)
- **Information and security hurdles**
 - No central data bank for proofing creditworthiness of companies (as i.e. in France)
 - Difficult access to additional securities (as for example charge over book debts in the UK)

Development of German Factoring Market

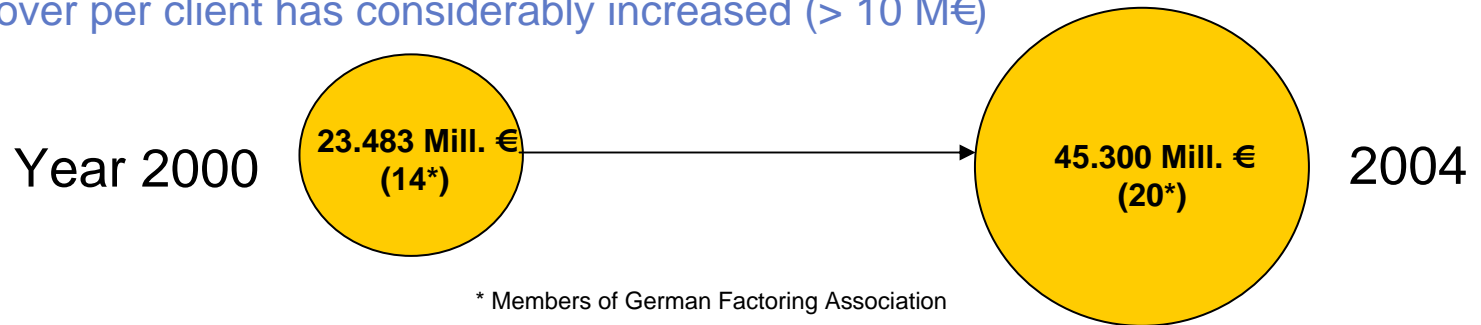
Reasons for low level of market penetration

- **Legal hurdles:**
 - Principal of temporal priority (bank have to release assignment of receivables)
 - ban of assignment
 - extended retention of title by suppliers (which can only be defeated by a non-recourse purchase of receivables)
 - certain risk for factor to be liable for unpaid VAT by seller
 - §8a KStG: corporate tax for non-banks-interest paid on shareholder loans might not be tax deductible)
 - central regulators in the trade sector– causing complex agreements
- **Cultural hurdles**
 - Short payment terms
 - Image of „lender of last resort“ not completely vanished
 - Huge fraud case beginning of 90ies (focus on disclosed factoring)

Development of German Factoring Market

Winds of change - market dynamics

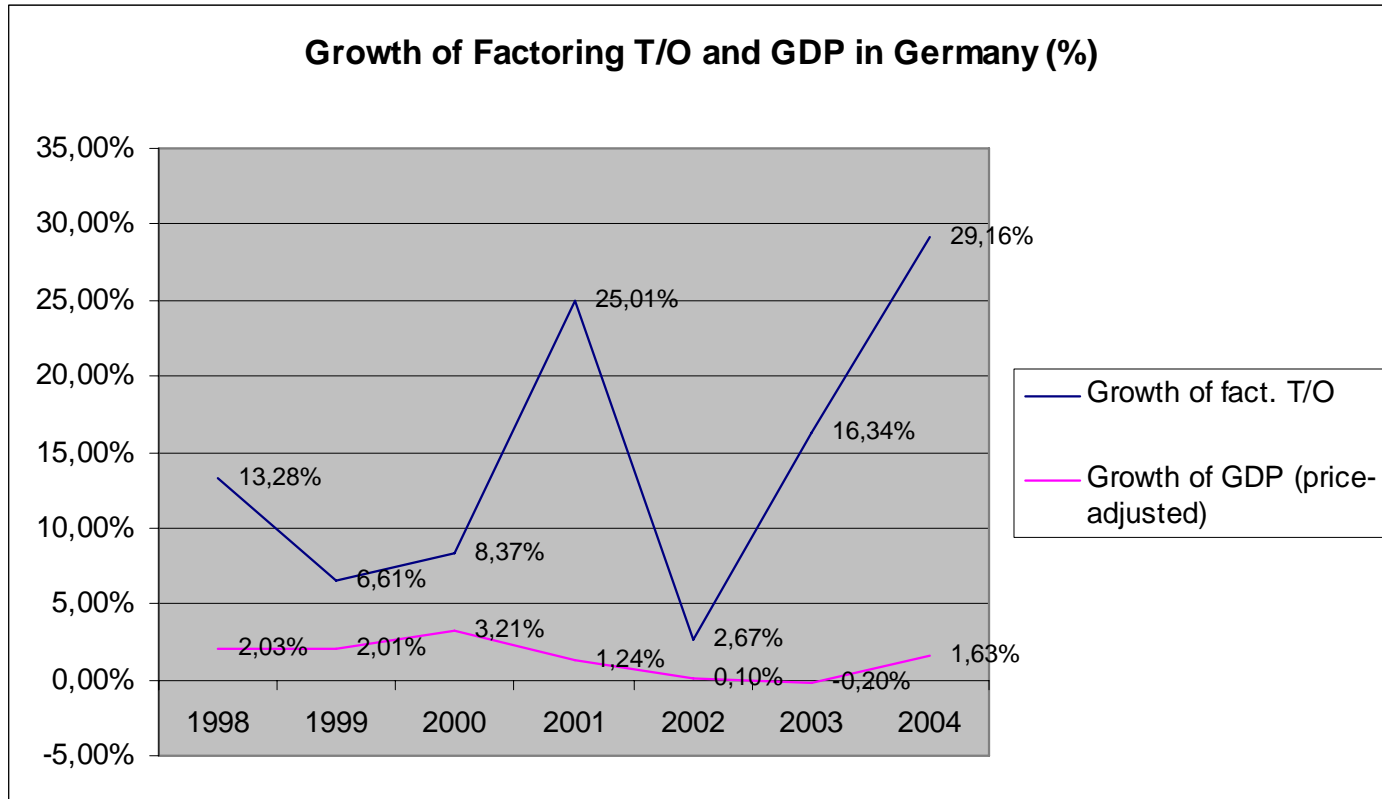
- Average turnover per client has considerably increased (> 10 M€)



