



The IFD DEBTOR FINANCE INDEX

March 2008

Highlights	1
IFD and Debtor Finance	2
The IFD Debtor Finance Index	3
December Quarter 2007	4
Factoring and Discounting Turnover	6
Reasons for Strong Growth of Debtor Finance	8
An Example	8
Situations Where Debtor Finance Can Be Used	9
The Statistics	10
State & Industry Data	11
State Historical Data	12
IFD Members	13

HIGHLIGHTS

- Total factoring and invoice discounting turnover in the December quarter 2007 was **\$15.7 billion**, the first time turnover has exceeded \$15 billion in any one quarter. This quarterly turnover is 16 percent greater than for the entire yearly turnover in 2001.
- Total debtor finance turnover in 2007 reached \$55 billion; this is an increase of \$50 billion on the turnover of \$5 billion only ten years ago.
- At the end of December, the **IFD Debtor Finance Index** stood at **500.7**, a five-fold increase from its base of December 2000.
- The rapid growth of debtor finance over the last decade has been propelled by the big increase in the number of participants in the market. All major banks now operate a debtor finance division, as do most regional banks, and a number of international banks have entered the market in recent years. A number of specialist entities also service the market.
- The growth of debtor finance has seen a significant change in the composition of the business, with discounting now making up a much larger proportion than a decade earlier. This is a sign of the maturation of the product.
- **5921** businesses in Australia now use debtor finance, **664** more than a year ago.
- The client base has expanded beyond, but still includes the SME sector, to encompass medium-sized corporates and smaller listed companies, with annual turnover up to \$500 million.
- The very strong growth of debtor finance is anticipated to continue into the future, and in the coming year Industry turnover is likely to easily exceed \$60 billion.
- This report provides statistics for the first time in relation to the labour hire industry (previously included in the 'property business services' category) – this industry segment accounts for 10 percent of the total portfolio.

IFD and Debtor Finance

- **The IFD**

The Institute for Factors and Discounters of Australia and New Zealand

(IFD) was formed in 1994, and represents the interests of the major providers of factoring and discounting in Australia and New Zealand. A list of members is attached to this report.

- **What is Factoring and Discounting**

Factoring and discounting, also known as cashflow or debtor finance, are among the most powerful financial tools available to business.

Invoice Discounting simply involves a business turning its unpaid invoices into cash. The business literally sells its unpaid invoices to the discounter.

Factoring involves the sale of a business's unpaid invoices as with discounting, but in addition the sales accounting functions may be provided by the factor, who manages the sales ledger and collection of accounts.

- **Terms used in this Report**

Discounter	-	Company buying the debt
Factor	-	Company buying the debt
Client	-	Business selling the debt
Debtor	-	Party liable for paying the debt
Debt	-	Trade debts payable by the debtors

Discounting: The sale by a business (the client) and the purchase by the discounter of trade debts on a continuing basis. The client retains the sales accounting functions and is responsible for collection of the debts. The debtors are usually unaware of the involvement of the discounter.

Factoring: The sale by a business (the client) and the purchase by the factor of trade debts on a continuing basis. The factor will carry out some part of the sales accounting function, as agreed between the client and the factor. The debtors are aware that all the debts have been assigned to the factor, and that payment must be made to the factor to discharge the debt.

