Mergers & Acquisitions

Also Inside:

Congratulations! You’ve Closed the Deal: Now What?

Why and How Banks Acquire Commercial Finance Groups

Perspective from an Industry Veteran
How Does FactorAdvantage Help You?

✔ Address collateral shortfall for bank payoff

✔ Provide overadvances for A/R and non-A/R requirements

✔ Eliminate MCAs and facilitate first priority lien on A/R to you

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Breakout Capital Finance is a leading financial technology company that uses best-in-class technology to provide a wide range of credit solutions to small businesses nationally. Built on transparency, education and advocacy for small business, the company is one of the fastest-growing direct lenders in the space and leads a world-class technology innovation effort. Breakout Capital Finance is a Principal Member of the Innovative Lending Platform Association and is an original advocate for the SmartBox™ standard for transparency.

Learn more at breakoutfinance.com or call 888.318.3534
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After the conclusion of each year's annual conference, I read the evaluations and start to think about what I can do to make the following year's conference even better. Each year I’m told that it will be impossible to surpass the current year’s conference. With the 25th annual conference coming up in April, I think we may have hit another home run.

We’ve just released the schedule for the 2019 annual conference and I’m more excited than ever about the year’s lineup of speakers and activities. Each year the speakers are more relevant to running a Factoring operation and the activities are more exciting. We continue to expand our offerings to serve every type of employee within an organization to every type of company. Whether you are a small Factor, up to a multi-national Asset Based Lender, we have something for you.

The 2019 conference will be held April 3-6 at The Manchester Grand Hyatt in San Diego, CA. The Hyatt has been ranked as California’s Leading Business Hotel and is located on the bay and adjacent to the Gaslamp District in beautiful downtown San Diego.

Some of the speaking session highlights include:

- UNthink with Erik Wahl
- Recognizing the Technologies and Trends Transforming Factoring with Simon Anderson
- Searching the Dark Web: Finding Fraud Online
- How Artificial Intelligence and Machine Learning will Change the Factoring Industry
- Economic Forecast with Elliot Eisenberg, Ph.D.
- If I Could Turn Back Time—What I’ve Learned From Mistakes Made
- Bank Owned vs. Independent Factor
- Lightning Round Legal Panel
- Report from the Courts
- Blockchain—How Factors Can Utilize This Technology
- How to Create Referrals for Your Factoring Practice
- IGNITE BRILLIANCE in Your Culture (1/2 Day Training)
- Supply Chain Finance
- Strategic Roles of Factors in Expanding the Frontier of Trade in the 21st Century
- Unique Challenges of Factoring in Latin America
- Factoring 101 and Sales 101
- And Much More

We are also bringing back the very popular roundtables. This will give attendees the ability to network with other individuals with similar interests and backgrounds. The roundtables we have planned are:

- Roundtable for Women
- Roundtable for Senior Executives
- Roundtable for Young Professionals
- Roundtable for Small Factors
- Roundtable for Operational Issues

Some of our networking activities include the Triumph Welcome Reception, Thursday Evening Reception, Tax Guard Dessert Reception, Closing Event at Parq, Young Professionals Reception, Chapter Receptions, and the Saturday Idea Exchange.

We’ve also planned some excellent activities, including golf and a food tour.

Additional information about the conference can be found on page 24 and at www.factoringconference.com.

Our 2018 classes and webinars have been extremely popular with many of them selling out. Our 2019 courses will be announced soon and in order to avoid being disappointed, I suggest signing up early.

Thanks for your support of the IFA and I look forward to seeing you at an upcoming event.
The International Factoring Association (IFA) goal is to assist the factoring community by providing information, training, purchasing power and a resource for factors. The IFA provides a way for commercial factors to get together and discuss a variety of issues and concerns about the industry. Membership is open to all banks and finance companies that perform financing through the purchase of invoices or other types of accounts receivable.

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Only IFA members can join the chapter and current members located in these states will be grandfathered in as members of the new chapter.

For more information on joining the Midwest Chapter, contact Laurie by phone at (312) 456-0292 or by email at lmontplaisir@rsplaw.com. If you would like more information about the IFA or are interested in forming a chapter in your area, contact Bert Goldberg by phone at (805) 773-0011 Ext. 302.

AmeriFactors Launches New Campaign with Legendary Football Coach Steve Spurrier

Earlier this year, Spurrier returned to head coaching and Central Florida with the Orlando Apollos of the Alliance of American Football (AAF). As an official celebrity partner, Spurrier will be featured in AmeriFactors latest marketing campaign which includes television, radio and social media. The campaign will launch just months before the Orlando Apollos’ inaugural season.

Paragon Financial Offers Fast Hurricane Florence Funding For Business Clean-up Efforts

Paragon Financial Group, Inc., an Asset Based Lending company specializing in No-Credit Risk Accounts Receivable Factoring and Purchase Order Funding, offers fast funding for clean-up companies in the aftermath of Hurricane Florence’s expected damage. This includes storm debris clean-up, government contracts and other business funding needs associated with the hurricane.

This special program provides non-recourse, credit protected working capital for companies affected by Hurricane Florence looking for fast working capital options to help their company stay cash positive through increased demand because of the critical clean-up and repair needs.

The views expressed in the Commercial Factor are those of the authors and do not necessarily represent the views of, and should not be attributed to, the International Factoring Association.
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**Gibraltar Business Capital Announces Increased Credit Facility with Wells Fargo**
Gibraltar Business Capital announced an increase in its credit line with Wells Fargo Capital Finance, part of Wells Fargo & Co. (NYSE :WFC), increasing its borrowing capacity from $75 million to $100 million in support of continued growth.

The credit facility also includes an accordion feature, which could increase the line up to $150 million in anticipation of Gibraltar’s continued growth over the next year.

**Crestmark Provides More Than $35 Million in Commercial Financing to 94 Businesses in the First Half of September**
Crestmark secured a total of $14,400,000 in ABL financial solutions with 17 transactions for 15 new clients; Crestmark Equipment Finance provided $2,968,342 in four new lease transactions; Crestmark Vendor Finance provided $6,800,000 in 73 new lease transactions; and the Government Guaranteed Lending division provided $10,866,000 in financing for two new clients in the first half of September.

**TAB Bank Closes $2.5MM Revolving Credit Facility with Natural Foods Company**
A foods company based in California has chosen TAB Bank for a $2.5 million revolving credit facility. The new facility is extended through a multi-year agreement and will provide for the company’s ongoing working capital needs.

**Rosenthal Provides $1 Million Production Finance Facility for Georgia-Based Athletic Apparel Manufacturer**
Rosenthal & Rosenthal, Inc. announced the completion of a recent purchase order finance deal for an athletic apparel manufacturer based in Georgia.

The transaction was sourced by Rosenthal’s Southeast regional office, from a referral by a consultant well known to the team. Rosenthal’s $1 million purchase order finance facility allowed the client to fulfill its direct orders from various major league sports franchises. The supply chain financing requirements involved purchasing patented performance apparel from an international supplier and paying domestic screen printers and embroiderers for the value-added processing to complete a finished garment. The deal involved cash payments to all suppliers as well as funding for all logistics costs.

**Wells Fargo Capital Finance Provides $30MM in Lender Finance to Alterna Capital Solutions**
Alterna Capital Solutions, a specialty and alternative financing lender to small businesses experiencing growth, announced a $30 million asset-based credit facility with Wells Fargo Capital Finance, a division of Wells Fargo & Company. The line will be used to expand Alterna Capital Solutions services to the nation’s growing number of small-business owners who require a financing partner skilled at complementing a business’s established bank relationship.

**TradeCap Partners Provides $4.7MM ‘Work-In-Process’ Purchase Order Facility to California-Based Consumer Goods Company**
TradeCap Partners provided a $4.7MM Purchase Order Facility to a California-based, branded consumer goods company. The facility was structured to satisfy increased working capital needs related to seasonal Black Friday and Holiday pallet programs with a national wholesaler.

**Alberta Commercial Dry-Wall Contractor Positioned for Rapid Growth with $200,000 Facility from Capital Now Inc**
A full service commercial drywall contractor in Southern Alberta recently partnered with Capital Now to cover costs associated with rapid business growth.

They’ve access to a $200,000 credit facility and were referred to Capital from a referral by a consultant well known to the team. Rosenthal’s $1 million purchase order finance facility allowed the client to fulfill its direct orders from various major league sports franchises. The supply chain financing requirements involved purchasing patented performance apparel from an international supplier and paying domestic screen printers and embroiderers for the value-added processing to complete a finished garment. The deal involved cash payments to all suppliers as well as funding for all logistics costs.

