

CONTRACT CAPITAL DIGEST

Your Partner in Contract Financing and Working Capital for Over 35 Years

At THE WATSON GROUP, we've partnered with countless growing companies to secure financing for their contracts and purchase orders. Whether their customer or prospect is government or large commercial, we specialize in developing FUNDING SOLUTIONS to support their performance.

Our diverse range of innovative, "out-of-the-box" funding options include, Contract Mobilization Funding, Contract Payroll Funding, Vendor Trade Credit Financing, Supply Chain Financing, Purchase Order Financing, Construction Subcontractor Financing, Factoring and Express Pay Financing, Contract Manufacturing Financing, or Financial Commitment Letters, just to name a few.

CONTRACT CAPITAL DIGEST is designed to share with you the HOW TO's for some of the practical and proven techniques and methods we teach and use in our practice on a DAILY BASIS, regardless of business credit standing.

Please feel free to reach out if you have any questions or would like our input on any Contract Financing opportunities or challenges you may be having.

Gerald C. Watson
President & Publisher



HOW TO FINANCE CONTRACT PAYROLLS BEFORE YOU INVOICE A TRUE CASE STUDY

You've just been awarded a \$2.5Million, 2-year contract with the US Navy to provide janitorial services at a Navy facility in Newport News. You're really excited about the opportunity because it will position you for more multi-year contract awards with the Navy, which literally will change your life.

Payroll is weekly and invoicing is on a monthly basis. Payment terms are net 30. You have a small line of credit with your local bank which is in good standing and asked for an increase. You were declined because the bank said the contract doesn't provide sufficient collateral because no work has been performed, and your financials won't support the increase either. Factoring is not an option because you can't get an advance until you invoice at the end of the month, but you have three payrolls to cover before you do. MCAs are too expensive, and you could easily wind up stacking one on top of the other. You've exhausted friends and family, and have no where else to go.

WHAT WOULD YOU DO?

HOW TO FINANCE CONTRACT PAYROLLS BEFORE YOU INVOICE

THE DELIMA

Without a doubt, covering contract payrolls is the No 1 ISSUE many growing companies face all over the country. The BIGGER the contract the BIGGER the problem. The primary reason is that you have to cover 2 to 3 weeks of payroll BEFORE you invoice if you are Factoring, and twice that much, or longer, if you're not, before you get paid from the government.

Whether payrolls are weekly, bi-weekly, certified, non-certified, union or non-union, figuring out how to "hustle up payroll money" often results in a continuous battle between Peter and Paul. Invoicing weekly would help solve the problem because you've done the work, but it's a federal government contract and you can only invoice on a monthly basis.



A PRACTICAL SOLUTION

In this issue we will share little-known financing techniques and methods for solving the problem of HOW TO finance contract payrolls BEFORE you invoice. And even though I have been using these techniques and methods for almost 40 years, like most things, they were probably invented by the Romans and are now being used by a handful of lenders all over the country.

To understand this technique and how it works, you first have to understand the foundational principal behind it. The banker is right. "The contract is just a piece of paper. In and of itself it has no collateral value". The primary reason is that on Day 1, no work has been performed, and in most cases no invoice have been generated. We say "in most cases" because in "some cases", if negotiated, a contract may include a provision allowing you to submit a Mobilization Invoice on Day 1. We'll talk more about that IN DETAIL in our upcoming issue on MOBILIZATION FUNDING.

But here's the key and the foundation for Contract Payroll Funding: Every week, and in fact, every day, as you work, you are "creating the collateral" based on the VALUE of the work performed, you just haven't billed yet. And this collateral, once quantified in dollars and cents and confirmed, enables the lender to "link payment to performance" and provide the basis for funding, EVEN BEFORE YOU INVOICE. Just remember this very important point: "Value Accrues Through Performance"!

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info@twgfundingsolutions.com



THE BASICS OF CONTRACT PAYROLL FUNDING

A NOTE ON The BASIS OF BILLING

The first step in quantifying the value of the work performed in dollars and cents is to simply establish the Basis of Billing, or "unit pricing" on your contract, ie, billing per hour, per load, per square foot, etc. This of course you obviously already know and is what you use when pricing and bidding.

For example, in our actual case study, the basis of billing was hourly. If you have a contract to do gravel or debris removal, the basis of billing might be per load basis, or per ton. Or if you were installing underground piping or wiring, or doing debris clean-up work on the highway, the basis of billing might be per square foot, or per mile.

Over the years, we've arranged Contract Payroll Funding for clients with contracts in a broad range of contracts. However, where it DOES NOT WORK is with progress billing, percentage of completion, or milestone billing because of the lack of absolute definition and uncertainty regarding the quantity of work performed and accepted and is only an estimated value.

WHAT IS IT?

Simply put, Contract Payroll Funding provides funding to cover your payrolls on work performed and confirmed BEFORE YOU INVOICE.

We often refer to it as "Scheduled Funding" because the advances are made in accordance with your payroll schedule. It is designed to cover all payroll costs billed directly to the contract including standard deductions and benefits. IT is NOT designed to cover non-contract related admin, or payroll costs not billed to the contract.

So, who does it? While there are a small handful of Contract Financing lenders out there who provide financing for the TOTAL CONTRACT, ie mobilization and start-up, equipment rentals, materials and supplies, payrolls, subcontractors, etc, the bar for approval is higher, and they have minimum time in business requirements, annual volume and profitability requirements, and will not approve you have open MCA's and other financial issues. In addition, the business must demonstrate it has enough cash flow to "keep the doors open" and cover its' standard overhead expenses, outside of the contract.

