Private Equity: why should factoring be anticipated?

Cheaper, more flexible, more efficient: factoring is always the most attractive form of short-term financing. But in order to be deployed to its full potential and at the most opportune moment, it must be considered well in advance. In doing so, the shareholder can choose his or her objective: financing of external or organic growth or dividend payments.

THIBAUT ROBERT
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ABOUT THE AUTHORS

Thibaut Robert founded Fibus (formerly Chateaudun Crédit) with Gaëtan du Halgouët in 2006. Fibus specialises in factoring advice to private equity funds: today, 4 out of 5 operations carried out by Fibus are for companies under LBO. Maxime Bertin joined Fibus in 2018 and is Deputy Managing Director, in charge of Fibus Factoring.

Factoring continues to make its mark in the world of private equity: from small to large-cap, factoring supports shareholders throughout their equity investment development strategies.

LES DÉCIDEURS. **Can you briefly remind us what factoring is?**

Thibaut Robert. In simple terms, factoring is two months of turnover in cash. It is a short-term financing method, reserved for the BtoB sector. It is based on the company's client base, and more specifically on client payment terms. Factoring allows you to be paid in a day or two rather than when the invoice is due.

Maxime Bertin. Let's take two examples. For a company with a turnover of 60 million, factoring will represent financing of around 10 million euros. On a different scale, a company with a turnover of 3 billion can count on 500 million euros of financing thanks to factoring, which is very significant.

T. R. In France, companies are generally paid within 60 days, hence the two months I mentioned just now - but it can sometimes be up to 90 or even 120 days, depending on your activity and the countries in which your customers are located.

Factoring enables the financing of growth and secures the cash flow of participations

You have been working for private equity funds for more than fifteen years. What are the advantages of factoring for a fund, particularly in comparison with other types of financing?

T. R. Factoring is a fast and deconsolidating form of financing. It allows funds to quickly secure the cash flow of their holdings. It is the most effective financing a fund can have to support the life cycle of a company. It can be triggered at different times, depending on what will best serve the shareholder's strategy.

M. B. The fund may decide to activate the financing via factoring immediately after acquiring a stake, to secure the operation. In the longer term, it may also choose to finance the company's growth, whether external or organic, or make it cash self-sufficient. Factoring can also be used to facilitate the payment of dividends or to refinance partners' current accounts.

T. R. Factoring is the cheapest form of financing for companies under LBO. The margin on the official rate is 1.5 to 2%, which is much less expensive than debt, equity or an RCF, hence its appeal to funds. And compared to a traditional overdraft, it provides a larger amount of financing. Another strong point is that, because it is deconsolidating, factoring does not impact the company's debt leverage.

M. B. Other aspects of factoring also attract funds: its confidentiality, for example, but also its stability and flexibility: the contracts are set up for several years and adapt to the level of activity of the company, whatever its growth phase.

KEY POINTS

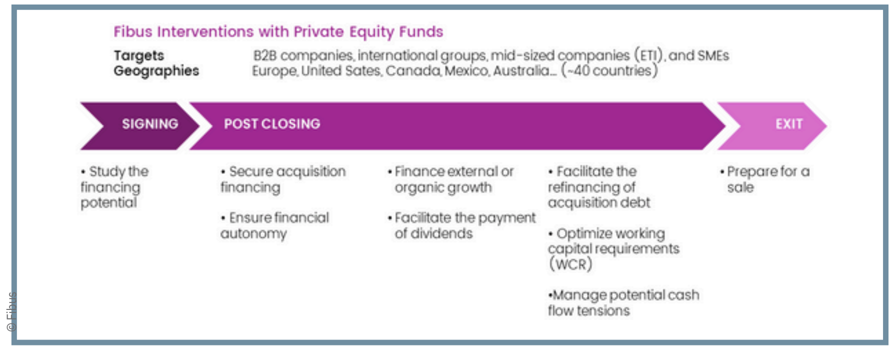
- Fibus has 60 experts in three complementary teams: factoring, credit insurance and dedicated digital solutions.
- Fibus is today the leading factoring consultancy in France and Europe; in 2023, Fibus supported its clients in 37 countries and achieved more than 50% of its activity internationally.
- Fibus has offices in France (Paris, Reims, Lyon, Poitiers) and London.
- In 2023, Fibus launched ARI Trade, a software programme that enables the consolidation and management of factoring and credit insurance on a single platform.

Are there any do's and don'ts for investment funds wanting to succeed in a factoring programme?

T. R. Plan ahead! Planning a factoring programme well in advance, even before signing the acquisition, gives you much greater capacity and freedom of action than if the subject is dealt with when the need for cash arises. This makes it possible to trigger the financing at the most opportune moment for participation, with all the cards in hand to make the right choice.

Factoring is a stable and deconsolidating form of financing.

M. B. This is the purpose of our support for funds: to provide clear information on the scope of turnover eligible for factoring, what cash factoring will be able to generate, what it will cost the company, and the appetite of factoring companies for the file.



T. R. If anticipation is a must, I would add a don't: don't go it alone! Setting up factoring is very structuring for the company: while it is always a good thing, it can take time.

Our mission: to facilitate and accelerate the implementation of factoring

The order-to-cash chain must be optimised, knowledge of customers refined, and finance teams involved at all levels: 80% of our support is at the operational level, before and after the actual negotiation with the factors.

M. B. Our mission is to facilitate and accelerate the implementation of factoring programmes. Our in-depth knowledge of French and European factors enables us to save our clients a lot of time: we are familiar with the expectations, procedures and requirements of each financier, and we know how to prepare teams for the implementation and management of programmes.

T. R. In recent months, we have seen an increase in syndication among factors, who now want to share the risk on the largest programmes. This necessarily complicates the structuring of files, but we know how to deal with complexity; it's part of our DNA.

Private equity experienced mixed fortunes in 2023; what do you observe from your position as a financial advisor in mid-2024?

M.B. In 2023, we saw a good performance in small and midcap deals, while large-cap deals contracted. As a result, we were asked a little less to set up acquisition programmes. Nevertheless, funds have come to us to audit their portfolios in order to optimise the cash flow of their holdings, particularly large caps, in France and abroad. In the first quarter of 2024, we saw a significant upturn in the number of deals, particularly in mid-caps: fewer in value, but more numerous. Today, we are once again in high demand for acquisitions.

T. R. This shows that private equity is increasingly integrating the various possibilities offered by factoring: optimising portfolio performance, developing or enhancing portfolios with a view to an exit. It is a very powerful financing tool. ◆