**November 2
11:30am-1:30pm**
IFA Canada - JD Factors - BDC - Moreault Conseillers Joint Factoring Lunch
Mergers & Acquisitions Financing/ Business Development Latest Trends
Holiday Inn, Pointe-Claire, QC
RSVP to Rowela Basa at rbasa@montrealheritage.com

**November 13
8:30am-11:00am**
Legal Panel—Bankruptcy Matters

**December 11
TBD**
End of Year Gathering

**Meetings Location:**
Mississauga Living Arts Centre
Scotia McLeod Room
4141 Living Arts Drive
Mississauga ON L5B 4B8

For more information, call Oscar Rombolà at (905) 603-6284 or email orombola@accutraccapital-itc.com. Visit IFA Canada’s website at www.FactoringAssociationCanada.com.

Now from another Factoring company in order to leverage Capital Now’s rapid, common sense, business funding.

**CapitalPlus Construction Services Celebrates Record Month in August**
CapitalPlus Construction Services, out of Knoxville Tennessee, celebrated a record month in August purchasing approximately $6.5 million in receivables across numerous clients in numerous sectors of the construction industry.

**Utica Leaseco, LLC Completes Two Transactions Totaling $1,400,000 during the first half of September 2018**
Utica Leaseco, LLC completed the
funding of a $400,000 Capital Lease secured by Machinery and Equipment for a fabricating company in Texas. Utica provided the working capital needed for this company to grow and expand operations. Utica is proud to provide financing based on collateral, not credit.

Utica Leaseco also completed the funding of a $1,000,000 Lease secured by machinery and equipment for a farm located in Michigan. The customer was particularly grateful for Utica Leaseco’s ability to provide the needed financing within 3 days of the initial request. This brings the total funding for this customer to over $7,500,000.

**Thermo Credit Provides Acquisition Financing for H/Cell Energy**

Thermo Credit, LLC (“Thermo Credit”) extended financing in the form of a $350,000 asset-based loan to H/Cell Energy Corporation (“HCCC”), a company that designs and implements clean energy solutions featuring hydrogen energy systems. The lending facility was utilized to finance an acquisition that expands the geographic reach, technical services capability and customer base for HCCC.

**Gateway Trade Funding Completes Six Transactions**

Gateway Trade Funding, a PO and Trade Financing company, recently completed the following purchase order transactions:

- $500,000 PO facility to an importer of women’s apparel.
- $250,000 PO facility to an importer of kitchen appliances.
- $1,000,000 PO facility to an importer of machinery.
- $500,000 PO facility to an importer of slack lines and gymnastic equipment.
- $500,000 PO facility to an importer of commercial lighting.
- $2,000,000 PO facility to an importer of toys.

**inFactor Provides $500,000 Credit Facility for Workforce Training and Development Firm**

inFactor Capital recently closed and funded a $500,000 credit facility for a workforce training and development firm based in Kentucky. Proceeds of the facility were used to support continued growth and sales opportunities.

**Commercial Finance Partners Closes $9MM in Funded Deals in August**

Commercial Finance Partners announced that the company closed five SBA 7a Term Loans in August with a total funded volume of $9 million. The requests ranged from debt refinancing, construction financing, and working capital—all borrowers received term loans ranging from $300,000 to $3,000,000, ranging with terms from 10-25 years.

**Versant Funding Provides Non-Recourse Factoring Facility to Startup Chemicals Supplier**

Versant Funding announced a $5 million factoring facility for a startup specialty chemicals supplier in the oil and gas industry. The company was in need of a consistent cash flow in order to grow. With the help of Versant’s influx of cash, the company has already doubled its sales in only a couple of months.

**PERSONNEL**

**Accord Financial Appoints Hitzig President & CEO, Henderson Moves to Boardroom**

Accord Financial Corp. appointed Simon Hitzig as President and Chief Executive Officer effective October 1, 2018. Simon takes on the role as Accord completes a five-year transformation, becoming one of North America’s leading commercial finance companies. Former President and CEO Tom Henderson remains with the Company as Vice-Chairman and director. Simon joined Accord in 2011 after a long career in the investment industry.

Lisa Masters Joins Breakout Capital Finance’s McLean, VA Team as Vice President of Business Development

Lisa will be working closely with Breakout Capital’s FactorAdvantage partners to strengthen and foster the established relationships, adding strategic elements to the program as well as exploring and implementing additional ways to collaborate together. Lisa comes to Breakout Capital from HCA Healthcare where she was Director of Physician and Provider Relations, and has a strong background in sales, business development and strategic relationship management.

Justin Carter, Amerisource’s Market Manager, Appointed to RMA Board

Amerisource Business Capital announced that Justin Carter, market manager, will serve as Programs Chair for the Risk Management Association (RMA) Los Angeles Chapter.

Founded in 1914, RMA is a not-for-profit, member-driven professional association, whose sole purpose is to advance the use of sound risk principles in the financial services industry. RMA promotes an enterprise approach to risk management that focuses on credit risk, market risk, and operational risk. Headquartered in Philadelphia, Pennsylvania, RMA has approximately 2,500 institutional members that include banks of all sizes as well as nonbank financial institutions. They are represented in the association by 18,000 risk management professionals who are chapter members in financial centers throughout North America, Europe, and Asia/Pacific. •
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<td>10/15-16</td>
<td>Small Factors Meeting</td>
<td>Planet Hollywood, NV</td>
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<td>10/18-19</td>
<td>Think Ahead Or Be Left Behind Training Course</td>
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<td>10/25-26</td>
<td>Construction Factoring Training Course</td>
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<td>10/30</td>
<td>How Your Clients Record Factoring Transactions</td>
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<td>1/23-25</td>
<td>Presidents &amp; Senior Executives Meeting</td>
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<td>3/5</td>
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<td>6/17-18</td>
<td>The Law &amp; Business of Factoring Training Class</td>
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<td>AE-LO Training Class</td>
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<td>9/4-6</td>
<td>Transportation Factoring Meeting</td>
<td>The Driskill, Austin, TX</td>
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Perspective from an Industry Veteran

Having spent 45 years in the financial industry, half in banking and half in specialty finance, I have followed the cycles of merger and acquisition activity. Over the last 22 years in factoring and in asset based lending, I have completed 10 acquisitions and considered over 4 dozen. Additionally, I have consulted on valuation and M&A structure on a number of projects. Accordingly, I have observed that M&A activity is like the stock market or the price of oil—it goes through cycles. While this can be said about M&A activity in general, specialty finance does not necessarily follow this pattern.

BY ALLEN FREDERIC

I remember attending a CFA conference in 2007 at which the two speakers on an M&A panel, Andrea Petro of Wells Fargo and Tim Stute, who was with Milestone at the time but is now with Hovde Group, both stated that premiums were as high as they had previously seen in our industry. Sitting next to me was a good friend who took those words to heart and sold his company for a significant premium, taking advantage of market timing. Two years later, in 2009, after the financial meltdown, high premiums were a distant memory and some companies were selling at book or at a discount since many lenders and investors had fled the factoring and specialty finance market.

BUYER/SELLER CONSIDERATIONS

Sellers typically desire to sell for one or more of the following reasons:

- Cash out when premiums are high
- Capital constraints
- Cost of capital
- Inability to compete for larger transactions
- Loan agreement constraints
- To buy out other shareholders or sub debt lenders
Typically, buyers want:
- New niches in specialty finance
- Experienced management team
- High-yielding earning assets
- To complement other specialty finance products
- To bolster C&I lending and increase interest income and fees
- To buy out shareholders or sub debt holders

Over the last two years we have seen significant activity in specialty finance, especially in factoring, as private equity, BDCs, and banks have been very active in this market. In the recent past we have seen M&A activity involving United Capital Funding, Federal National Payables, Allied Affiliated Funding, Vertex, Crestmark, Paragon, Gibraltar, Far West Capital, Max Capital and Interstate Capital Corp—just to name a few. In the fourth quarter of 2017 alone, it was reported that 15 transactions were in the specialty finance space, 21 occurred in the 3rd quarter. Not all of these are in factoring or asset based lending. Some were equipment finance, consumer finance, etc. Nevertheless, it illustrates activity is clearly heating up in the specialty finance sector.

**VALUATION**

While valuations have fluctuated wildly over the last 10 years, certain principles remain constant.

- Platforms demand higher premiums than portfolios. A platform includes all of the assets needed to operate a business such as the employees, systems, customer files, software, contracts, marketing engine, etc.
- The largest companies tend to get bigger premiums. A Factor with $5 million of net funds employed will not demand the
same percentage premium as a Factor with $100 million of net funds employed, simply because the latter will usually have a more sophisticated and valuable platform.

- The higher the yield on net funds employed, the higher the premium.
- Portfolios with small historical losses and charge-offs demand higher premiums.