- 3 out of top 4 players in 2000 left market place (36% share in 2000)
- New entries (domestic and foreign companies) gained market share within last five years: 40% in 2004 (Some of new entries already consider to leave the market or to change the business model !)
- 67% of the market is in the hands of foreign financing companies
- German banks account for only 25% of market share
- Increased number of factoring companies (all-in all 132), often in market niches

Development of German Factoring Market

Expanding growth of factoring turnover

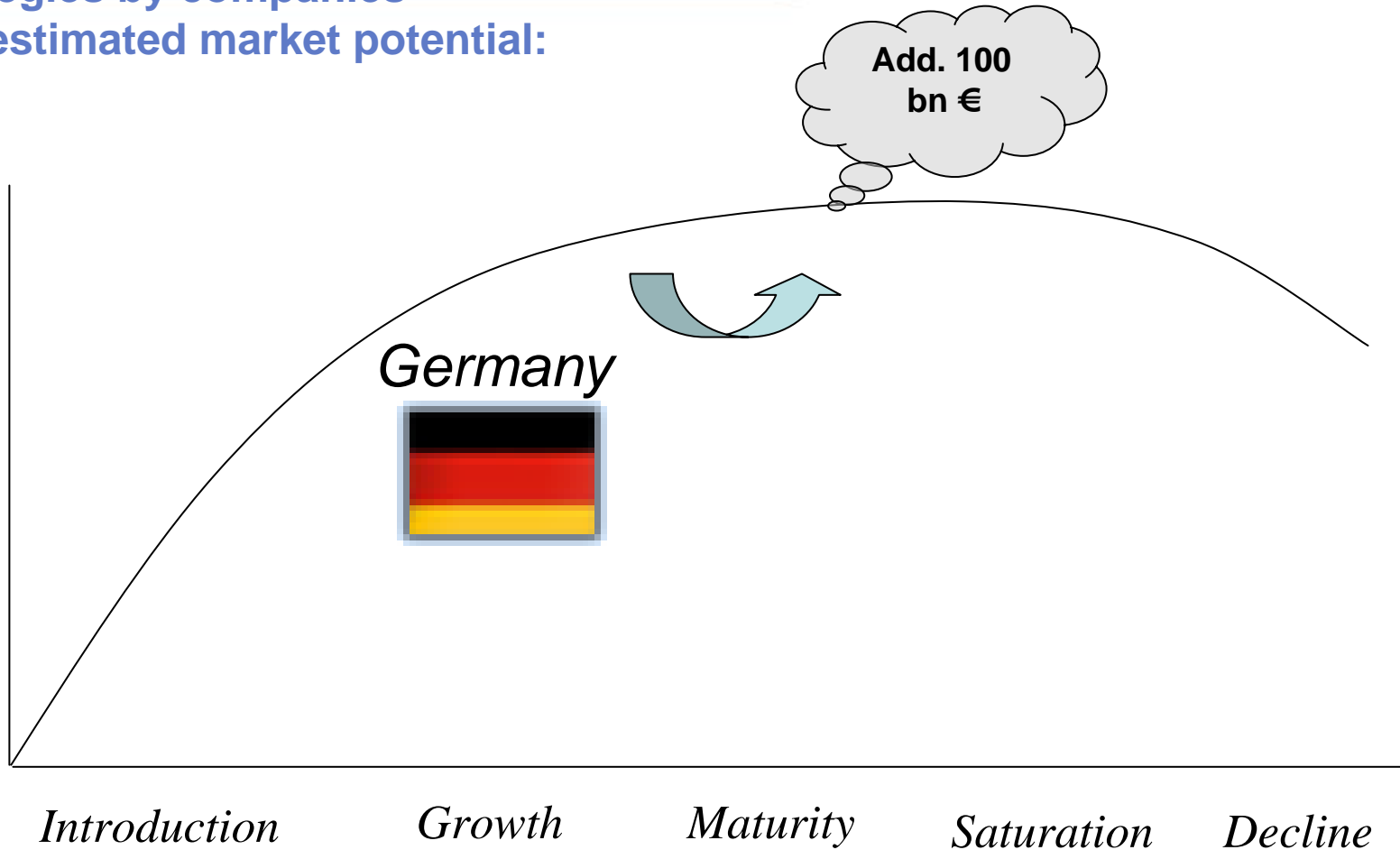


Sources: Statistisches Bundesamt, DFV

Evaluation of market potential in Germany

- Accelerating growth potential for receivables finance as part of finance strategies by companies

