Greensill

WORKING CAPITAL FINANCE AS AN ASSET CLASS

Fintech-enhanced working capital finance is an incredibly powerful tool that helps both suppliers and buyers improve cash flow simply and efficiently.

This working capital finance revolution has also created a game changing proposition for investors seeking a valuable alternative to money market funds and other short-term liquidity vehicles.

As an asset class, working capital finance presents a tremendous opportunity to invest in real economy corporate credit risk.

The size of the working capital finance market is vast — $55 trillion, according to Greensill research. That is the sum of all outstanding accounts payable and inventory for all companies and public sector bodies with annual turnover of $250 million.

In fact, the global market for working capital is on a par with the global markets for equities and corporate debt, which are around $65 trillion and $73 trillion, respectively.

Historically, only traditional banks and a select few of their clients were able to invest in working capital finance. However, thanks to advancements in technology, and the innovative work of market leaders such as Greensill, an entirely new world of investors can now invest in short-term market instruments backed by trade receivables.

The working capital instruments that Greensill originates are similar in nature to asset-backed securities. As we see with ABS, cashflows for supply chain finance are known on day one, with an exact pass-through of the economics of the corporate's approved invoices.

$55tn
size of the global working capital finance market

The working capital finance product is backed by single-name senior unsecuredcorporate credit risk in the form of an "IPU" (irrevocable payment undertaking). The risk to the investor is that of the obligor or corporate, and that they make the scheduled payments under the legally binding IPU. The IPU is an irrevocable obligation to pay by a known corporate for a known amount of money at a set date in the future.

In other words, investors are buying direct corporate credit risk as an investment.

This new asset class allows investors to have access to a broad range of global corporate credits, across a wide credit and duration spectrum, with generically higher yields than equivalent debt products. While money market funds traditionally yield near-Libor levels, working capital finance outperforms, making it a compelling alternative for investors who need the liquidity offered from a short-term investment.

Greensill, the world's leading non-bank provider of working capital finance, is a structurer and funder for the growing working capital finance asset class. Through Greensill's access to a diverse pool of capital, it has purchased and distributed over $32 billion in supply chain finance assets as of 2018.

Working capital specialists structure these specialist trade finance programs, enabling fixed-income investors to increase their exposures to a much broader range of corporate credit. Greensill, for example, talks to both investment-grade and non investment-grade corporates in a variety of proven, established industries, including telecommunications, construction, aviation, energy, pharmaceuticals, and fast-moving consumer goods.

THE WORKING CAPITAL FINANCE MARKET

The largely untapped working capital finance market opportunity is estimated to be around **$55 trillion**. That's the sum of all outstanding accounts payable and inventory for all corporates and public sector entities with an annual turnover of $250 million or more. This compares to the global equities market at $65.7 trillion, and the global corporate debt market for all non-financial companies, which is $72.9 trillion.

Working Capital Finance market size
$55tn

Equities market size
$65.7tn

Non-financial corporate debt market size
$72.9tn

"From an investor's standpoint, the great thing about working with Greensill is the access we provide to our unique range of corporate credits and transaction types," says Steven Hollands, Greensill Global Head of Distribution. "Because of the range of assets that we originate, Greensill can provide investment opportunites to a variety of different types of funds within any given Asset Manager. We do not only deal in short and medium credit, nor only work with long-duration pension funds, for example — we are relevant to all investor segments and their specific strategies."

For a corporate client and its supply chain, working capital finance is an efficient and much cheaper form of finance than traditional alternatives. By leveraging the strong credit rating of the corporate buyer, suppliers gain access to lower cost of funds, enabling non-investment-grade suppliers to benefit from cheaper financing rates. At Greensill, the program set-up process is friction-free, easy to implement, and easy to run, due in part to the latest technology combined with a diverse funding pool and capital markets.

47
bonds are issued by Greensill every business day of the year

Greensill buys hundreds of thousands of invoices, or trade receivables, from companies of all sizes and packages them into short-term, corporate IPU-backed bonds that are then sold to investors. Greensill has become one of the most prolific bond issuers in the world, issuing about 47 bonds every business day of the year.

Working capital finance is an increasingly popular asset class for the fixed income investor base, especially considering today's low-yield environment. As we enter a period of uncertainty caused by macro economic headwinds, shorter duration corporate credit will become even more attractive and relevant to portfolios across the globe.

Looking at the size of the potential pool of invoices available today, this is clearly an asset class that will continue to grow, in both significance and volume, as an ever-increasing number of investors add this new corporate credit asset to their fixed income investment strategies.

ACTION POINTS

Greensill's working capital finance gives investors looking for short-term liquidity a technology-driven new alternative

WCF allows investors to buy corporate credit risk simply and directly

Greensill innovations have given investors access to WCF, expanding it beyond traditional banks and select clients

WCF is a low-risk asset class. No investment-grade corporate has defaulted on its promise to pay suppliers in the last 20 years

The size of the global working capital finance market is $55 trillion, according to Greensill research

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