There are generally three ways to value a factoring platform or portfolio.

1. A multiple of after tax earnings or EBITDA.
3. A premium as a percentage of earning assets or net funds employed.

During 2007, we saw premiums as high as 50-65% of net funds employed. Two years later, many companies were selling at a discount to net funds employed or book values, due to the fact that both investors and lenders had disappeared from the specialty finance pocket. Currently, premiums have rebounded. While most recent transactions are private, it is estimated that the current market may be 4.5 to 8 times EBITDA or a 40-65% premium to net funds employed or 1.5 – 2.25 times book value. Valuation depends on portfolio size, cost structure, efficiency, loss history, and other considerations. Valuations are both industry specific as well as company specific. For factoring companies, higher premiums to net funds employed may mean lower multiples of earnings or vice versa depending on a number of variables. Assuming two $50 million portfolios, one with a yield in the mid-20s and one with a yield in the mid-teens, both would not receive the same premium as a percentage of net funds employed.

All of the other components discussed must also be taken into consideration.

**ROLE OF PROFESSIONALS**

While several investment banks have been involved in our industry, the most active has been the Hovde Group, represented by Tim Stute formerly of Houlihan Lokey. Both Hovde and its peer companies have been most active in larger transactions (i.e. companies with $20 to $25 million net funds employed and up). In the last year Tim Stute, Managing Director and Head of Specialty Finance at Hovde Group, advised on Interstate Capital in its sale to Triumph Bank, Multi Service Factoring to BAM, Federal National Commercial Credit in its sale to White Oak Global Advisors, and North Mill Capital in its sale to Solar Senior Capital. Investment banking fees, typically 3% of total consideration with a minimum (subject to some negotiation), many times leave smaller seller companies (i.e. less than $20 to $25 million net funds employed) to either represent themselves or utilize consultants such a Commercial Finance Consultants led by David Rains, which has completed transactions for Axiom Bank (FL) and its acquisition of Allied Affiliated Funding, Fidelity Bank portfolio to Republic Business Credit, BAM in its Vertex acquisition, and Sienna to Pavestone.

**DUE DILIGENCE**

Buyers perform due diligence in various ways. If the buyer is an existing specialty finance company, it may use its own staff to perform due diligence. Republic Business Credit, LLC, where I serve as Vice Chairman, utilized our own staff to conduct due diligence on all of our acquisitions. This entails looking at portfolio quality, contract life, verification of receivables, insuring first lien positions, adequate assignments, subordinations and tax lien searches. Further, it is important to evaluate quality of the people, systems, procedures, etc. BDCs, which are public companies, might utilize recognizable, large CPA firms as they must consider regulatory and fiduciary responsibility to shareholders. Others may use collateral field examiners from a variety of firms that have special expertise in looking at Factors and ABL shops. 3W, a Dallas-based company that does collateral field exams for a number of lenders in the specialty finance space is one such specialty company which I have employed, but there are many more with a good understanding of the unique nuances of factoring and asset based lending.

**SUMMARY**

As discussed, we are currently in an attractive environment with higher premiums for sellers and heightened interest from buyers with strong desires for higher yielding C&I assets. Successful transactions are culminated when the interest of buyer and seller coincide. Following are key questions which Buyers and Sellers should entertain throughout the Buy/Sell process:

1. **Will the Seller and the management team stay involved?**
2. **Will the Seller reinvest?**
3. **What benefits will the Buyer bring to the table such as a lower cost of capital, the ability to do larger transactions and new financial products?**
4. **Last but not least, is the question of cultural compatibility.**

If the Buyer expects the Seller and management team to stay involved, are their culture, vision, and values compatible and do they have the same unifying objective going forward? With heightened competition in our industry from

Continued on page 34
Congratulations! You’ve Closed the Deal; Now What?

The specialty finance market has enjoyed a robust level of activity during the first 9 months of 2018. Furthermore, a hypercompetitive marketplace has made it difficult to solely rely on organic growth to realize growth objectives. Many organizations have used mergers and acquisitions to scale their platforms in what is otherwise an extremely competitive environment.

By Kwesi Rogers

The opportunity to realize hockey stick-like growth through an acquisition strategy is often discussed in business circles; however, the inherent risk of losing vital resources in an unsuccessful transaction is not typically discussed. One of the key reasons most mergers and acquisitions do not succeed can be attributed to the buyer’s inability to integrate the seller’s personnel and systems into the buyer’s platform.

People are not particularly fond of change, especially that which they did not initiate. Once a deal is finalized, management typically meets with the employees to announce that the deal has closed. During this meeting, the presenters generally inform the team as to why the transaction will serve as the catalyst for corporate and individual growth. Each employee who participates in this kick-off meeting arrives at the meeting with their own thoughts by way of their individual experience. It is not uncommon for employees to fill in the blanks with their own version of the story. Unfortunately, their version of the story generally contributes to declining morale. As such, it is important for the new executive team to communicate with the new team members early and often to address their concerns and avoid distractions that run the risk of derailing the integration process.

Based upon my experience, there are some keys to successfully managing the team through the change that they so violently oppose. It is imperative post-transaction to manage required change through human resources.

■ You must establish a sense of urgency. The patient (employees) suffered a shock to their system when the deal was announced. A successful integration hinges on the buyer communicating a plan of action swiftly. Quickly communicating a plan provides the team with a sense of purpose. If the plan is not communicated, then the sense of purpose will be replaced with a sense of despair.
You must establish a team with the talent, authority, resources and ability to lead the effort. Your employees know who is capable of leading them through the maze of uncertainty. If the buyer fails to task a capable team with affecting change, the effort is doomed for failure.

You must have leaders with a vision. As I mentioned earlier, this change was “forced” upon the employees (in their eyes). The leader(s) must provide a compelling story that demonstrates how this transaction and the subsequent change is going to create a future that is clearly an improvement over the present circumstance. The leader(s) must continuously stress the vision.

Leaders must remove the obstacles which run the risk of preventing the team from realizing the vision. Persisting obstacles will cause the team to focus all of their energy on the challenges which will have an adverse effect on their performance.

Management must identify and celebrate the wins along the way. Successfully effecting change requires a lot of heavy lifting over long periods of time. Focusing on the wins during the journey is a great way to keep the team engaged and focused on the larger goal of successfully implementing change.

Avoid announcing victory before crossing the finish line. Claiming victory prior to realizing it can be deflating to the team upon the realization they have not finished the race. Reenergizing and refocusing the team could prove to be an insurmountable task that causes the team to fail in its effort to implement change. Avoid claiming victory prematurely, as it is a surefire way to snatch defeat from the jaws of victory!

Integrating the human capital acquired in an acquisition is paramount to the success of that acquisition. Integrating processes and systems is also key to effecting a successful integration post-transaction.

Align the change with the corporate culture. The change must align with the corporate culture in order for it to remain sustainable. Change that is not anchored in the corporate culture is destined to dematerialize.

Integrating the human capital acquired in an acquisition is paramount to the success of that acquisition. Integrating processes and systems is also key to effecting a successful integration post-transaction. In most acquisition transactions, the buyer and the target run the business with the assistance of differing information technology systems. These systems often streamline the respective operations, by automating routine administrative and repetitive business functions, thereby reducing costs and improving operating efficiencies. The resulting changes often provide management with more reliable and timely data with which to make decisions.

Upon consummating our recent transaction with White Oak Global Advisors, management of White Oak Business Capital, Inc. formerly known as Federal National Commercial Credit was asked to implement a few system changes. Our first task was to transition from our legacy Customer Relationship Management (CRM) system to Sales Force. When asked why Federal National management elected to remain with an antiquated system for 25 years, I was forced to reflect. My reflection caused me to realize I did not feel like dealing with the change all of these years, so we remained with the original system. The White Oak executives did a great job of explaining the “why” behind this project to the team. White Oak Global Advisors is an SEC-registered alternative asset manager whose strategy consists of providing attractive returns to institutional investors through direct lending activities to small and middle market businesses in the domestic and international markets. White Oak’s approximate $8 billion dollars of institutional capital, in addition to our senior debt facility, was one of the attributes I was attracted to in White Oak. Implementing Sales Force provides White Oak’s fundraising professionals with the data required to continuously attract the capital required to grow our business. The “why” tied right back to our strategy which made the transition to Sales Force more palatable.

Once we discussed the why, we put together a project team and clearly defined the objectives for the system conversion. The team articulated what we hoped to accomplish using the SMART convention.

Specific: We discussed what the end result would look like

Measurable: We put together a means of measuring the result to ensure we knew the difference between success and failure!

Actionable: Does the team have what we need to successfully complete this project?

Realistic: Is the desired outcome achievable?

Timing: What is the deadline?