→ estimated market potential:



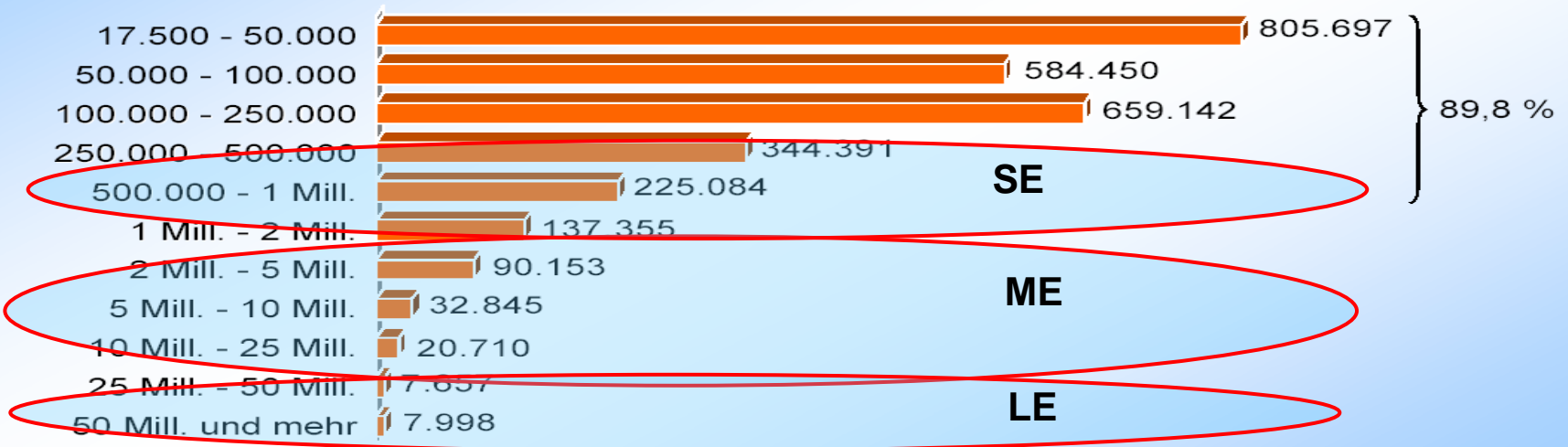
Evaluation of the potential for Undisclosed Factoring

Untapped potential: > 30.000 medium and large enterprises > 10 M€T/O
> 10% can imagine use of Factoring*



Institut für Mittelstandsforschung Bonn

Unternehmen¹ in Deutschland 2003 nach Umsatzgrößenklassen



Insgesamt 2.915.482 Unternehmen

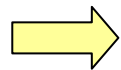
¹ Nur Steuerpflichtige mit Lieferungen und Leistungen von mehr als 17.500 €
Quelle: Statistisches Bundesamt: Sonderauswertung der Umsatzsteuerstatistik 2003 im Auftrag des IfM Bonn, Wiesbaden, 2005, und Berechnungen des IfM Bonn

* Exclusive study ABC Factoring

Evaluation of market potential for Factoring

Threats

- Increased competition with the consequence of decreasing margins and fees, forcing continuous improvement of cost-income ratio and streamlining processes (clients are focused on low prices)
- Easy market entry: Loss of entry barriers (but recruiting qualified employees and investing into specialized IT-systems is of importance)
- Technological changes
- Substitution (securitization, CPs, overdrafts)
- High cash flows of German companies after restructuring process and reduction of working capital requirement
- Legal environment (ban of assignment, retention of title, VAT, §8a KastG..)
- Low growth rate of domestic turnover



common task of the Factoring community to increase the transparency of the product

Evaluation of potential for Factoring in Germany

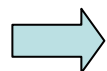
Main drivers to exploit growth potential (1)

- Strong ultimate shareholders providing sufficient refinancing basis and ABL capabilities → big pockets
- Development of a successful business model
 - industrialized full automatic production and distribution for smaller and medium sized companies
 - individual solutions of corporate finance for large accounts (undisclosed)
 - International (direct and two-factor)
- Access to different sales distribution channels / exclusive partnerships

Evaluation of potential for Factoring in Germany

Main drivers to exploit growth potential (2)

- Business excellence/ business process management with focus on cost-income-ratio
 - identification of core-processes and managing those processes efficiently (measurement by objectives and indicators of performance),
 - use of new state-of-the-art technologies to automate and streamline processes (Use of technological changes): quick and simple
 - outsourcing non-core activities- where factor has no comparative advantage- based on service level agreements
 - High profile of staff - Knowledge in corporate structured finance, experienced in modern marketing techniques with strong commitment and „can do“-attitude
 - efficient and attentive risk management using modern risk management tools
- International network using synergy effects
- Differentiation by new product developments to achieve temporary advantages