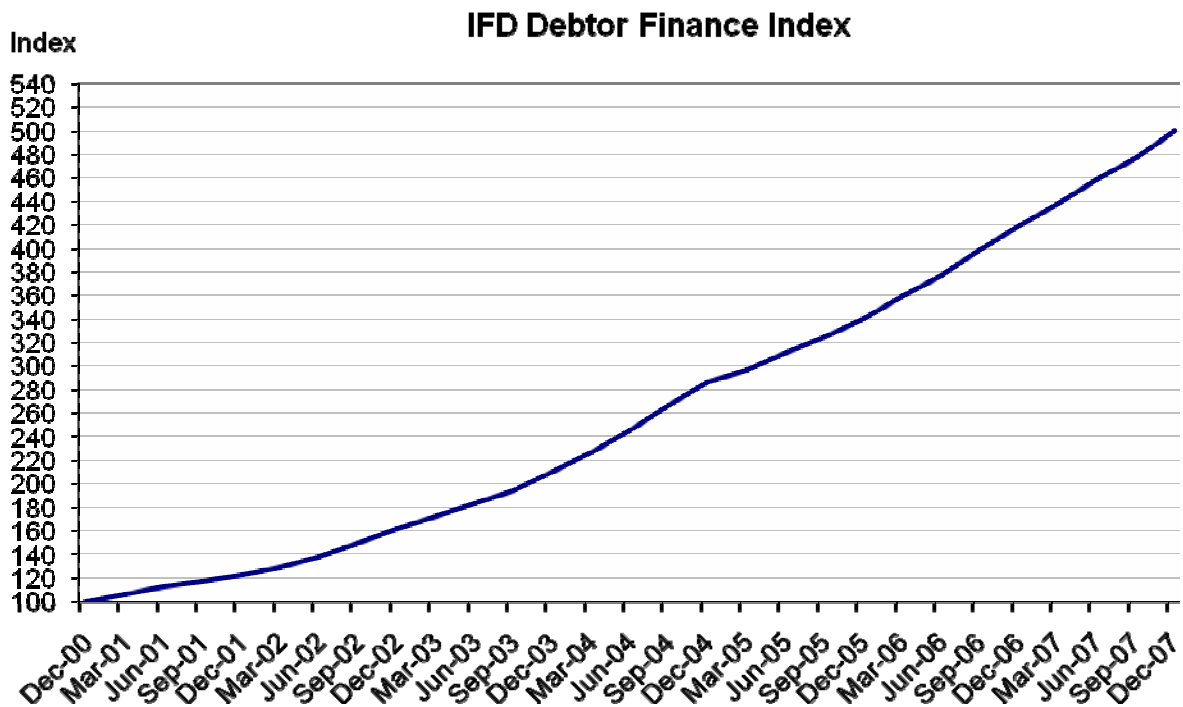
Turnover: The face value of debts purchased (including GST)

Receivables: The total amount due from debtors at a point in time.

The IFD Debtor Finance Index

The IFD Debtor Finance Index is based on total factoring and discounting turnover in the twelve months period to the end of the quarter shown; the base of 100 is at end December 2000.

The Index highlights the very strong growth of factoring and discounting. At the end of December 2007 the Index was 501, which is five times that at December 2000. The Index increased by 4.9% on the previous quarter.



The IFD Debtor Finance Index is based on total Factoring & Discounting turnover in the twelve month period to the end of the quarter shown, with a base of 100 at end of December 2000

The increasing awareness within the Australian market of debtor finance is attracting the attention of larger companies to this form of funding. This has two consequences. Firstly, larger companies are more likely to utilise discounting because they have the personnel to perform their debtor administration function in-house, so do not require those additional features provided by factoring. Secondly, the quantum of their invoices will be greater than smaller companies. Given these features, discounting will further dominate the debtor finance market, while factoring will remain an attractive proposition for smaller businesses.

The June Quarter Statistics

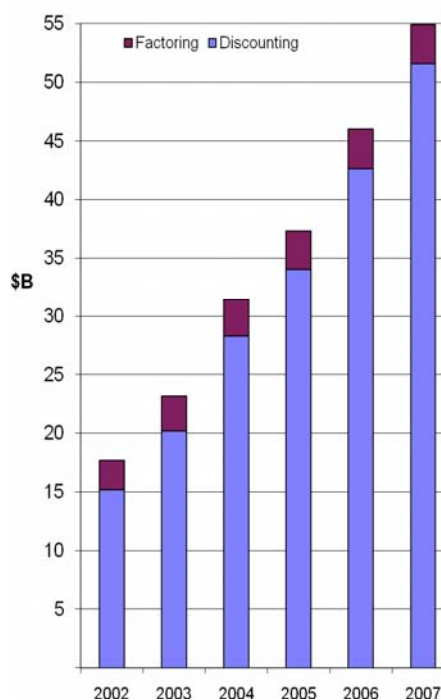
Factoring and discounting turnover in the December quarter was \$15.7 billion, an increase of \$2.6 billion on the same quarter last year. This level of business for the **quarter** is some 16 percent greater than that for the entire year in 2001. Factoring turnover was \$891 million for the quarter, and discounting was \$14.8 billion. Total turnover was 20% above the December quarter last year.