Continued on page 34
Public records searches miss 60% of outstanding tax liabilities. Tax Guard can show you what you’re missing.

See Tax Problems Before You Fund
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Mergers and Acquisitions in the Commercial Finance Industry

Within the last year or so, there have been multiple sales and acquisitions of factoring and commercial finance companies. Most of these have been happy deals, where the owner of a Factor/commercial finance company, who has been in business for several years, sold the company for a substantial profit. This is a win-win situation.

The equity ownership of the seller receives the benefits of all of their past efforts and investment, key management people often receive a financial windfall for all of their hard work and a retention bonus to stay on with the new owner, and the buyer benefits because it has expanded its business, and assuming it has done its due diligence, will presumably profit from the deal. The reason why most of the transactions have been happy deals is because the economy is strong. That means many organizations are in expansion mode and there is ready access to the capital necessary to effectuate an M&A deal. Not all M&A activity has been on the happy side. Sometimes the Factor/commercial finance company gets in trouble with its lender and is forced to either turn the portfolio over to the lender or work with the lender to effectuate a sale of the portfolio to a stronger company. This article will focus on legal issues, which impact the happy side of the M&A world for factoring and/or commercial finance companies, but many of the concepts here apply to the unhappy deals.

The first order of business on the legal front is to determine the vehicle for which the business will be acquired. One method is a complete sale of the ownership interest of the seller, which would be a stock sale if the business is a corporation or sale of the membership interest if the business is an LLC. A sale of the ownership interest results in the buyer not only owning all of the assets of the seller, but it also assumes the seller’s liabilities. For the buyer, if the deal is going to be done this way, you will need to do a lot of due diligence. You need to assess the situation with all of the seller’s creditors, review all litigation, get complete information on pending liabilities, and assess tax compliance. If the deal is a stock or membership interest sale, the buyer will either merge the seller into the buyer, merge the buyer into the seller, which is known as a reverse merger, or acquire the seller as a subsidiary of the buyer. But the net result is that the buyer acquires the seller’s business by purchasing the equity interest of the seller’s owners.

A second method to sell the company would be a sale of all or...
there is no deal until a comprehensive agreement is executed after compliance with all corporate formalities. The letter should contain the essential business and legal points, such that the lawyers can then begin the contract drafting based upon the terms contained in the proposal letter. A properly drafted proposal letter ensures that one does not get in trouble based upon some terms drawn on a napkin, in the corner of the bar, at an IFA conference. The proposal letter should also allow for time to conduct due diligence, and lock up the seller from finding other deals during the due diligence period.

Due diligence is an important process. The buyer needs to be able to see how the seller works and examine all of its financial and most of the seller’s assets. An asset sale will operate to sell all of the seller’s main assets, and does not transfer any of the seller’s liabilities, if the price is fair, all taxes are paid, and the seller’s secured creditors are paid, or adequate arrangements are made. Remember, perfected liens always follow the collateral that has been transferred, if the sale is not in the ordinary course of business. A sale of all or most of the assets is never in the ordinary course of business. This means that all liens must be accounted for and addressed. The assets subject to the asset sale should include at least all of the good factoring and/or lending contracts, general intangibles, contract rights, goodwill, all intellectual property, trade secrets, know how, copyrights, trademarks, licenses and the furniture, fixtures, and equipment. The parties will now need to consider allocating the purchase price amongst the purchased assets, which requires consultation with financial professionals.

No matter the structure of the deal, a significant amount of planning must go into the offer. Many deals, even the smaller ones, are made or arranged through investment bankers or brokers, for the simple reason that it is often awkward to shop your company, or let the world know that you are out to acquire other companies. Generally, one wants to be discrete because if knowledge of the sale is out there in the community and the deal ultimately is not consummated, then it may negatively affect a future sale or ability to transact business. A knowledgeable investment banker or broker should understand the market conditions and help the parties arrive at a fair price. However, once the research is done, then it is important to first begin the process with a detailed proposal letter. The proposal letter should make sure that the letter is just for discussion purposes only, and that

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business records, all while being discrete. The buyer should have knowledgeable audit people on the ground looking through all of the records, and a high-level person on-site as well. The buyer should do the business equivalent of an MRI, and should be conducting extensive searches for all types of intellectual property and look for consensual liens and tax liens. Before due diligence is complete, the buyer and seller will need to determine procedural issues. Is the seller’s office staying? Are employees staying? Is the portfolio being absorbed and moved to a different location, with the buyer’s employees taking over most of the deals? What business contracts will the buyer assume, which contracts don’t go and how do you account for a potential breach? These are sensitive issues and must be handled and discussed before the contract drafting begins. Once due diligence is complete, the deal should close within a reasonable time.

Most of the recent deals are structured as asset sales, because the buyer wants to ensure that it is not stepping into any unknown problems. Again, assuming that there is fair consideration for the assets being sold, and all liens against the purchased assets are satisfied, or if the liens are not satisfied, arrangements with the lienholders are made, the buyer acquires the assets free and clear of liens or other claims. The asset sale structure seems to work best in smaller or middle market Factors or commercial finance companies, but many large deals are also asset sales, especially if it’s the sale of a division. The operative document to acquire the purchased assets will be the asset purchase agreement. Although the details of a proper asset purchase agreement can take up a long article, there are some important considerations to make sure are met in the agreement. The assets being purchased need to be properly described so that it can transfer a going concern business. A good asset purchase agreement will also specify assets which are excluded from the sale and not acquired by the buyer.

The assets being purchased need to be properly described so that it can transfer a going concern business. A good asset purchase agreement will also specify assets which are excluded from the sale and not acquired by the buyer.

While the concepts in the happy deals apply to most M&A transactions, keep in mind that business runs in cycles. That means that there will be a time when there will be more “unhappy” M&A deals. So, with that in mind, for those running their companies, or for those who have significant responsibility, or even for those that have more limited responsibilities, keep in mind that nobody wants to be on the wrong side of an unhappy deal, which usually happens when there are too many defaulting Factor clients/borrowers, and the Factor/commercial finance company’s lender and/or investors lose confidence. Unhappy M&A deals in an economic downturn are tougher because some of the credit sources financing the happy deals tend to dry up or get more conservative. Because business runs in cycles, there will be a part two to this article around the time of the next economic downturn.
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Initial forms of factoring date back to 2000 BC in ancient Mesopotamia, and the more modern form of factoring took shape in the 1300s. For an industry that has been around for hundreds, if not thousands, of years, how can a factoring company build franchise value? Many factoring companies provide a handsome return to their investors, but in an M&A situation, how does a factoring company get valued by something greater than just a return on invested capital?

BY T.J. HUMES AND TIM STUTE
The basic business model is simple—accounts receivable are purchased at a discount and the Factor earns revenue by collecting more than they advance. Offsetting revenue are the costs to identify, underwrite, and collect purchased receivables. Of course, the money used to purchase the receivable has a cost associated with it, too. As I have yet to see a factoring company with a business strategy of collecting more than the face amount of a purchased receivable, the opportunity to create value lies in the ability to manage the offsets to the finite revenue opportunity.

Before addressing drivers of value, it’s worth addressing how value is measured. When we look at valuation, whether for an M&A transaction, capital raise, or just a benchmark, we typically focus on three metrics: price to earnings, price to tangible book (equity), and premium to net funds employed (accounts receivable minus client reserve). In the first two metrics, price refers to equity value, and tangible book is tangible assets minus liabilities. Premium is calculated as the dollar amount of price minus tangible book. That dollar amount is then divided by the net funds employed. Since capital structures can vary greatly, we typically treat subordinated/mezzanine debt as equity. Price to after tax earnings multiples range from high single digits to low teens. Price to tangible book multiples range from 150% to 300% of tangible book. Premiums to net funds employed range from mid-teens to 50%+. All three ratios need to be balanced and valuation should not focus on the one metric that provides the most attractive valuation. Highly profitable companies may trade at an earnings multiple in the low end of the range and be at the high end of the range for price to tangible book and premium to net funds employed. Conversely, companies with depressed earnings may seemingly be valued at a rich earnings multiple, but in actuality be valued at a light premium relative to tangible book and net funds employed.

So, how do you maximize value and be at the upper end of these multiple ranges? Let’s start with the ability to identify new customers. Having a team of business development officers (BDOs) is the most common strategy we see. Finding quality BDOs is challenging and hiring the wrong ones can be costly. A premium is ascribed to platforms that have a differentiated source of new business. Some companies have agreements to receive turndowns from banks and other financing providers. While these agreements are rarely exclusive, they can provide low cost deal flow. Other Factors provide auxiliary services to the industry they cover. For example, Interstate Capital, a Factor focused on the transportation industry, created their own load board that they manage. Other Factors provide accounting or billing software to their customers; providing these services helps with new business and client retention. Most of these strategies require some upfront investment; however, the marginal cost of each lead is low. One easy and inexpensive way to build value in the business development function is to invest in or establish a robust pipeline monitoring system. Tracking even obvious turndowns is valuable. In an M&A process, it is common that a seller will say they see transactions they’d like to do but don’t have the right capitalization to pursue them. Being able to pull out an actual list of those opportunities strengthens such statements considerably. For business development, value is created from improved profitability from proprietary deal flow.