Different models of outsourcing and back-up servicing in German market

New trends in German Factoring market

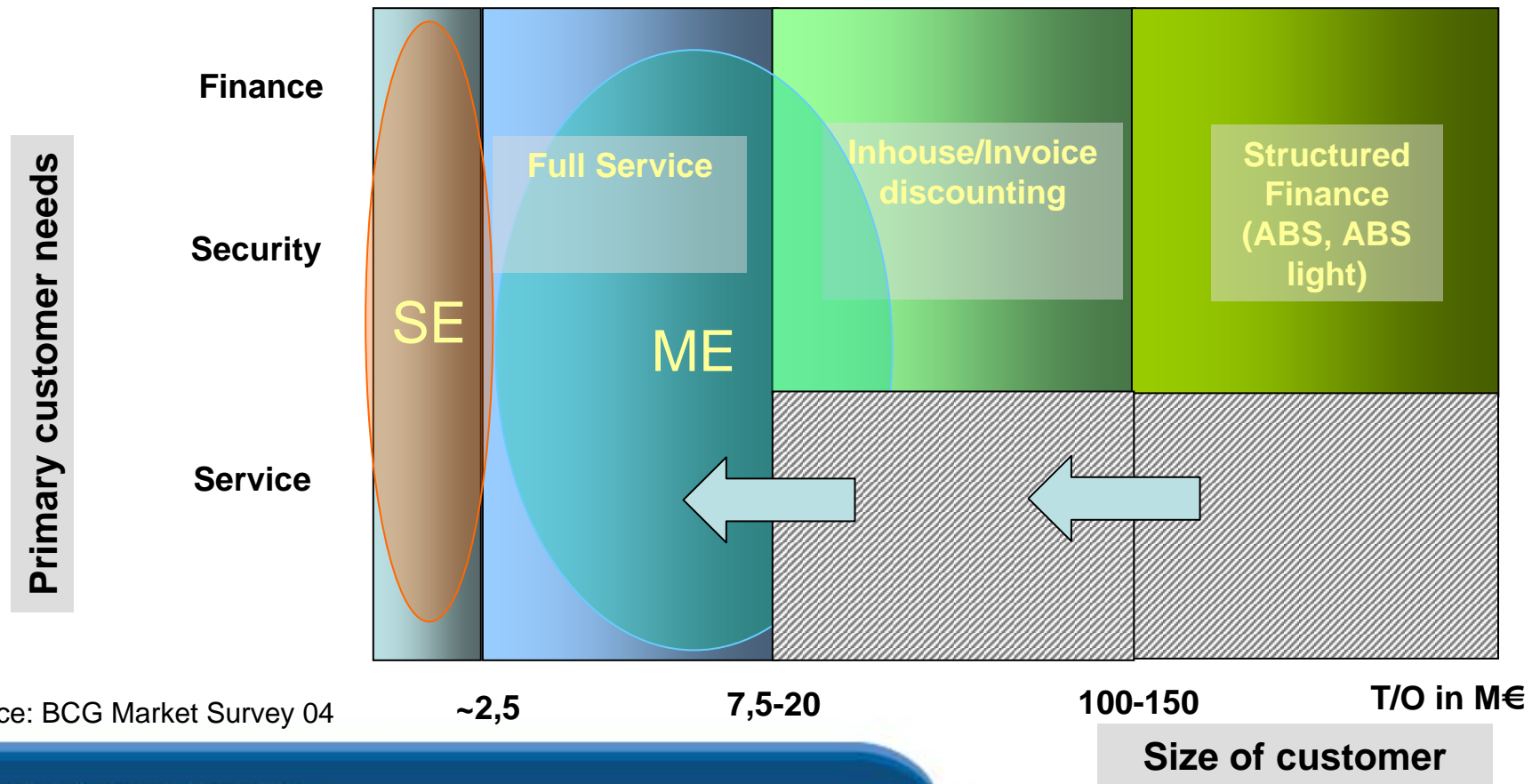
Product development

- Sales Ledger Management is done more and more Inhouse by larger companies due to efficient electronic bookkeeping systems (Invoice Discounting (ID)/ Inhouse factoring)
- growing importance of ABS adapted structured Invoice discounting solutions
- Pan European receivables finance solutions **EUROPEAN PASS**
- Acquisition and leveraged Finance
- Asset based lending (bank status required or using bank's passport)
- Participation in secured lending syndications
- Supplier Finance (Reverse factoring)
- Public and private debtors (health finance)

New Trends in German Factoring market

Structured ID substitutes standard ID, ID substitutes Full service

- Increased average turnover of new clients supports ID
80% of EUROFACTOR AG business is ID, thereof 50% undisclosed-
- Improved risk quality of clients supports ID (89% of EF portfolio BB or better)



New trends in German Factoring market

Growing similarity of structured ID to Asset-backed securities

- Similarity of procedures: Revolving purchase of receivables portfolios on weekly or monthly basis, generally undisclosed with debtor management executed by seller
 - Risk transfer up to 100% (first loss arrangements lower than in ABS deals which are easier compatible to IFRS-standards to ensure "True sale")
 - Minimum entry level much lower for structured ID than for ABS (some providers offer undisclosed solutions already for 3 M€ portfolios)
 - Quicker implementation than time consuming structuring procedures for ABS (including rating agencies)
 - Possibility to purchase portfolios with higher debtor concentration levels than in ABS (often complementary to ABS programs)
 - Integration of international portfolios is possible
 - Transparent pricing model (no fees related to turnover or to limit approvals), monthly handling fees, no or low set-up fees compared to structuring costs for ABS
- responsible for 50-60% of market growth allowing access to stock listed companies, but danger of cannibalism of pricing

