Tariffs' roller-coaster ride

For many businesses right now the markets are proving to be a roller coaster of a ride. Driven primarily by tariffs and uncertainty, investors and corporates alike are scrambling for safety. Credit spreads have been dramatic to say the least, a move that markets last saw in 2008 and 2018. With the volatility index over 50, equity markets undergoing correction, and bond markets in turmoil, the cost of capital is on the rise. Banks are tightening up credit, leaving companies to source capital elsewhere.

Financing and customer partnerships will be tested

Treasurers and Finance leaders with a diversified approach to financing will find themselves ready to pull different levers. Those who understand the dynamics between their source of financing and level of correlation within that financing group will potentially come out stronger on the other side. During times of high volatility and essentially high risk, different pools of capital can be deployed that are not correlated to banks: including hedge funds, asset managers and private credit. Having banks and non-banks in the mix offers optionality, giving companies flexibility to manage the unknown impacts of tariffs, potential trade wars and country restrictions.

> "When Russia went into Ukraine, banks had to pull their commodity lines. We were able to step in during that time to provide capital due to the nature of our capital, and ways our investors want us to invest."

Casey Talbot Chief Investment Officer,
Jain Global CapitaL

Speaking of unknowns and risks, Casey Talbot, Chief Investment Officer at Jain Global Capital recalls the importance of having optionality, “When Russia went into Ukraine, banks had to pull their commodity lines. We were able to step in during that time to provide capital due to the nature of our capital, and ways our investors want us to invest.”

Because we are all connected and everyone in the supply chain will be impacted, it is important to keep supply chains constant and take care of suppliers as the new framework unfolds. “We are likely to see slightly longer tenors with greater creativity around domicile structures. Inventory is going to be very important, with just-in-case type of structures getting more attention.” Casey Talbot opined.

With uncertainty comes the need for constant and open communication. Funding partners are encouraged to have open dialogues with Corporate Treasurers and Finance leaders, helping them to understand the current financing environment. Similarly, Treasurers and Finance leaders can check-in with financing partners to be in the know of any potential capital outflows. As Casey Talbot mentioned, “It is easy to be there in easy times. It’s a little bit different to be there in harder times, so open lines of communication and partnership are both important.”

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> “If we take industrials as an example, the median for Days Sales Outstanding (DSO) is around 66 days, and the top performers are at 43 days. Closing the gap by releasing trapped cash can have an impact of USD 60M that can be invested elsewhere.”

Dr Stephen Timme Founder and President, FinListics Solutions

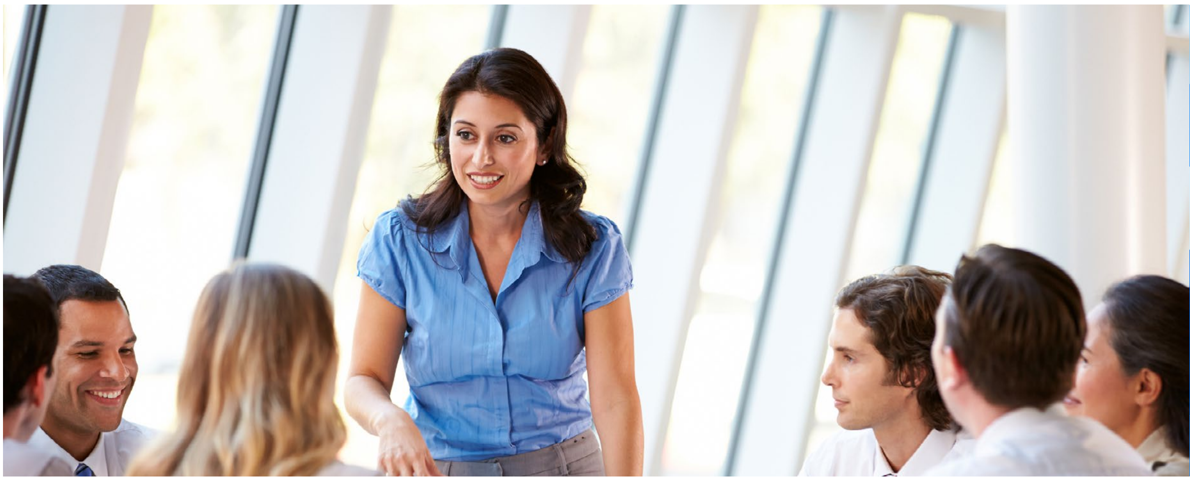
The double whammy - working capital and tightening credit

