Greensill

INNOVATION IN SUPPLY CHAIN FINANCE

Innovation in Supply Chain Finance is about the ability to meet the greatest challenges of a business with an approach that is at once meticulous in its attention to detail, and boundless in its creativity.

Such innovation is at the heart of all the work Greensill undertakes on behalf of its clients as the company seeks to change finance and in turn, change the world.

Take a hydro-power plant in the foothills of Scotland's Ben Nevis, add a struggling nearby aluminium smelter and mix in a good dose of Scottish government support. The result of one of Greensill's most innovative deals that was a powerful shot in the arm for British manufacturing and a showcase for supply chain finance innovation.

The deal, structured on behalf of GFG Alliance in 2016, proves that supply chain finance can just as easily finance long-term, complex projects that knit together multiple elements as it can finance trade receivables.

In the first step of the deal, Greensill forecast the receivables for electricity produced at the Lochaber hydro plant over the next 25 years. The promise of those funds due to be paid was used to finance the purchase by GFG of the hydro plant and the aluminium smelter that it powered, both being sold off by Rio Tinto.

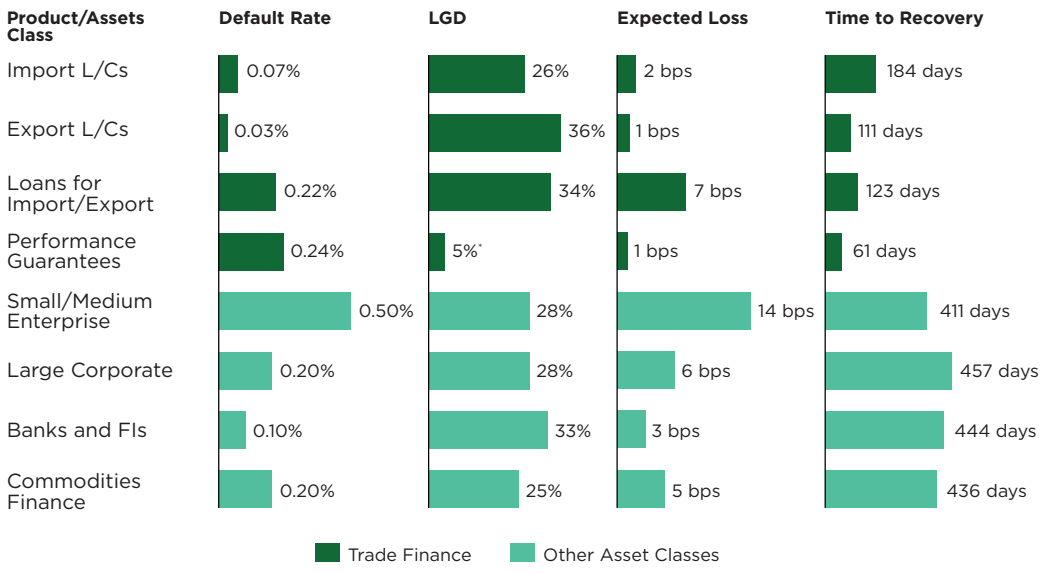
Those future income streams are also being used to finance the construction of a new alloy auto wheels factory in Fort William that will be supplied by GFG's cutting edge 'green' aluminium.

The Scottish government guaranteed the electricity payments which assured the Greensill structure received a sovereign rating, making the receivables even more attractive to investors.

"Greensill's imaginative and dynamic approach has played an important part in making several key GFG projects a reality. We're very pleased to have them as our funding partner in these exciting and ground-breaking investments."

Sanjeev Gupta, executive chairman of GFG Alliance.

Comparison of Trade Finance to other Asset Classes



* Accounts for 7.6% observed 'Claim Rate' (i.e. applying CCF to Loss Given Default). Source: ICC Trade Register 2017.

Greensill is busy liberating capital in other ways too, like its financing of telecom giant Vodafone's handset inventory. "Buying a new iPhone is expensive. I paid over £1000," says Lex Greensill.

Rather than pay upfront, most people sign up to three-year contracts with mobile providers which also weave in repayment plans for new phones. This means telecom companies are acting like banks, giving their customers loans to buy new phones.

In this process Greensill saw a new opportunity to help Vodafone, which was already a client.

The firm bought Vodafone's mobile phone user contracts, or receivables, and Vodafone used the money to pay phone-maker Apple for the handsets much faster unlocking hundreds of millions of dollars previously locked in the supply chain.

Aircraft financing has traditionally relied upon government backing via national credit agencies, particularly in the US where Ex-Im Bank played a crucial role supporting aircraft exports by offering secured financing to global airlines looking to purchase Boeing planes. Between 2008 and 2013, 26 per cent of large commercial aircraft sales were backed by Ex-Im but that support programme ground to a halt in 2014.

Greensill has since stepped into the market, applying innovation devised in partnership with Boeing and Marsh, the global insurance broker, called the Aircraft Finance Insurance Consortium (AFIC).

AFIC used Greensill's financing for the first time when Norwegian Air Shuttle bought six new Boeing planes worth several hundred million dollars. AIFC took the receivables, in this case Norwegian's monthly commitments on the planes, added on risk-mitigating insurance, and sold the bonds in the capital markets. Norwegian has been able to access low-cost capital to finance its plane purchases and free up working capital, and Boeing got a prime order, all paid upfront.

"The structure is the same whether it's a 7-day trade receivable or whether it's a 12-year aeroplane lease cash flow, or indeed a payment 25-years into the future for hydroelectric power. It uses a combination of capital plus risk mitigants – largely insurance – to deliver to our investors a product which allows us to unlock working capital for our clients, so they can put it to work,"

Lex Greensill.

ACTION POINTS

Supply Chain Finance can fund long-term, complex projects that knit together multiple elements

Vodafone pays for its iPhone inventory using Supply Chain Finance

Norwegian airlines funded six new jets with Supply Chain Finance

New investment funds are drawing in more capital to trade finance assets as investor demand leaps

The structure is the same whether it's a 7-day short term commitment or a 25 year contract

Greensill

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