New trends in German Factoring market

Pan-European Solutions

- Groups operating in multiple international locations seek integration of foreign subsidiaries into existing or new implemented Factoring/ ID-arrangements.
- Centralized groups prefer a unique point of contact as well as a unique agreement allowing the option for a centralized funding and providing a consolidated reporting.
- Opportunity to differentiate and to attract new business for Factoring companies with international networks.
- Driver to establish international presence for leading players in the asset-based lending market (traditionally focused on their home-market)
- EUROFACTOR offer: **EUROPEAN PASS**

Clients can choose

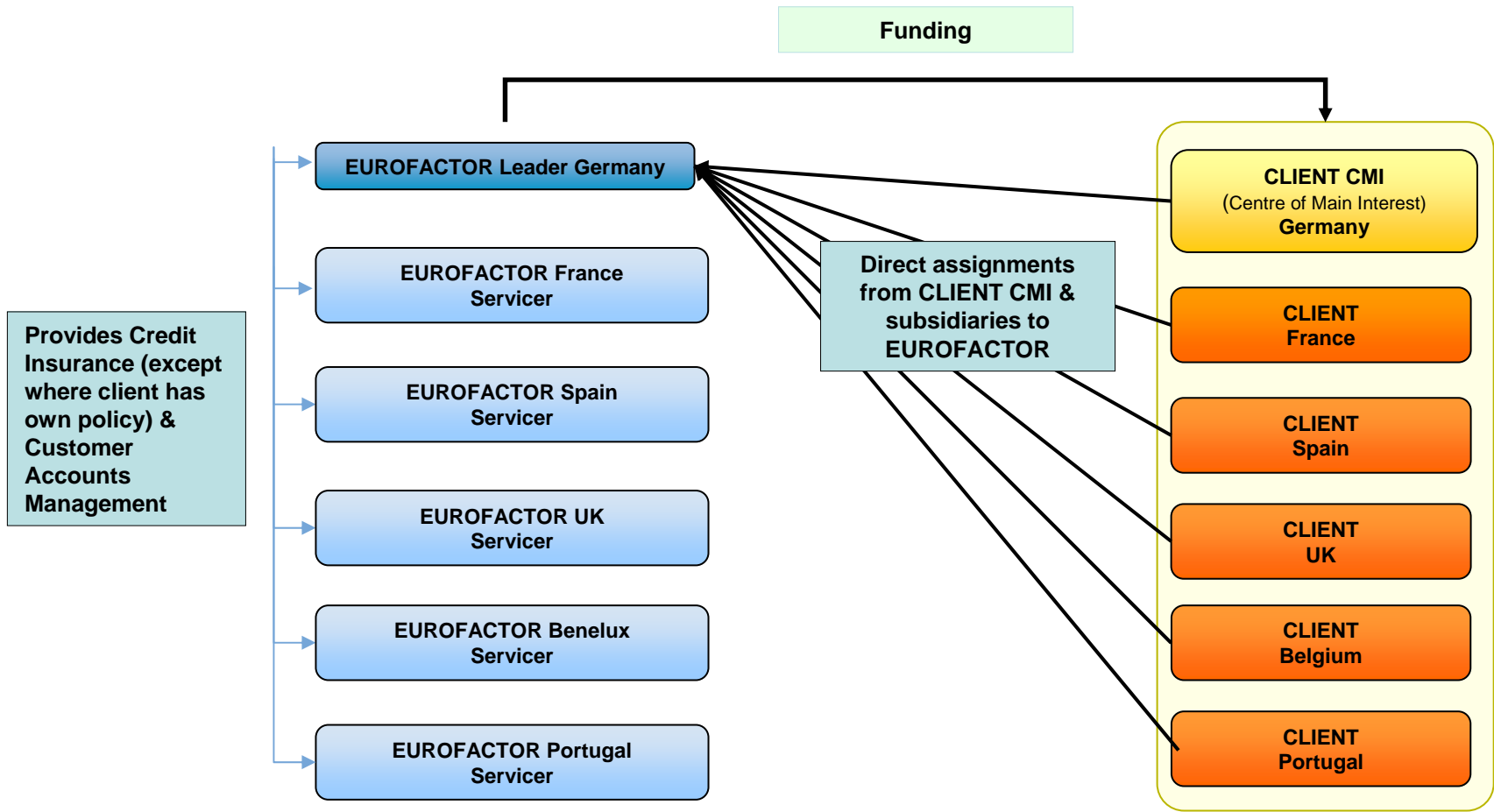
Global solution:

- Unique Group Account Manager
- Single European Financing Agreement
- Centralized funding structure
- Consolidated reporting format

Local solution:

- Dedicated local teams
- Independent national Finance Agreements
- Local funding configuration
- Tailor-made solutions for each entity

EUROFACTOR's co-ordinated and centralised funding solution for multinational group companies in Europe.



