

Garry Teychenne

Case study

Gap Analysis

A highly profitable expanding business established over 6 years with a turnover in excess of \$7.0M was experiencing liquidity restraints; caused by the gap between payment for supply and receipt of payment from its customers. The business was a wholesale distributor and importer, which had to give credit to make sales and as an importer pay COD to its overseas suppliers. The gap was primarily funded by shareholders funds and bank overdraft both of which had finite limits. The bank facilities being limited to the value of the director's home!

The gap was a major draw on working capital and any increase in the number of days increased the impact. Additionally, as the business expanded, the amount capital to fund the gap also increased, straining capital demands still further; alternative facilities were need to fund the growth.

Securities supporting the existing bank's facilities were renegotiated; a Debtor Finance facility for \$800,000 was established with a non bank lender (at overdraft competitive rates) plus a trade finance facility for \$400,000. The benefit of these arrangements was the retention of the existing bank facilities, the Debtor finance got cash out of its debtor ledger and the trade finance funded purchases out of China

The prudent application of debtor finance and trade finance virtually funded the gap; freeing capital tied up in stock and debtors to finance the expansion.

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Principal



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Division of AMAYADA PTY LTD ABN 17 006 908 774

Corporate & Business Finance Advisors Consultants, Negotiators & Brokers

478 Scoresby Road Knoxfield Victoria 3180 Australia M: 0412 342 402 T: 03 9764 2077 F: 03 9764 0709

E: gtey3678@bigpond.net.au

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Henry Ford

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