



MACHINERY
& BUSINESS ASSETS



INVENTORY



REAL ESTATE



ACCOUNTS RECEIVABLE
& INVENTORY FIELD
EXAM



INTELLECTUAL
PROPERTY

EXPLORING ACCOUNTS RECEIVABLE AND INVENTORY FIELD EXAMS

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THE FUNCTION OF A FIELD EXAM

Accounts receivable and inventory field exams help lenders assess the quality, accuracy, and reliability of a borrower's financial records in relation to the assets and suitability of these asset classes for lending purposes. The AR field exam focuses on evaluating the collectability of accounts receivable and identifying ineligible and reserve categories. The inventory field exam verifies the existence and condition of inventory as well as accuracy of reporting. Additionally, they assess collateral availability to ensure they adequately support borrowing base calculations, and understand the 'performance' of the collateral under review generally over a 12 month period.

The findings from a field exam can impact lending decisions, from the initial loan structure for a pre-lend field exam to where we perform ongoing post lend audits to potential adjustments in loan availability, modifications to advance rates, or the enforcement of covenants if discrepancies are identified.

COMPANY BEST PRACTICES TO IMPROVE BORROWING CAPACITY

Companies can strengthen AR controls and enhance borrowing capacity by implementing effective credit risk management, optimising collection processes, and ensuring invoice accuracy. Regular reconciliations, proactive monitoring of overdue accounts, and minimising customer concentration and credit risk can further improve lender confidence.

Companies can optimise inventory management to improve borrowing capacity by maintaining accurate tracking systems, conducting regular stock

reconciliations, and preventing obsolete inventory build-up.

If a company is successfully implementing the above practices, this can lead to a higher percentage of eligible collateral within a borrowing base due to more current collateral with lower ineligible categories.

COMMON RED FLAGS

AR field exams often reveal ineligible receivables, such as past due invoices, high customer concentrations, pre-billing, or disputed/written off balances, which can overstate borrowing capacity. High dilution levels, driven by excessive credit memos, write-offs, or disputes, along with high turnover days, may indicate cash flow issues and increase the risk of bad debts from financially distressed customers, as well as poor invoicing and credit control processes.

With regards to inventory, field exams can uncover risks relating to obsolete or slow-moving inventory, which may overstate asset values and decrease liquidity. They can also highlight poor inventory turnover, where excess stock ties up working capital and further reduces liquidity.

TECHNOLOGY IMPACT

New technology has assisted in online meetings and easier data uploads verses the provision of data by historic paper documents. However, the field examination remains a fairly manual process of checking documents and making sure that they make sense and support the audit trail of sample testing. Visiting a client will always remain an important part of the field examination process to enable you to see how

a Company operates in practice, physically see the inventory, perform counts, check processes and meet the employees. A physical visit can provide more than just the data you request.

INFLUENCES FROM THE ECONOMIC CONDITION

Inflation can cause delayed payments as customers face higher costs and tighter cash flow, heightening the risk of bad debt. Supply chain disruptions may delay production, deliveries and invoicing while leading to stock shortages or excess inventory, which can result in higher carrying costs or unsellable stock. During a recession, reduced demand may lead to overstocking and obsolete inventory, while also slowing payments and increasing the likelihood of write-offs. Additionally, rising interest rates make it more expensive to maintain stock or finance receivables, further straining cash flow and escalating the risk of non-payment or excess inventory. Together, these factors increase overall risk for the borrower as well as lenders. There is also the potential for an increase in fraudulent activity.

A YEAR IN WITH CARYS

A year in with Hilco has allowed Carys to deal with various stakeholders including advisors, corporates, owners and lenders. The AR and Inventory Field Exam team has members from many different backgrounds such as ABL, restructuring and audit which has provided her with a wealth of knowledge and insight into the industry.

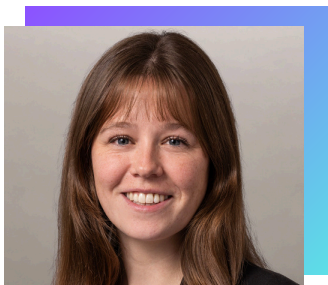
We want to congratulate Carys on passing The UK Finance IF/ABL Certificate Course, during her first year with us. This provides foundational knowledge for professionals working in Asset Based Lending and Invoice Financing. Covering key concepts, processes and risk management techniques involved in this type of financing, providing a broad knowledge of the industry as a whole from both a lender and a borrower perspective.

Carys looks forward to continuing to grow with the team and gaining more experience in the field.

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