Once a lead is identified, the opportunity to build franchise value in underwriting comes from speed and accuracy in aggregating customer information and making a financing decision. Some larger small business lenders have invested millions of dollars developing programs that gather an enormous amount of data on a potential borrower to arrive at a credit score and automated credit decisions. That type of investment may not be feasible or practical for many Factors. For small to medium-sized Factors, third party service providers are sufficient, and what’s important is the concerted effort to improve automation and direct access to information. With a customer’s permission, a Factor can directly pull bank account, billing, and accounting information. In addition to bringing down costs, multiple sources of data and direct access to information reduces the risk of fraud.

In the portfolio monitoring and collection function, the obvious driver to building franchise value is reducing charge-offs; however, thoughtful investment in technology
and processes can demonstrate institutionalization which also enhances the value of a platform. Similar to the underwriting function, automation and direct access to information can significantly enhance a Factor’s ability to monitor accounts receivable collateral and cash receipt data. Once collected, developing an integrated dashboard or report demonstrates a thoughtful organization of the data. Real time data collection allows for quick responses to exceptions, and trend monitoring can identify potential fraudulent activity.

How well the above topics are addressed is ultimately a reflection of the strength of the management team, which along with overall portfolio credit quality, is the single biggest driver to franchise value. Deficiencies or holes in the management team should be addressed well in advance of an M&A process to maximize value. Assuming the right team is in place, there are a few considerations that could significantly detract value if not properly addressed. Generally for factoring companies, the highest premiums are paid in transactions where the management team intends to stay with the platform. Buyers tend to seek 3-5 year commitments from key members of management, and the timing of a sale should accommodate that. If a member of management is a large shareholder, he or she should not wait until they want to retire to sell the business. Conversely, if management is not a large shareholder, the shareholders should address any sort of incentive plan in advance of contacting potential buyers to make sure shareholder and management interests are aligned. The dynamic between shareholders and management is unique to each company, so understanding each party’s expectations ahead of a sale process is crucial to maximizing value.

Love them or hate them, projections matter and affect value in an M&A process. In addition to comparable public companies and precedent transactions, a discounted cash flow of a set of projections is a standard valuation practice. Ultimately, management needs to be able to stand behind the assumptions in a forecast and feel confident in their ability to deliver. While a full article could be dedicated to how aggressive projections should be, there are a few considerations worth noting here. For starters, an M&A process typically runs around six months, so potential buyers are going to be able to track how well the company is doing relative to projections. If the company is well off, the credibility of projections is compromised. Also, an M&A process is distracting to management, so showing accelerated growth during the M&A process is likely a recipe to come up short. To maximize value, management should be thoughtful and thorough in the development of financial projections.

Admittedly self-serving but nonetheless true, hiring the right financial advisor is also critical to maximizing value. While the financial advisor’s most visible role comes during the M&A process, the relationships with your banker should start well in advance. A knowledgeable banker can provide feedback on where a company stands in the various drivers of value mentioned herein and opine on what value the market may ascribe to the company today. As the most active advisor to the factoring industry, Hovde Group has unrivaled market insight and experience. •

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California Dreaming at the 2019 Annual IFA Factoring Conference

On April 3rd -6th attendees from all over the world will gather for high-level education and countless networking opportunities in the place known as “America’s Finest City” for the 25th Annual IFA Conference. With more than its fair share of sunshine, gorgeous beaches and a newly buzzing restaurant scene, San Diego is the ideal location for the most important event of the year in the commercial finance industry.

BY HEATHER VILLA

Few people who have visited San Diego need convincing of its endless attributes. An ideal climate, 70 miles of coastline and diverse topography draw outdoor enthusiasts to San Diego year-round. With lively neighborhoods, an internationally renowned craft beer scene, and one of the world’s most beautiful urban parks, there’s a whole lot of San Diego to explore. Follow the music to where the nightlife is one of the most buzzing scenes on the West Coast.

Enjoy your stay during the Factoring Conference at the tallest urban waterfront resort on the West Coast at the Manchester Grand Hyatt San Diego. Located in the heart of all of the action, this waterfront hotel combines the convenience of access to many of San Diego’s top attractions and is steps away from the famous Gaslamp Quarter. Proving that the hip and historic are hardly incompatible, the Gaslamp Quarter combines beautifully restored 19th-century buildings and 21st-century nightlife. It all starts here with 16 walkable blocks packed with over
180 restaurants, 50 bars and 10 nightclubs.

Called one of “America’s best cities for foodies,” by Travel & Leisure magazine, San Diego’s culinary scene is a burgeoning, vibrant mix of locally inspired flavors, from delightfully simple to sophisticatedly artful. Thanks to award-winning chefs, an explosion of world-class breweries, and a thriving local wine region, San Diego delivers a top-notch experience to quench all of your taste buds.

San Diego is also home to two Tony® Award-winning theaters, a sports stadium, historic sites, public art, music venues, dance performances, film festivals, galleries, missions and much more to explore. Get ready to find a beautiful and friendly city ready to welcome you to a true Southern California experience.

**WHAT’S ON TAP FOR 2019?**

Exciting things are in store for 2019. Planning for next year started the moment this year’s conference ended, allowing us to take our time formulating new topics and discussion ideas that will be worthwhile to the attendees. Over twenty speaking sessions have already been organized. Now the hardest part will be to decide which ones to attend. Different tracks are set up to maximize exposure to all aspects of the industry. Beginner to advanced, operations to management, young professional to seasoned veteran... there is something for everyone!

**Unthink** (Erik Wahl, The Art of Vision)—Creativity is in all of us. We simply need to rediscover the keys that will unlock our potential. This session will help reframe your thinking so that new creative actions become possible. Learning how to UNthink will inject your daily grind with new passion, allowing employees to see how their organization wants and needs all of their talents and energies, not just the ones they’ve been using so far. You’ll begin the process of rethinking your life as a blank canvas of limitless opportunity on which to create your masterpiece.

**Recognizing the Technologies and Trends Transforming Factoring** (Simon Anderson, Venture Foresight)—This session will look into the near future of the Factoring industry. Simon will recognize and point out important trends and technologies that are reshaping Factors, and provide new approaches to anticipate the opportunities and challenges that these advancements could create. Topics to be covered include the impact of generational trends, workforce and workplace trends, and a variety of important emerging technologies. Lastly, he will discuss specific actions and next steps that can be taken right away to make organizations more future-resilient.

**Searching in the Dark Web: Finding Fraud Online** (Cynthia Hetherington, Hetherington Group)—The dark web is a den of iniquity operated by the technically sophisticated. The more Google-dependent we have become, the less we understand what is going on behind the scenes and how to operate in this world. This session will introduce the dark web and channels that are used to institute private sales and exchanges.

**The Current Economic and Financial Outlook** (Elliot Eisenberg, Ph.D., GraphsandLaughs, LLC)—Hear how the economy will affect Factors by a nationally acclaimed economist and public speaker specializing in making the arcane and minutiae of economics fun, relevant and educational.

**Blockchain—How Factors Can Utilize This Technology & Predictions for How it Will Change Factoring** (Carol Van Cleef, Esq.)—Carol provides counsel to a full spectrum of banks, securities firms, insurance companies, and money services operating globally. She is known as a go-to attorney for blockchain developers, virtual currency exchanges and wallets, FinTech companies, payment processors, prepaid access providers, and other software developers. This session will focus on what Blockchain technology is, how Factors can utilize it and predictions for how it will change Factoring.

**Ignite Brilliance in Your Culture** (AmyK Hutchins, Business Strategist)—It’s time to think differently! What skills must we develop to successfully take on tomorrow? Do we possess the behaviors necessary to create a leadership culture that fosters trust, innovation and generates long-term growth? In this compelling and energetic half day training session, leaders will be inspired and equipped to raise the performance & productivity of their teams. Through humor, insight and experience, AmyK provides real-world, straightforward tools that have immediate practical application. AmyK shares how to ignite and harness the brilliance in teams in order to create unprecedented competitive advantages that drive businesses forward faster.