Factoring	Dec Quarter 2006	Mar Quarter 2007	Jun Quarter 2007	Sept Quarter 2007	Dec Quarter 2007	Latest 12 Months
Turnover (\$M)	896.5	757.7	812.7	848.6	890.6	3309.6
Receivables (end of qtr -\$M)	463.1	422.2	448.8	455.8	449.0	
Number of Clients (end of qtr)	1,788	1,730	1,737	1,737	1,870	
Number of Debtors (end of qtr)	77,036	72,368	70,848	72,454	73,612	

Discounting	Dec Quarter 2006	Mar Quarter 2007	Jun Quarter 2007	Sept Quarter 2007	Dec Quarter 2007	Latest 12 Months
Turnover (\$M)	12194.6	11202.5	12340.4	13273.5	14759.7	51576.1
Receivables (end of qtr-\$M)	5784.7	5555.4	6063.0	6279.3	6999.0	
Number of Clients (end of qtr)	3,469	3,580	3,875	3,967	4,051	

Total	Dec Quarter 2006	Mar Quarter 2007	Jun Quarter 2007	Sept Quarter 2007	Dec Quarter 2007	Latest 12 Months
Turnover (\$M)	13091.1	11960.2	13153.1	14122.1	15650.3	54885.7
Receivables (end of qtr-\$M)	6247.8	5977.6	6511.8	6735.1	7448.0	
Number of Clients (end of qtr)	5,257	5,310	5,612	5,704	5,921	

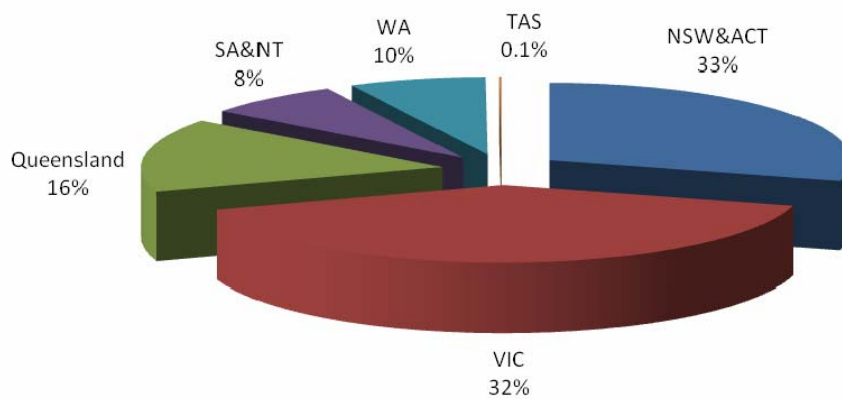
**TURNOVER \$Billion
(Calendar Years)**



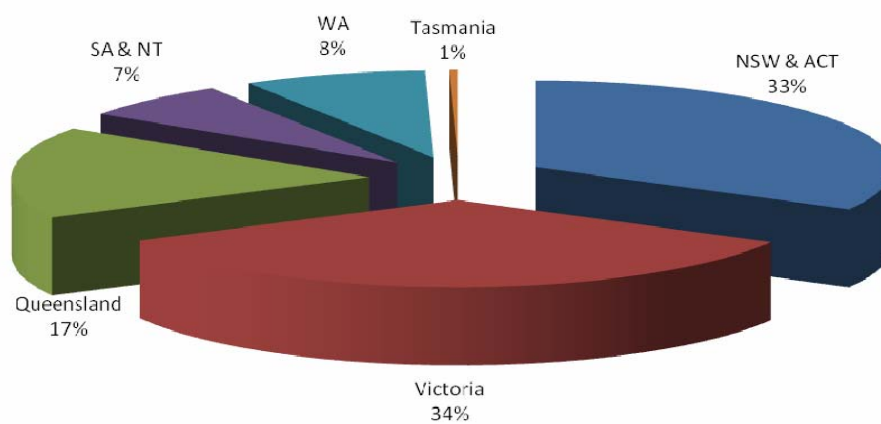
Regional Dissection

The graphs below compare the composition of factoring and discounting in the States/Territories in December 2002 to December 2007.