The second group of lenders who provide Contract Payroll Funding are SOME but not all Factoring companies. The bar for approval is much lower, with no annual volume or profitability requirements, and many will even provide financing for start-ups. Most have their own names for Contract Payroll Funding and typically refer to it as an Advance Against Unbilled Receivables, Proforma Invoice Funding, etc. Most Factoring companies who specialize in funding staffing, and other payroll intensive companies provide this type of financing as one of their standard funding products.

HOW DOES IT WORK?

The process is actually pretty straightforward. In fact, your lender who offers it will have their own procedure for submission and funding.

But, in a nutshell, for most Factoring lenders, the process essentially breaks down to the following:

- Generate an invoice for the work performed for the payroll period you want funded. The invoice itself will look exactly like one you would submit for the month but its' ONLY for the payroll period. The invoice is NOT submitted to your customer but to your lender for funding purposes only. In fact, you want to put in large letters at the top: PROFORMA INVOICE-NOT FOR BILLING PURPOSES
- You also want to be sure to include any and all attachments you would normally submit with your monthly invoices, ie verification of worked, ie time sheets, job tickets, screen shots from a portal, etc.
- Depending on the type of work you are doing, the lender may or may not need to confirm the work performed. For example , in cases where you have job or pickup tickets, time sheets already signed off by your customer or verified in a portal, etc., no additional confirmation may be required. Your lender will determine their requirements after review of your contract, and in consultation with you.
- Advances for Schedules Payroll Funding are typically against the Face Value of your ProForma Invoice.
- Some lenders will provide a lower advance rate for Scheduled Payroll Funding and advance only enough to cover payroll, ie 50 to 60%. Others will provide their full advance rate, ie 80% to 90%.
- If you are using a third -party payroll service like ADP or others, they will either fund them directly, or fund into your designated payroll account normally drafted. If you are doing payroll internally, they will fund you directly.
- At the end of the month, submit your normal monthly invoice and attachments to your customer for billing purposes, and to your lender for funding purposes. The best part is that they already have approved most if not all of your invoices for the month, and they will simply wire the difference of your advance rate directly to you. For example, if the Scheduled Funding Advance was say 60% and your advance rate is 80%, they will deduct the 60% and advance you the remaining 20%.
- Everything else in the Factoring process typically stays the same.

WHAT ARE THE COSTS?



The cost for Contract Payroll Funding is surprisingly inexpensive. Most factoring companies that offer it typically charge a nominal premium over their normal factor rates. We have seen this premium range from 15%-20% on the low end, to 35% -40% on the high end. I even ran across one Factoring company who didn't charge a fee at all! Remember, the premium ONLY applies from the day you have taken the payroll advance to the day you submit your monthly invoice, and it is approved for Factoring. So, for example, if payroll is every week, the premium would apply to 3 weeks. The second week the premium would apply to 2 weeks, and the third week, the premium would only apply to one week. The Factoring company will tell you upfront, first, if they offer it, and second, what their premium is, if any.

KEY SUCCESS TIPS

- Always ask the Factoring company UPFRONT if they offer Contract Payroll Funding. You may have to reference one of the names above, but it is funding against an Un-billed Receivables or Proforma Invoice Financing. If they do, find out how it works and their fees upfront.
- Be sure and include your Factoring and Contract Payroll Funding costs when formulating your bids as part of your total cost equation. This will enable you to better hit your target Gross Margins. The large contractors do it when preparing their bids, even those with bank financing. Why not you?
- Make sure your back-up documentation MATCHES UP with your invoice. It will help expedite the process for both Contract Payroll Funding and normal Factoring advances as well.
- Try and negotiate more frequent invoicing. It will minimize the need and cost for Contract Payroll Funding.



Don't Let a Lack of Cash Flow Hold You Back From Taking On New Contracts!

Struggling to secure financing for your contracts and purchase orders? You're not alone. The fact is almost 50% of small business owners who applied for bank credit were denied. That's where we step in. Using our highly specialized, *alternative financing techniques*, we have helped growing business owners all over the country secure millions of dollars in financing for their government, and commercial contracts and purchase orders.

Transaction Engineering ©

COMPREHENSIVE DIAGNOSTICS

We begin by conducting a Preliminary Underwriting Interview to better understand your Contract Financing needs and timing, existing business condition, and identify any potential business or financial issues that could impact funding approval. We then compile a Checklist of Documents including a copy of contracts to be funded, along with standard business documents for internal review and analysis.

CUSTOMIZED FUNDING STRATEGY

With the results of our diagnostic review and analysis, we "engineer" a Funding Strategy to include the "optimal" funding products for each phase of your contract, ie at the beginning for mobilization or start-up, if required, in the middle to cover payrolls, vendors or subcontractors, if any, and at the end to speed up cash flow while waiting to get paid. We also develop a game-plan for addressing any business or financial issues which could impact funding approval.

LENDER SELECTION AND UNDERWRITING

Based on your Funding Strategy and our history and working relationships with our funding partners, we determine the "best fit options" including structuring of your Financing Facility, and negotiating of funding amounts, rates and terms. Once you have elected to move forward, we will continue to work with you and your lender on a day-to-day basis, including preparation of your formal app package, underwriting, due diligence, addressing any business or financial issues as required, ie UCC filings, all the way through final approval.

CLOSING AND FUNDING

Upon final approval, we work with you and our funding partner to expedite and facilitate the closing process through your review and execution of Closing Docs Package and funding.

Contract Financing Product's We Offer

- Contract Mobilization Funding
- Contract Payroll Funding
- Supply Chain Financing
- Vendor Trade Credit Financing
- Purchase Order Financing
- Subcontractor Financing
- Material Supply Financing
- Factoring and Express Pay Financing
- Contract Manufacturing Financing
- Financial Commitment Letters
- Working Capital Term Loans
- Revolving Asset-Based Lines of Credit

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