**Develop Your Sales Team by Overcoming Sales Challenges** (Paula Hope, Coach & Author)—Paula is one of North America’s leading experts in the field of referral marketing and strategic networking. She is the owner of her 10-year-old company aptly named “Booked Solid”. Paula speaks, writes, trains and coaches business professionals on leveraging their relationships into referrals, resulting in enhanced revenues, fulfilled targets and very comfortable lifestyles. This session will help you reduce the gap between the revenue you desire and the revenue you generate.

**Report from the Courts** (Bob Zadek, Esq., Buchalter)—Hear the lessons learned from this year’s
court decisions and how the courts treated IFA members.

**Transportation Factoring** (David Jencks, Esq., Jencks & Jencks, PC)—Receive an update on the transportation industry as well as time for discussion on key topics related to Transportation Factors.

**Factoring 101** (Brian Center, Liquid Capital Corp.)—Learn the nuts and bolts of Factoring for beginners or those wishing to enhance their previous knowledge.

**Sales 101** (Mark Baker, BAM Worldwide, LLC)—With internet, and social media, the method of selling Factoring services has changed dramatically in the last decade. During this session, Mark will be discussing some new ideas and methods to market and sell your Factoring services.

**Unique Challenges of Factoring in Latin America** (Pedro Armada, CFE, Armada Risk Consulting)—Pedro Armada is an experienced investigator and risk consultant having worked in the investigative industry since 2009. He will be discussing topics such as: Why does it make sense for Factoring firms to investigate/conduct diligence in Latin America; What sorts of things should Factoring firms be looking for/ at when they investigate a prospect or another party in the region; What issues complicate the process of investigation/diligence in the region; What can firms do to mitigate those issues and to protect themselves when operating in Latin America?

**PANEL SESSIONS:**

**If I Could Turn Back Time**—We have all made decisions that we wish we could take back. It is important to learn from those mistakes so that they are not repeated. Our panelists will be discussing some of their biggest Factoring blunders, why they made those decisions, what they learned and what knowledge they can pass on to you. Given the many opportunities for errors to be made in Factoring, this session will be extremely educational and entertaining. Some types of missteps that we will be discussing are: Taking on a Client That Resulted in a Loss; Over-Advancing to a Client; Merger/ Acquisitions That Went Wrong; Hiring Decisions That Did Not Work Out.

**Artificial Intelligence (AI) and the Factoring Industry**—Artificial Intelligence (AI) and Machine Learning (ML) will modernize and streamline Factoring, bringing new efficiencies to the industry. Factors will need to make use of this technology or find their operations have become outdated and inefficient. Some of the topics to be discussed are: What is Machine Learning (ML)?; What is Artificial Intelligence (AI)?; How Are They the Same/Different?; How Can Factors Take Advantage of ML?; Payment Performance; Churn Management; Sales and Marketing; Steps to Put ML into Practice Now.

**Comparing Bank Owned vs. The Independent Factor**—There are advantages and disadvantages to running a Factor department independently versus being bank-owned. Our panelists have operated Factoring departments under both types of ownership. They will be discussing the specific pros and cons to each ownership type.

**Supply Chain Finance**—Supply Chain Finance, (Supplier Finance or Reverse Factoring) historically has been used by larger buyers and global suppliers. This type of financing is now being used domestically by smaller companies. During this session, we will be discussing how SCF works and various ways that you can enter this type of financing.

**Interactive Legal Panel at Lightning Speed**—This panel will address a wide range of legal issues and topics that constantly come up in relation to Factoring and secured lending by responding to a series of rapid-fire questions. There will be interactive participation by the attendees who will be polled before a response is given by the panel members. The results of the polling will be displayed after the question has been addressed by the panel so each attendee will be able to see if the panel agreed or disagreed with their response.

**Strategic Roles of Factors in Expanding the Frontier of Trade in the 21st Century**—Developing countries may have some trade difficulties due to the infrastructure challenges and unfriendly / inconsistent trade policies. Factors can help address these challenges and stimulate trade both domestically and internationally by building confidence and stimulating trade. Factoring offers a credible alternative and a complement to the role of banks and financial institutions in order to deepen alternative trade finance.

**ROUNDTABLE SESSIONS:**

Our highly-rated Roundtable sessions give you ample time to network and learn from others with similar roles within the Factoring industry. Each Roundtable will be led by industry professionals familiar with the specific group and will provide an open discussion forum between conference attendees. They include:

- Roundtable for Women in Commercial Finance
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Heather Villa
is the Managing Director of the International Factoring Association. She is responsible for managing and directing the IFA’s external communications as well as managing the business affairs of the Association. She assists with event planning, speaker selection and contract negotiations for all training seminars and conferences, including the annual Factoring Conference. Heather can be reached at 805-773-0011 ext 301 or heather@factoring.org.
The American Factoring Association (AFA) continues to be engaged in Washington; however, this year it became engaged in addressing issues arising from state legislation in California. Specifically, it followed and worked on SB 1235, which was sponsored by California State Senator Steve Glazer and which was adopted by the California legislature in September. The AFA did not favor the legislation, but it worked with Senator Glazer in an effort to reduce the burden the legislation might place on Factors.

Under this legislation, a provider offering to a recipient commercial financing of less than $500,000 must disclose to the recipient specific information relating to that transaction at the time the offer of commercial financing is made and obtain the recipient's signature of receipt of that disclosure before consummating the commercial financing transaction. The specified information includes the total amount of funds provided, information related to the payments to be made, and the total dollar cost of the financing.

The AFA believes that other states may adopt disclosure standards as a result of concerns over the Merchant Cash Advance industry's dealings with small business owners. While such legislation's target may not be true Factors, there may be unintended consequences for Factors. This is one of the reasons why the AFA has been following the California developments.

Also, over the years, California has often been at the forefront in creating new regulations and legislation. Further, more than 3.8 million small businesses operate in California, helping make the state the world's fifth-largest economy. Given the state's economic heft, the AFA believes the California legislation may give rise to legislation of this type in other states.

This is where you come in. Your generous support over the years has helped the AFA to call on Members of Congress, the Executive Branch and independent federal agencies to educate them on the Factoring industry. We've developed meaningful and important relationships in Washington with members of the House Financial Services Committee, the Senate Banking Committee, and the various agencies that regulate the banking and financial services industry. The AFA has created a bipartisan group of

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Members of Congress who understand the important role Factoring plays in the American economy. As a result, they will be able to speak up for Factoring and the role it plays when issues may arise.

All of this important work, however, would be dramatically reduced if the AFA lacks the needed funding to perform its role. The AFA needs your help! Your monetary support will help us continue to spread our message and to be an advocate for our industry. This is a very inexpensive insurance policy to help protect our industry from needless regulation which will be both costly and burdensome. Please consider donating today!

The goal of the AFA is to increase membership and financial support from every IFA member. We urge every IFA member to contribute to the AFA as we are in the midst of our annual membership fund drive. Currently, we have Bronze Members who have contributed as little as $500, up to Diamond Members who have contributed in excess of $10,000. This is a very inexpensive insurance policy to help protect our industry from needless regulation which will be both costly and prohibitive. Please consider supporting the American Factoring Association.

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2018 Members

As of October 1, 2018

**Diamond Member ($10,000+)**
- Apex Capital Corp
- Crestmark Bank
- D & S Factors
- Gulf Coast Business Credit
- International Factoring Association
- J D Factors
- LSQ Funding Group
- MP Star Financial, Inc.
- Sullyport Commercial Finance, LLC
- TBS Factoring Service, LLC
- Triumph Business Capital
- White Oak Business Capital, Inc.

**Platinum ($5,000—$10,000)**
- BAM Worldwide, LLC
- Far West Capital
- Goodman Factors,
  a division of Independent Bank
- Great Plains Transportation Services, Inc.
- Interstate Capital Corporation
- Mickey Seeman—
  Owner, Sunbelt Finance
- Millennium Funding
- Phoenix Capital Group, LLC
- PRN Funding
- Republic Business Credit, LLC
- TAFS, Inc.
- United Capital Funding Corp.

**Gold ($2,500—$5,000)**
- Accord Financial, Inc.
- American Funding Solutions LLC
- AmeriFactors Financial Group, LLC
- Assist Financial Services, Inc.
- Bay View Funding
- Commission Express National, Inc.
- Durham Commercial Capital
- Evergreen Working Capital
- FirstLine Funding Group
- FSW Funding
- Lenders Funding, LLC
- Prosperity Funding, Inc.
- Riviera Finance, LLC
- SevenOaks Capital Associates, LLC
- SouthStar Capital, LLC
- Transport Factoring, Inc.