Tariffs increase the cost of doing business, which expands the amount invested in net working capital even if the cash operating cycle remains unchanged. Investment in inventories tends to expand due to increased cost, receivables and payables go up as well.

As an immediate reaction, companies look at customer terms and the financial stability of their customers to understand their potential exposure. In parallel, banks tighten credit, and as Dr. Stephen Timme, Founder and President FinListics Solutions recalls “From bank reports in Q4 of 2024, we gathered that 13% of banks were tightening credit for commercial and industrial loans.” Essentially, there is a double whammy of investing more working capital with the cost of capital rising simultaneously. Treasurers and Finance leaders alike should look into operational efficiencies and ways to better manage net working capital. In the long term, this will provide a strong foundation for cash excellence and discipline around working capital.

To begin with, Dr. Timme recommends benchmarking against peers in the industry. When speaking with SAP Taulia, FinListics Solutions ran a working capital comparison across industries, focusing on companies in the top and median quartile. “If we take industrials as an example, the median for Days Sales Outstanding (DSO) is around 66 days, and the top performers are at 43 days. Closing the gap by releasing trapped cash can have an impact of USD 60M that can be invested elsewhere.” said Dr. Stephen Timme.

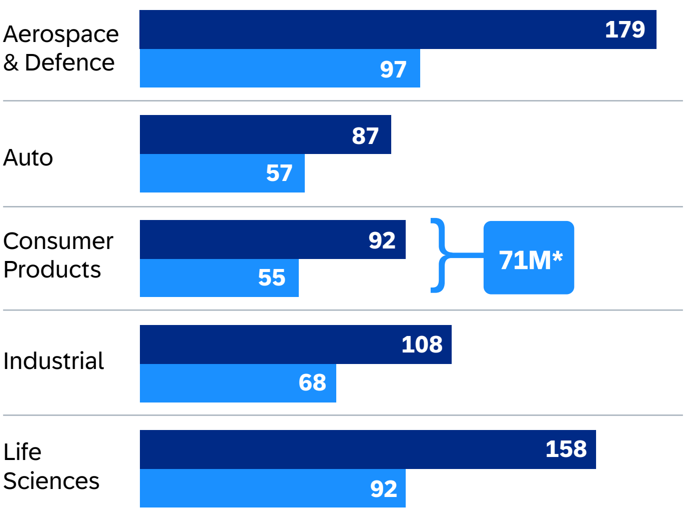
Freeing up liquidity and getting the desired infrastructure in place can seem daunting, but it doesn’t have to feel that way. Treasurers and Finance leaders can start by making working capital a priority and turning it into an organizational effort. “Teams need to be responsible for DSO and DPO targets with incentive plans. In parallel, leaders can work to improve cycle time, collection processes, and credit policies.” recommends Dr. Timme. Both of these approaches will create organizational discipline around working capital.