State Turnover December Quarter 2002 Percentage of Total Turnover



State Turnover December Quarter 2007 Percentage of Total Turnover



Factoring and Discounting Turnover
\$million per quarter

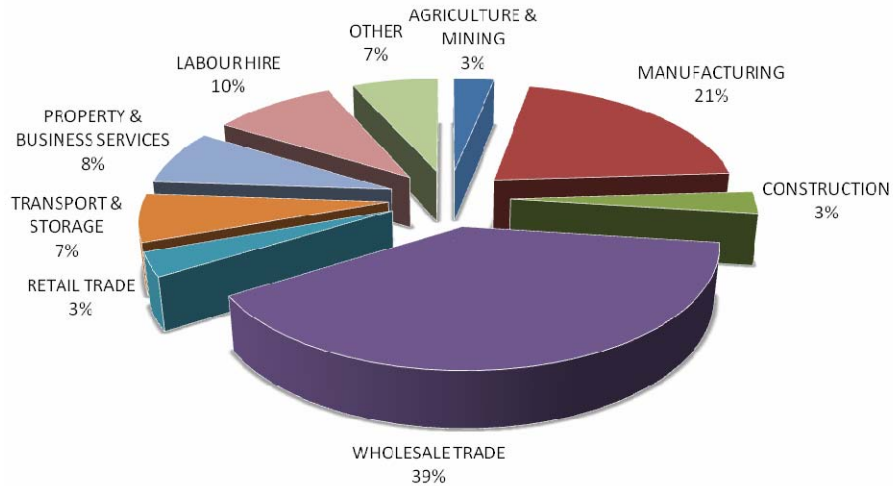
	December Quarter 2002	December Quarter 2007	Times Increase
NSW/ACT	1523.4	5169.6	3.4
Victoria	2103.3	5365.3	2.6
Queensland	801.2	2684.8	3.4
SA/NT	378.6	1075.5	2.8
WA	380.6	1298.6	3.4
Tasmania	6.0	56.5	9.4
Australia	5193.1	15650.3	3.0

Industry Dissection

The graphs below compare client industry sectors as at December 2007 and 2002. The 'labour hire' sector is shown separately for the first time in this report; it was previously included in the 'property and business services' category. The labour hire industry accounts for 10 percent of the overall portfolio of IFD members.

BY INDUSTRY:

December Quarter 2007 Percentage of Receivables



December Quarter 2002 Percentage of Receivables



Reasons for Strong Growth of Debtor Finance

- increased awareness of debtor finance products;
- the entry of major new participants, including local and international banks;
- improved credit rating that comes with improved cashflow;
- factoring/discounting can be more flexible and lower cost than alternative funding arrangements;
- the ability to collect cash within 48 hours of raising invoices improves cash flow management, which in turn enhances liquidity and growth potential;
- the ability of the client to utilise the cash raised from the factoring/discounting arrangement to obtain early settlement discounts from the client's own suppliers;
- management time can be devoted to the core aspects of the client's business; and
- administration costs can be reduced where the factor assumes responsibility for debtor management, administration and credit control.

An Example

A typical example of funding provided under a debtor facility is:

- the client has a \$100 debt
- the client sells the debt to a factor/discounter
- the factor/discounter makes an \$80 upfront payment to the client
- factoring fee is 1% ($\$100 \times 1\% = \1)
- the factor/discounter also earns a discount fee (similar to interest) on the upfront \$80 payment until the debt is paid (assume \$2 in this example)
- when the \$100 is collected from the client's customer, the factor/discounter pays the client the \$100 amount less the \$80 upfront payment, the \$1 factoring fee and the \$2 discount fee, i.e. \$17.

Situations Where Debtor Finance Can Be Used

Fully funded

Most traditional forms of business finance are secured against property, commonly 'bricks and mortar'. Not everyone wants to put the family home on the line so debtor finance can be used as a replacement for, or in addition to, this source of funding.

Change of ownership/succession

Changes to ownership or succession often create problems, particularly if bank facilities are secured against the personal assets of the existing owners. Debtor finance allows personal assets to be removed from the equation and to facilitate a smooth transfer.

Management buy outs

Raising capital is often a stumbling block for buy outs, but debtor finance can be used so that the purchase of the business is self funded.

High labour costs

Temporary labour hire businesses are good examples of lucrative businesses having to stretch creditor payments to avoid shortfalls – because their main outgoing is in staff costs. Often the client might make the business wait for 30 or 60 days for payment. Debtor finance turns those outstanding invoices into cash.