**Silver ($1,000—$2,500)**
- Alleon Capital Partners LLC
- Amerisource Funding, Inc.
- AmeriTrust Capital Corp.
- Brookridge Funding
- Business Finance Corporation
- Capital Solutions Bancorp, LLC
- Commercial Finance Consultants
- Commonwealth Capital, LLC
- Contractors Capital Solutions
- Coral Capital Solutions LLC
- CV Credit Inc.
- David Jencks—Jencks & Jencks, PC
- David Pape—Commercial Business Funding Corporation
- Factor King, LLC
- Gateway Commercial Finance
- J.O.B.E. Services, Inc.
- K.W. Receivables
- Kiran Ramasamy - Vayana Network
- Levinson, Arshonsky & Kurtz, LLP
- QC Capital Solutions
- Match Factors, Inc.
- Mazon Associates, Inc.
- Michael Ullman—Ullman & Ullman, P.A.
- Nationwide Capital Funding, Inc.
- Orange Commercial Credit
- Primary Funding Corporation
- Spectrum Commercial Services
  Company
- The Hamilton Group
- Viva Capital Funding LLC
- Xynergy Healthcare Capital LLC

**Bronze ($500—$1,000)**
- Advantage Business Capital
- Business to Business Capital Corp.
- Camel Financial, Inc.
- Cash Flow Resources, LLC
- Concept Financial Group
- Entrepreneur Growth Capital
- Exchange Capital Corporation
- Finance One, Inc.
- Firmco Business Funding
- Grace Capital Resources, LLC
- Greenback Capital
- MarcFunding, LLC
- New Century Financial

**Other (Under $500)**
- David B. Tatge, PLLC
- FactoringClub
- Hawaii Receivables Management, LLC
- Plus Funding Group
- Stonebridge Financial Services, Inc.
- TradeGate Finance, Inc.
The following trade associations offer member pricing for events attended by IFA members:

**Beijing Commercial Factoring Association (BCFA)**
**Colombian Association of Factoring (CAP)**
**Commercial Factoring Expertise Committee of China (CFEC)**
**Ecuadorian Factoring Association (ASOFACOR)**
**FCI**
**Romanian Factoring Association (RFA)**

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www.rpost.com/ifa
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**CONSULTING**

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Website: www.credit2b.com
IFA Member Benefits: Join the largest virtual factor community. Receive 10% price discounts for being an IFA member.

**FactorsNetwork**
FactorsNetwork provides an online platform where Factors share trade experiences with each other. Members are able to pull unlimited Credit Reports as well as monitor and analyze their portfolio. Transportation Factors benefit from our CarrierMonitoring and ChameleonCatcher programs and their clients profit from our LoadBoard. We even offer a Sales Tool to help you find new clients.
Phone: 435-659-4612
www.factorsnetwork.com

**CREDIT CARD PROCESSING**

**Clarus Merchant Services**
Clarus Merchant Services offers a custom program developed specifically for how the Factoring Industry processes their credit card transactions. Our program provides detailed reporting that allows tracking of each invoice and fee transaction for easy account reconciliation with their customers and clients. We work with each member to ensure all processing costs are covered and that they are doing so within the guidelines of MasterCard / Visa. In addition we provide IFA members direct access to their account manager for immediate response and support.

David Powers, Member Relationship Manager
Phone: 540-222-3925 • www.clarusdc.com
Email: dave.powers@clarusdc.com
IFA Member Benefits: Any IFA member that purchases the CardX program will receive a one-time $200 rebate once the member has processed a whole month using the program.

**ePaymentAmerica**
ePaymentAmerica is the nation’s leading provider of processing services for the factoring, A/R financing, and P/O financing industries. They offer IFA members exclusive VISA, MasterCard, American Express and discover pricing, a discount on their virtual gateway, and a discount on PCI Compliance Certifications.
Phone: 901-385-5327
www.epaymentamerica.com
Email: factoring_program@epaymentamerica.com
IFA Member Benefits: Interchange Plus Pricing* Bundled Monthly Service Fee of $30.00 (includes IRS regulatory compliance, account maintenance, PCI compliance; virtual gateway & online management tool.)

*Based on volume/ transaction count.

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For the past 25 years, Agility Recovery has been a premier provider of onsite recovery solutions across the United States and Canada. When disaster hits, Agility will be on the scene, providing you with any, or all, of the critical elements you need to keep your business in business: power, space, technology, connectivity. Membership also includes access to a dedicated Continuity Planner and secure access to your...
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Phone: 866-364-9696
www.agilityrecovery.com
Email: andre.selvyn@agilityrecovery.com

IFA Member Benefits: 5% discount to each respective client’s monthly ReadySuite membership fee.

FUNDING
Liquid Capital Corp.
Liquid Capital has been in the Factoring industry since 1999 and entered into a partnership with Next Edge Capital in 2015. This relationship has allowed them to pursue an aggressive growth strategy focused on the following key initiatives:
• The acquisition of A/R portfolios from Factors looking to exit the industry
Member benefit: Trailer fees for the life of the acquired accounts
• Soliciting Factors to join the Liquid Capital network to gain access to additional capital, a robust range of working capital and trade finance products, extensive marketing and back office support
Member benefit: Liquid will pay your IFA membership or Annual Conference registration fee for the following year.
• ABL referrals from existing Factors who would not normally fund this type of transaction
Member Benefit: The referring Factor will earn an origination fee and have the opportunity to participate in the funding.
Robert Thompson So
Phone: 866-272-3704
www.Liquidcapitalcorp.com
Email: rts@liquidcapitalcorp.com

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50 Words LLC
50 Words is a marketing outsource firm for companies that either do not have a marketing department or that need to add more manpower to their existing marketing team. They serve as your dedicated marketing department.
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www.50wordsmarketing.com

IFA Member Benefits: IFA Members will receive five free hours of marketing services with the purchase of any marketing service. (Offer to new clients only)

RECRUITMENT AGENCY
Commercial Finance Consultants
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Email: dar@searchcf.com

IFA members will receive an additional 60 days added to the guarantee on all placements.

SOFTWARE
FactorFox
FactorFox Cirrus is a cloud application for factors, their clients, brokers, lenders, and others who enter or access data. Entries can be made and reports accessed from any internet-connected computer, tablet, or smart phone. As a web-native program, there is no extra cost for setting up your account or to access your data; further, you receive three hours of free training online. FactorFox’s various versions make it suitable for nearly any size factor.
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In addition to the one-month free trial for everyone, IFA Members receive an additional month to try the complete program.

Finvoice
Finvoice offers traditional factoring companies and asset-based lenders a simple-to-use and comprehensive software solution to help them become a modern and efficient online lender. Finvoice came out of a passion to help small businesses who generate 67% of jobs and 50% of the World’s GDP.
Andrew Bertolina
Phone: 310-951-0596
www.finvoice.com

IFA Member Benefit: Complimentary landing page review/optimization for digital conversion. 15% discount on pricing for the first year.

HubTran
HubTran is the leading provider of back office automation technology for factoring companies. HubTran’s SaaS platform streamlines invoice processing, document management, and exception handling. Customers increase productivity 4X, reduce errors and increase capacity. HubTran’s innovative technology leverages Optical Character Recognition and Artificial Intelligence to simplify back office work without requiring massive investments of time in training and integration.
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IFA Member Benefit: 1 week trial and waived setup/integration fees

ProfitStars
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Phone: 205-972-8900, option 3 • www.profitstars.com

IFA members will receive 10% off new ProfitStars lending solutions product purchase. For IFA members who are currently ProfitStars customers: Free one day FactorSoft refresher course, per year, at ProfitStars’ training facility in Birmingham, AL.

TAX COMPLIANCE
Tax Guard
Tax Guard fills a critical gap in a commercial lender’s credit risk management toolset with efficient, real-time and actionable insight into the true, non-public IRS tax compliance status of their prospects and clients. Our due diligence reports, tax compliance monitoring and resolution solutions support commercial lenders throughout every stage of the funding life-cycle.
Phone: 646-502-4478 • www.tax-guard.com
Email: Rich Porterfield; rporterfield@tax-guard.com

IFA Members will receive ten free IRS Tax Return Transcripts within the first 30 days of service. One time offer also extended to current IFA members.

UCC SEARCH
First Corporate Solutions
First Corporate Solutions is a full service public records provider specializing in the research, retrieval and filing of public records nationwide and internationally. Their services include industry standards such as UCC, lien and litigation searching. UCC and corporate filing services, nationwide registered agent coverage and real property title searching, as well as unique solutions such as state and county account monitoring designed specifically for Factors.
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Email: info@fcoso.com

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IFA CALENDAR OF EVENTS 2018-2019
October 15-16
Small Factors Meeting
Planet Hollywood, Las Vegas, NV

October 18-19
Think Ahead Or Be Left Behind Training Course
Planet Hollywood, Las Vegas, NV

October 25-26
Construction Factoring Training Course
Planet Hollywood, Las Vegas, NV

October 30
How Your Clients Record Their Factoring Transactions
Webinar 1pm-2pm PDT

November 14
Factoring in the Staffing Industry
Webinar 1pm-2pm PST

January 23-25, 2019
Presidents & Senior Executives Meeting
Casa Marina Key West, FL
Why and How Banks Acquire Commercial Finance Groups

Banks have become pretty good at selling widgets over the last decade. Due to competitive, technological and regulatory pressures, it is convenient (and possibly necessary) for bankers to build a business model around repeatable products—same financial terms, same loan documents, same operating processes over and over again. The bigger the factory, the cheaper you can make widgets, which is one reason the mega-banks have grown since the financial crisis of 2008.