New trends in Factoring in the German market

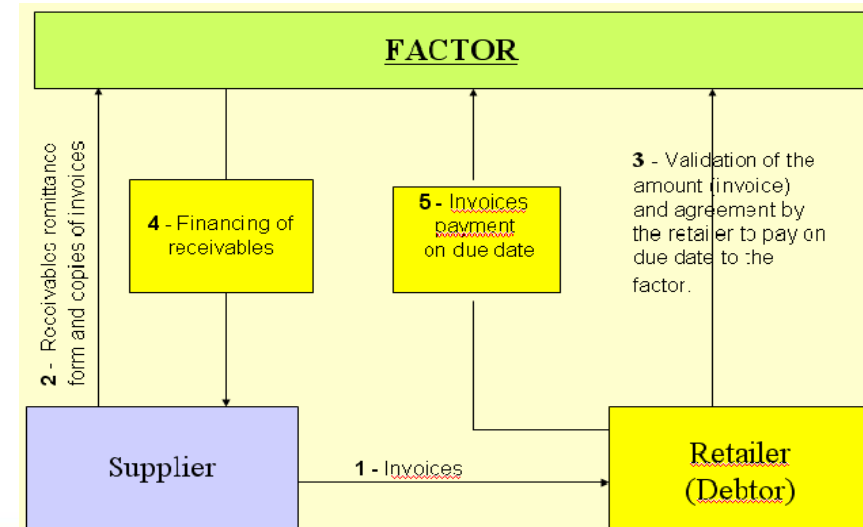
Acquisition and leveraged finance

- Reduction of amounts for syndicated acquisition finance
 - Contract duration adapted to duration of acquisition finance (up to 7 years)
 - Similar covenant structure as acquisition finance
 - Supervision of debtor management/cash flows through expert for receivables management
 - Opportunity for syndication or participation among factors in bigger transactions
- ⇒ Cooperation with equity houses and venture specialists
Potential in view of restructuring process in Germany (spin-offs, MBOs etc)
Need to build up structured finance know how

New trends in Factoring in the German market

Supplier Finance

- Master agreement with large debtors, simplified Factoring agreements with their suppliers
- Advantage for supplier: immediate cash, reduced interest margin depending on quality of debtor, debtor risk coverage
- Advantage for debtor: extension of payment terms or trade discount without increase in financial debt, participation on factoring fee.
- Advantage for factor: reduction of dilution risk through validation process and confirmation by debtor, total income.
- Advantage for banks in syndication deals: higher margins possible in a syndication than by providing direct loans to the debtor, broker fees



New trends in Factoring in the German market

Back-up servicing for securitization and invoice discounting

- ABS providers are usually not able to handle large volumes of invoices in case of seller's default (increasing importance as entry levels go down)
- poor know how in mastering assignments of receivables especially on internal level

Putting EUROFACTOR's expertise

in client account management during the arrangement and follow-up phases of the operations

Back-up servicing
for management and collection of trade receivables if activated