Turnaround

A change in business fortunes should not necessarily result in a change in funding. Debtor finance can be more flexible in turnaround situations as it relies on trade debts established and their collectability, not solely the historical performance of the company.

The Statistics

Debtor Finance Index

	\$m Turnover in 12 Months to End of Quarter			
	Factoring	Discounting	Total	Index
Dec-00	2078.3	8883.6	10961.8	100
Mar-01	2124.6	9557.2	11681.8	106.6
Jun-01	2188.0	10246.2	12434.2	113.4
Sep-01	2230.4	10632.7	12863.1	117.3
Dec-01	2280.9	11232.3	13513.2	123.3
Mar-02	2323.3	11863.3	14186.6	129.4
Jun-02	2360.5	12804.2	15164.6	138.3
Sep-02	2410.3	14014.6	16424.9	149.8
Dec-02	2511.3	15180.0	17691.3	161.4
Mar-03	2597.9	16337.3	18935.2	172.7
Jun-03	2763.8	17315.7	20079.4	183.2
Sep-03	2898.9	18487.1	21386.0	195.1
Dec-03	2975.0	20182.8	23157.7	211.3
Mar-04	3059.4	21901.2	24960.6	227.7
Jun-04	3061.4	23914.0	26975.4	246.1
Sep-04	3103.4	26162.6	29266.0	267.0
Dec-04	3151.1	28268.4	31419.5	286.6
Mar-05	3165.9	29398.2	32564.2	297.1
Jun-05	3230.6	31000.8	34231.5	312.3
Sep-05	3278.9	32304.5	35583.4	324.6
Dec-05	3282.9	34026.3	37309.2	340.4
Mar-06	3306.6	36087.1	39393.7	359.4
Jun-06	3313.5	38069.5	41383.1	377.5
Sep-06	3321.2	40441.3	43762.5	399.2
Dec-06	3360.1	42649.4	46009.5	419.7
Mar-07	3353.7	44712.5	48066.2	438.5
Jun-07	3350.3	46957.6	50307.9	458.9
Sep-07	3315.5	49011.0	52326.5	477.4
Dec-07	3309.6	51576.1	54885.7	500.7

State and Industry Data

State and Industry Statistics				
Factoring and Discounting Turnover - \$million				
	12 Months to end December		December Quarter	
	2007	2002	2007	2002
NSW/ACT	18243.8	5540.0	5169.6	1523.4
Victoria	18316.0	6797.9	5365.3	2103.4
Queensland	9212.4	2786.7	2684.8	801.2
SA/NT	3862.3	1262.7	1075.5	378.6
WA	5080.0	1246.3	1298.6	380.6
Tasmania	171.2	57.9	56.5	6.0
Total	54885.7	17691.3	15650.3	5193.1

	Factoring and Discounting - \$million	
	Turnover December Quarter 2007	Receivables end December 2007
Agriculture	426.4	232.2
Manufacturing	2929.9	1555.6
Construction	493.6	224.1
Wholesale Trade	5826.4	2921.7
Retail Trade	537.3	243.7
Transport and Storage	1137.0	491.4
Property and Business Services	1456.2	571.5
Labour Hire	1681.0	709.6
Other	1162.5	498.2
TOTAL	15650.3	7448.0

*Totals may not add due to rounding.

State Historical Data

Quarter	NSW/ACT	Vic	QLD	SA & NT	WA	TAS	Total
Dec-03	331.7	197.3	176.6	38.2	55.1	7.1	806.0
Mar-04	301.7	167.4	166.2	35.8	48.6	5.8	725.5
Jun-04	306.6	156.3	192.0	34.8	50.7	4.1	744.5
Sep-04	339.1	179.1	214.9	36.2	54.2	4.0	827.4
Dec-04	351.2	195.2	207.7	29.0	67.7	2.9	853.7
Mar-05	303.6	163.3	188.4	30.6	52.7	1.9	740.3
Jun-05	326.7	193.1	210.3	24.4	52.8	1.9	809.2
Sep-05	364.5	198.0	219.4	25.2	66.6	2.0	875.7
Dec-05	337.2	210.2	227.1	23.9	57.2	2.0	857.6
Mar-06	296.4	172.8	199.4	45.3	48.4	1.8	764.1
Jun-06	308.9	168.2	242.9	44.2	50.3	1.6	816.1
Sep-06	334.8	182.9	267.1	35.9	60.7	2.0	883.4
Dec-06	334.3	194.2	261.5	37.7	66.3	2.5	896.5
Mar-07	284.7	157.7	217.6	35.6	60.6	1.5	757.7
Jun-07	293.8	160.3	259.7	31.0	65.5	2.4	812.7
Sep-07	299.5	192.6	257.5	26.6	69.8	2.6	848.6
Dec-07	322.7	228.9	235.9	30.9	69.7	2.5	890.6