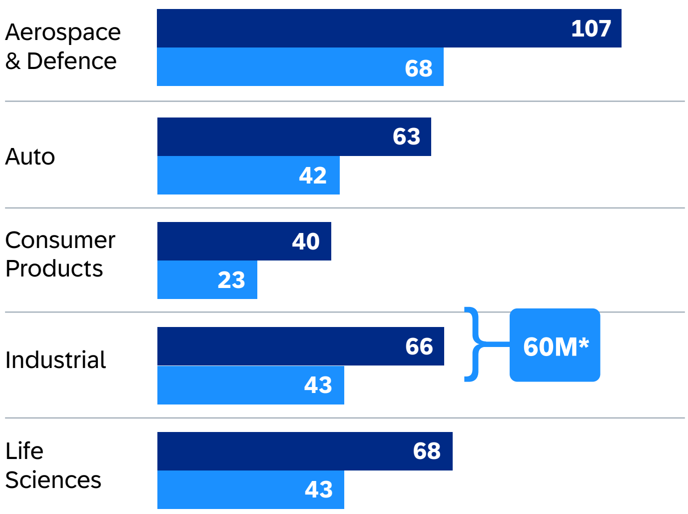
Industry Working Capital Comparison

Benchmarking by FinListics shows a comparison of Days in Inventory, Days Sales Outstanding, and Days Purchases Outstanding. The comparison is between the top and median quartile across sectors.

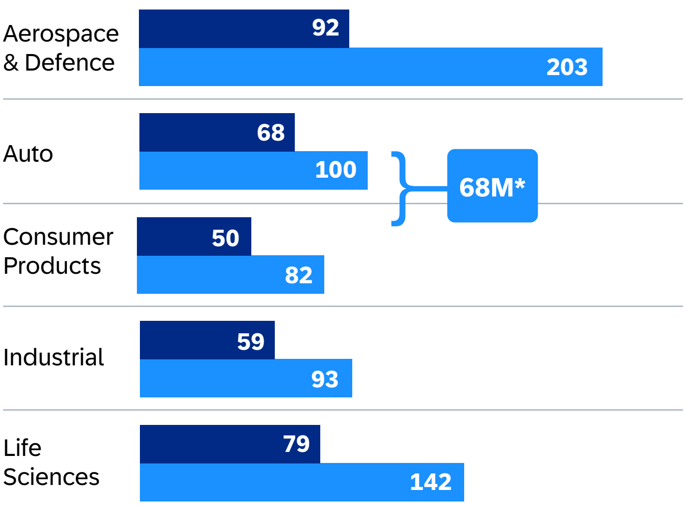
Days in Inventory



Days Sales Outstanding



Days Purchases Outstanding



Median

Top Performers

Source: FinListics Solutions, Client IQ

*Scaled to company with 1 billiion in revenue

Rene Ho, CFO SAP Taulia shared that Treasurers and Finance Leaders should take the time to understand relevant working capital strategies that support their overall strategy - Payables take longer to implement, but have a longer lasting value to the supply chain. Receivables, while quick to implement, require more time to manage and may be limited to a portion of the supply chain. Inventory strategies are challenging to implement, but when done right can reap a lot of rewards.

> In the chemicals sector, the median quartile has approximately 40% of receivables overdue. The best performers in comparison have 13% of receivables overdue.

Focusing on receivables, the impact of freeing up cash locked up in receivables is best explained through an example. Data gathered by FinListics Solutions shows that for companies in the median quartile in the chemicals sector, approximately 40% of receivables are overdue. The best performers in comparison have 13% of receivables overdue. Through a mix of strategies that include operational improvements, better policies, and receivables finance, companies can gain USD 33M from outstanding receivables while bringing their Days Sales Outstanding (DSO) closer to the top quartile.

Receivables finance programs that are structured to achieve true sale provide a flexible solution that can help enhance enterprise value and delver the balance sheet, simultaneously. A true sale program also promotes greater cash flow predictability, supports business growth, and improves a company's weighted average cost of capital.

The path ahead - alternative funding sources and insurance

So how may a company find the right financing partners? We know that the current economic situation will impact both suppliers and customers, resulting in an increase in late payments, non-payments, delinquencies, and changes to payment terms. One way is to build relationships with alternative financing sources. Another is to assess customer risk exposure and navigate customer payment risk with commercial credit risk insurance.