BY AARON P. GRAFT

Commercial finance requires solutions to be tailored to individual clients—the antithesis of making widgets. When a bank enters into commercial finance, they generally do so because of its attractive yields and the opportunity to expand product offerings to customers and potential customers within its geographic footprint.

TBK Bank, SSB was a small community bank when we entered into the commercial finance space in 2012. We had about $250 million in assets when we purchased Advance Business Capital, LLC (n/k/a Triumph Business Capital). At the time, Triumph Business Capital had approximately $40 million in net funds employed. Today, TBK Bank is $4.5 billion asset bank and Triumph Business Capital is approximately $500 million in net funds employed. TBK Bank’s commercial finance portfolio—which includes factoring, asset-based lending, equipment finance and premium finance—is now approximately $1.3 billion in assets. We have experienced tremendous growth the last six years.

When we purchased Triumph Business Capital, we didn’t just...
When we purchased Triumph Business Capital, we didn’t just acquire the assets of the business. We acquired the team, the processes, the brand—everything.

acquire the assets of the business. We acquired the team, the processes, the brand—everything. Prior to this acquisition, TBK Bank didn’t have the people, policies or procedures required to run a successful factoring business. As we thought about entering factoring through the acquisition of Triumph Business Capital, the most important criteria for me was the quality of the people who would become our team members. We would not have acquired Triumph Business Capital without the continuity of the senior leadership team and key staff. It was very important to align their interest with the interest of the larger institution. While we integrated some back-office functions, we kept Triumph Business Capital as a separate subsidiary and it maintains significant operational independence to this day. That structure has allowed Triumph Business Capital to grow and excel within the bank’s regulated environment, which is a very different outcome than many of the “bank acquires entrepreneurial finance company and then destroys it” horror stories you might have heard.

The world today is a different place than it was in 2012. Banks have largely recovered from the financial crisis and are hungry for growth. Moreover, private equity firms are flush with cash and are highly motivated to put that capital to work. This bodes well for commercial finance companies looking to sell or to recycle capital. Because these buyers generally don’t have the internal expertise to run the business, the better valuations are for operating companies rather than asset or portfolio sales. The most successful bidders know the space, have capital ready to deploy and are willing to pay today’s market premiums.

Recently, Triumph Business Capital acquired the assets of Interstate Capital Corporation (“ICC”) and retained the company’s staff. This acquisition illustrates another technique to expand presence in a commercial finance market. TBK Bank knew the people, process, and its position in the market, and we felt it was a significant bolt-on acquisition to complement our existing platform. The transaction checked all of the boxes: 1) We had a high degree of respect for ICC’s leadership and brand presence; 2) Their operations, people and location added significant expertise and diversification; and 3) ICC was one of Triumph Business Capital’s primary competitors in transportation factoring, which moved us into a dominant position in the industry. Since today’s market is more competitive than it was in 2012, the premium paid for ICC’s assets was more than Triumph Business Capital, but TBK Bank still expects to create significant value through this acquisition.

A third and less prevalent method of acquiring commercial finance exposure would be to purchase only the “book of business”. For some of the aforementioned reasons why an intact platform is more valuable to many would-be buyers (e.g. yield, diversification, expertise, opportunistic entry to market, or consolidation), this approach has seen fewer transactions in recent years. Sellers recognized the premium of the platform and have tended to market those businesses in that manner.

Potential buyers of commercial finance businesses have a few ways to addresses their particular need, whether it’s a platform purchase, bolt-on of specific attributes, or purchase a portfolio of assets only. While today’s higher valuations tend to favor the platform purchase, different buyers may prefer a bolt-on or asset purchase to satisfy their strategic goals. In any case, thorough due diligence of the people, portfolio, and processes will serve buyers well. By matching the unique attributes of a commercial finance business with the rigor and access to capital that larger institutions have, buyers can visualize and realize the potential of the combination.

Aaron P. Graft is the Founder, Vice Chairman and CEO of Triumph Bancorp, Inc. (Nasdaq: TBK). He also serves as the Vice Chairman and CEO of TBK Bank, SSB, the Vice Chairman of Triumph Business Capital, and a Director of Triumph Insurance Group, Inc. Prior to establishing Triumph, Aaron served as the Founder and President of Triumph Land and Capital Management. He began his career with Fulbright & Jaworski, LLP (now Norton Rose Fullbright LLP) where he focused on distressed loan workouts. Aaron received a Bachelor of Arts, Cum Laude, and a Juris Doctorate, Cum Laude, from Baylor University. He can be reached by email at agraft@tbkbank.com.

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INDUSTRY VETERAN

Continued from page 12

both community banks and Fintechs, it behooves both potential Buyer and Seller to consider what concrete strategies ensure future growth and profitability. Also, Seller must consider which type of entity and what specific company it should choose as Buyer. Accordingly, Seller must not only analyze carefully the benefits of selling, but when is the right time to sell? How should the process be conducted and should seller utilize services of industry professionals during the process? With increasing competition in our industry from both community banks and Fintechs, it is essential that potential buyers and sellers consider concrete strategies to ensure ongoing growth and profitability. Accordingly, it is in the interest of both buyers and sellers to:

1. Carefully analyze the benefits of a potential purchase/sale.
2. Determine the timing of the sale in light of market dynamics.
3. That Seller’s and Buyer’s objectives are relatively compatible.
4. If deemed advisable, engage appropriate professional to facilitate the process.

YOU’VE CLOSED THE DEAL

Continued from page 14

Once the project was defined, we brainstormed ideas to cover any potential unidentified risks and how we could effectively overcome the risks.

The brainstorming process was immediately followed by the framing process. The framing process discussed at a high level how we were going to execute on the implementation.

The final stage of the project planning process consists of creating a detailed action plan which spells out who is responsible for each task and when the task is due.

After completing our planning stage, the team transitioned into the project implementation stage. During the implementation stage, the project lead took an active role in managing the project to ensure it remained on schedule.

1. What tasks are to be completed?
2. Who is going to perform the tasks and what resources will they require?
3. Hold check-in meetings with regularly frequency to ensure the project remains on task.
4. Discuss challenges.
5. Identify changes required to meet our stated objectives.

Upon completion of a project, we hold a project closing meeting. The project is officially declared closed when the recipient (IT, Operations, Accounting, Underwriting) states they have received the project and it has satisfactorily met its goals and objectives. Closing meetings also serve as a point of reflection for the team. This assists the team in understanding where the project team flourished and where there might be room for improvement.

Over the past six months, we have continuously used this model to integrate many of the legacy systems from the predecessor to White Oak’s systems. Most people are keenly aware of the process that teams must execute on to successfully consummate a merger or acquisition transaction. However, successful acquirers are keenly aware that once a deal is done the work has just begun. Upon closing your next buy-side transaction, be certain to plan and set aside adequate resources to properly integrate the human capital and systems you obtain through the acquisition process. The aforementioned planning will contribute greatly toward a successful acquisition.

Kwesi Rogers is the President & CEO of White Oak Business Capital. He has more than 25 years of government contracting lending experience. Committed to giving back to the business community, Kwesi serves as Chairman of the Small and Emerging Contractors Advisory Forum (SECAF). He sits on the board of directors of the Montgomery County Chamber of Commerce (MCCC) and the Fairfax County Chamber of Commerce (FCCC). He is also active in numerous professional organizations, including the International Factoring Association (IFA) and the Commercial Finance Association. Kwesi holds an M.B.A. from George Mason University and a B.A. from the University of the District of Columbia. He can be reached by phone at (301) 961-6522 or by email at krogers@whiteoakbc.com.
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646-836-5053
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*Note: Rank excludes banks with high non-loan asset concentrations: Goldman Sachs, Morgan Stanley, BONY, State Street, Charles Schwab. Ranks as of 3/31/2018. Based upon total gross loans and total aggregated domestic deposits for bank holding company. Sources: SNL, FDIC, company reports. Subject to credit approval. Additional terms and conditions apply. Products and services offered by Capital One, N.A., Member FDIC. © 2018 Capital One.*
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