Quarter	NSW/ACT	Vic	QLD	SA & NT	WA	TAS	Total
Dec-03	1,974.9	2,558.5	853.7	375.8	396.0	0.0	6,158.9
Mar-04	2,006.4	2,216.3	955.5	418.7	352.0	0.0	5,948.8
Jun-04	2,158.3	2,412.1	1,045.4	479.8	414.6	0.0	6,510.3
Sep-04	2,502.5	2,781.3	1,192.1	543.1	525.7	0.0	7,544.6
Dec-04	2,550.1	3,114.4	1,361.3	608.8	630.2	0.0	8,264.7
Mar-05	2,173.3	2,622.5	1,229.5	497.1	556.3	0.0	7,078.7
Jun-05	2,660.7	2,899.2	1,296.8	538.7	717.4	0.0	8,112.8
Sep-05	2,710.2	3,371.8	1,451.3	565.9	749.1	0.0	8,848.2
Dec-05	3,057.5	3,803.2	1,530.5	668.6	926.7	0.0	9,986.5
Mar-06	2,902.3	3,332.5	1,410.1	662.7	811.3	20.5	9,139.4
Jun-06	3,236.9	3,694.2	1,539.8	720.1	867.1	37.2	10,095.3
Sep-06	3,558.4	4,278.6	1,621.5	782.7	940.9	38.0	11,220.1
Dec-06	3,888.0	4,444.0	1,820.1	872.7	1,137.8	32.0	12,194.6
Mar-07	3,723.8	3,821.9	1,767.6	805.6	1,052.5	31.1	11,202.5
Jun-07	4,108.3	4,094.1	1,947.0	963.3	1,193.5	34.2	12,340.4
Sep-07	4,364.1	4,524.1	2,078.2	924.7	1,339.5	42.9	13,273.5
Dec-07	4846.9	5136.4	2448.9	1044.6	1228.9	54.0	14,759.7

Quarter	NSW/ACT	Vic	QLD	SA & NT	WA	TAS	Total
Dec-03	2,306.6	2,755.8	1,030.3	414.0	451.1	7.1	6,964.9
Mar-04	2,308.1	2,383.7	1,121.7	454.5	400.6	5.8	6,674.3
Jun-04	2,464.9	2,568.4	1,237.4	514.6	465.3	4.1	7,254.8
Sep-04	2,841.6	2,960.4	1,407.0	579.3	579.9	4.0	8,372.0
Dec-04	2,901.3	3,309.6	1,569.0	637.8	697.9	2.9	9,118.4
Mar-05	2,476.9	2,785.7	1,417.8	527.7	609.0	1.9	7,819.0
Jun-05	2,987.4	3,092.3	1,507.1	563.1	770.2	1.9	8,922.0
Sep-05	3,074.7	3,569.8	1,670.7	591.1	815.7	2.0	9,723.9
Dec-05	3,394.7	4,013.4	1,757.6	692.5	983.9	2.0	10,844.1
Mar-06	3,198.7	3,505.3	1,609.5	708.0	859.7	22.3	9,903.5
Jun-06	3,545.8	3,862.4	1,782.7	764.3	917.4	38.8	10,911.4
Sep-06	3,893.2	4,461.5	1,888.6	818.6	1,001.6	40.0	12,103.5
Dec-06	4,222.3	4,638.2	2,081.6	910.4	1,204.1	34.5	13,091.1
Mar-07	4,008.5	3,979.6	1,985.2	841.2	1,113.1	32.6	11,960.2
Jun-07	4,402.1	4,254.4	2,206.7	994.3	1,259.0	36.6	13,153.1
Sep-07	4,663.6	4,716.7	2,335.7	951.3	1,409.3	45.5	14,122.1
Dec-07	5,169.6	5,365.3	2,684.8	1,075.5	1,298.6	56.5	15,650.3



IFD

IFD MEMBERS

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