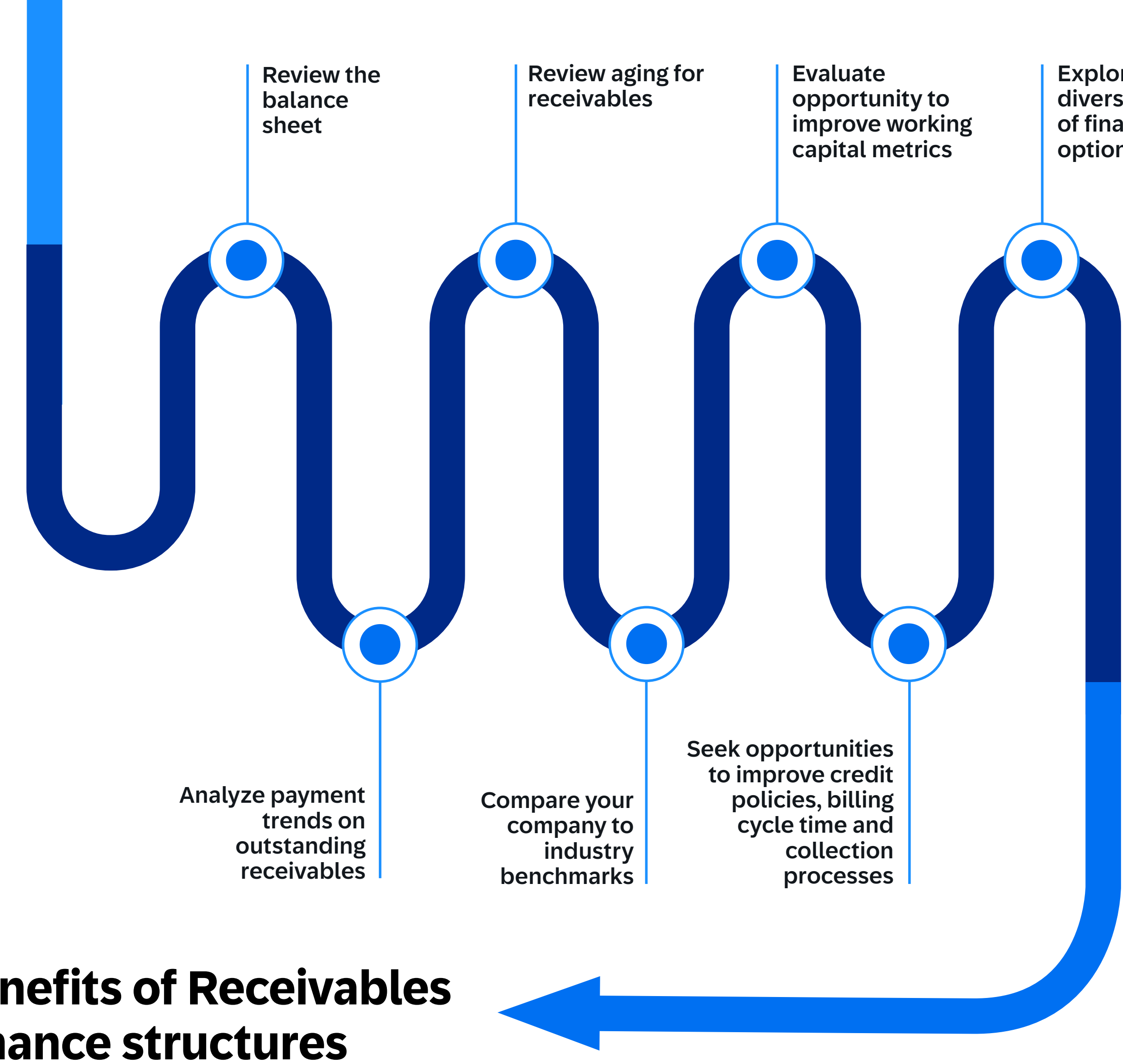
Alternative funding sources are different from traditional lenders in many ways. To begin with, alternative funding sources support companies at various stages of growth from early stage to rapid growth to more established companies. In comparison, traditional forms of financing focus on capturing the largest share of the customer's wallet and may have a specific client focus. Alternative financing sources are also more flexible and nimble with structuring deals, providing much needed liquidity within weeks instead of months.