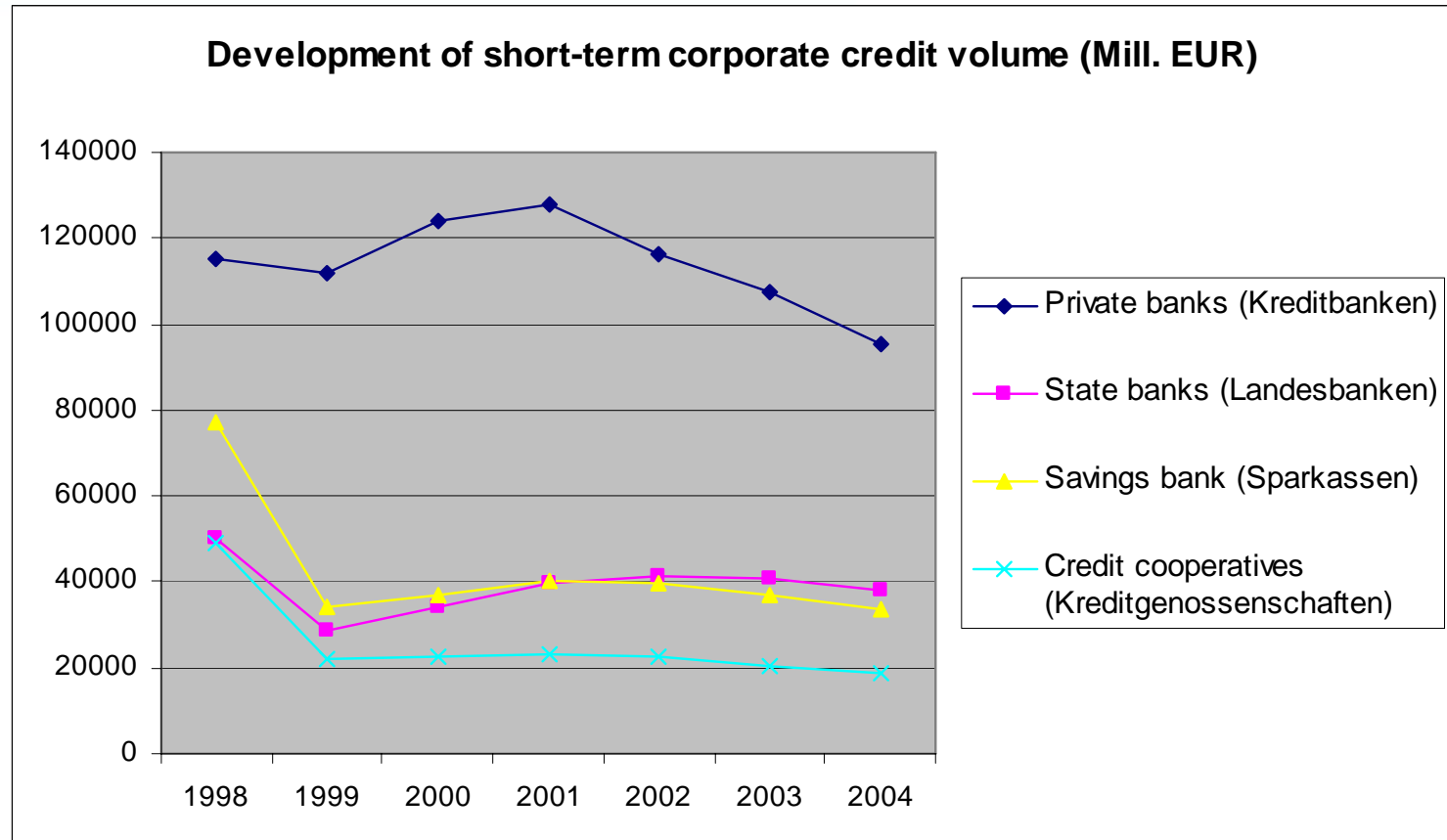
EUR  FACTOR

Building tailor-made reports
and statistical tables to manage the operations

Programme Agent
Management of the trade receivable securitisation programmes :
The full servicing solution or reporting solution

Are German banks a threat for Factor's middle market?

Credit shortage in Germany: 15% reduction in short term loans since 2001!



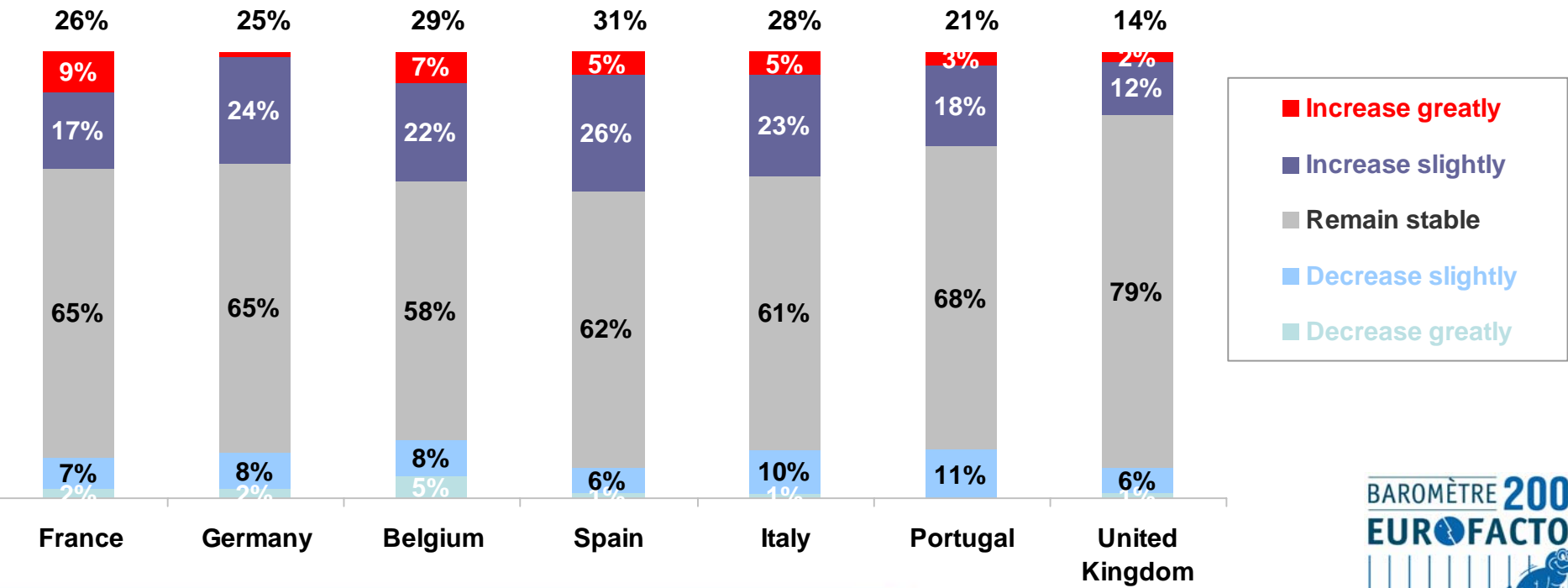
Source: Deutsche Bundesbank

Are German banks a threat for Factor's middle market?