	Alternative funding sources	Traditional funding
Speed	Quick to engage and underwrite	2-3 months turnaround
Time to approval	Integrated and leaner process for approvals	Approval from several committees
Advance rates	Higher advance rate	More conservative on advance rates
Structure	Greater flexibility on financing structure	Limited options for structures, tend to operate within a box
Engagement	Higher willingness to support small and mid-sized companies	Focus on capturing the largest share of wallet

The volatility in the market does not look set to end any time soon. There is still a great deal of uncertainty around where, when and by how much tariffs will impact different economies and industries. What is certain though is that companies need to build partnerships to try and keep their supply chains constant as far as humanly possible, which amongst other things will involve cushioning the credit crunch.

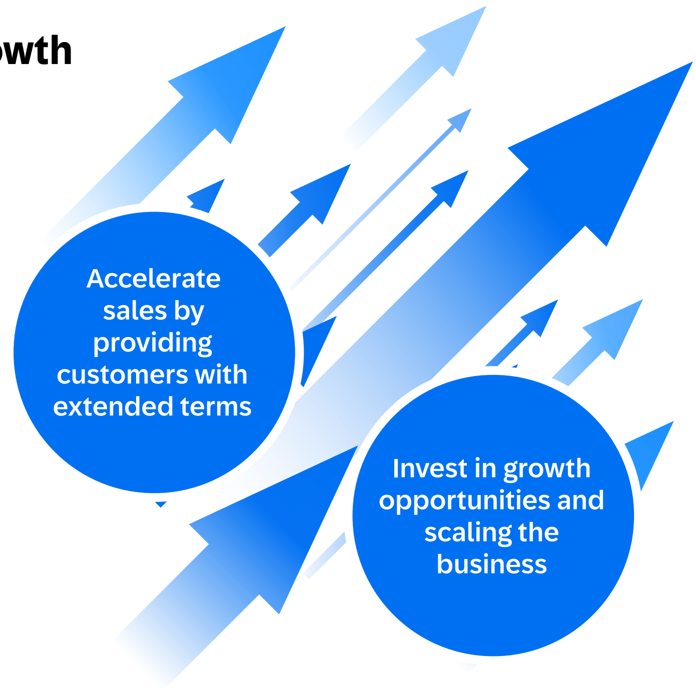
Connect with us
Reach out to us at paymeearly@taulia.com.

Key considerations for a true sale of receivables program



Benefits of Receivables Finance structures

Growth



Greater cash flow predictability

- Unlock capital upfront to address immediate cash flow needs
- Smoothen out late payments
- Mitigate risk

Reduce company leverage

- Reduce leverage by paying down debt
- Substitute debt to finance growth
- Improve leverage to better position the business to secure future capital
- Reduce overall cost of capital

Panel of experts who contributed their thoughts and opinions

Casey Talot

Chief Investment Officer, Jain Global Capital

Casey Talbot is CIO of Credit Strategies at Jain Global Capital, a fund launched by Bobby Jain former CIO of Millenium.

Prior to Jain Global, Casey was Co-CIO at UBS O'Connor, where he started the private credit business and oversaw their working capital solutions strategy. As a seasoned banking professional, Casey has held various roles at Deutsche Bank, Bank of America, and UBS.

In the area of Trade Finance- Casey has funded payables, receivables, and inventory over the past several years.

Dr. Stephen Timme

Founder and President FinListics Solutions

Dr. Stephen Timme is Founder and President of FinListics Solutions. FinListics Solutions helps enterprise sales organizations to better show the business and financial benefits of their solutions and more effectively engage with client executives.

Stephen is also co-author of "Insight-Led Selling: Adopt an executive mindset, build credibility, and communicate with impact"

Erik Wanberg

Taulia Product Management

Erik is a Product Manager specializing in Working Capital Solutions at Taulia. He is part of the new products group focused on innovative working capital solutions that provide financial efficiency and increase customers' shareholder value.

Erik has previously held positions providing solutions in accounts receivable, trade, supply chain and inventory finance at Wells Fargo, Citi and GE Capital.

Rene Ho

CFO, SAP Taulia

As Chief Financial Officer, Rene has responsibility for the company's finance and human resource functions and oversees the administration of the company. Rene has more than 20 years of experience in finance, operations and leadership roles in the United States and Asia.