25% of German companies face increased financing needs

➔ % of companies which consider that their financing needs tend to increase or decrease

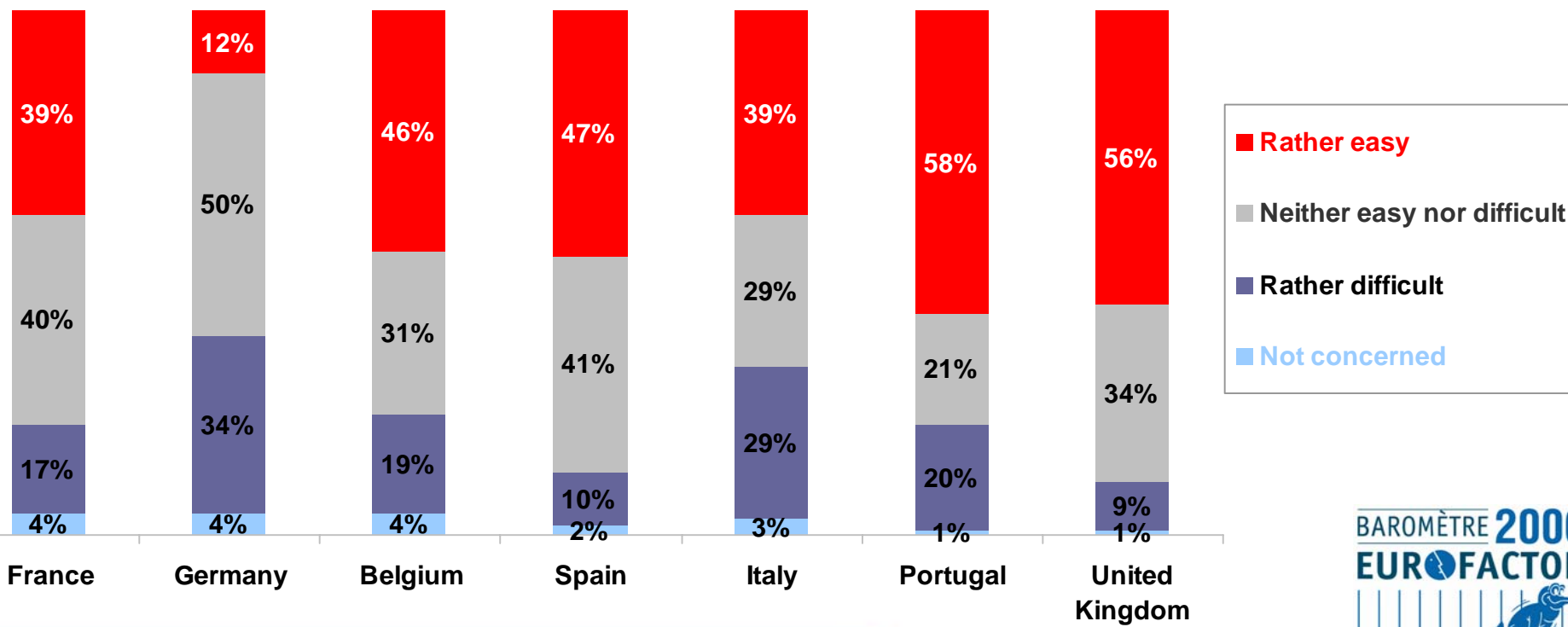
TOTAL COMPANIES WHICH CONSIDER THAT THEIR FINANCING NEEDS TEND TO INCREASE :



Are German banks a threat for Factor's middle market?

34% of companies face difficulties to obtain necessary credit but only 2% recognize Factoring as appropriate solution!

→ % of companies which consider that access to credit is easy or difficult



Are Banks a real threat to Factor's middle market?

Perhaps:

- Companies are highly dependant on banks in Germany – Introductions partly depend from « goodwill » of banks
- transparency for alternative forms of financing is still low, Consultants don't play an important role
- after consolidation process in 2001-2005 in German banking sector Commercial banks are back in the market with low margin offers for top rated companies: push and pull!
- danger that banks pick good qualities while weak and bad risks remain reserved for Factoring companies
- increased competition with securitization (banks, insurance companies), which seems now « to get a foothold » in the business (minimum portfolio level down to 20 M€)

Are Banks a real threat to Factor's middle market?

Not really – Non recourse Receivables finance...

- ...provides bank independent sources of financing for companies facing increased difficulties to obtain bank credit
- ...does not fit into the corporate finance strategy of banks (market niche too small, other business priorities, lack of know how, lack of experience compared to foreign banks)
- ...is not in competition with banks, but complementary and part of diversification policy in corporate finance (reduce costly supplier credits)
 - **for most clients factoring is as important as bank facilities to secure cash needs**
 - **banks meanwhile recognize asset-based financing solutions as an attractive outsourcing option and use partnerships with factoring companies**
- ...offers potential for white labeling (Factor as service provider, marketing through banks)
- ...provides „off balance“ solution improving the rating (bank loans are always on balance)

Are Banks a real threat to Factor's middle market?

Not really – Non recourse Receivables finance...

- ...renders services for medium sized companies who have little international experience, which banks cannot provide (elimination of debtor risks in unknown markets). Banks have difficulties to secure own loans according to local legal requirements.
- ...is the only business that can offer a global management of receivables. Value added services provided by factor help to differentiate from banks
- ...covers the increased demand for protection against default in view of rising insolvencies
- ...is an attractive alternative to users of bank led ABS (flexibility)
- New equity guidelines of Basle II will force banks to use ratings for credit/pricing decisions rather than traditional relationship management

Thank you for your attention!

Contacts :

Klaus TAUBE

klaus.taube@eurofactor.de

EUROFACTOR AG

Bajuwarenring, 3

82041 Oberhaching b. München - GERMANY

Tel. : (00) - 49 - 89 9590 950

Fax : (00) - 49 - 89 959095-909

Site Internet : <http://www.eurofactor.de>