



Financing of Inventory and Raw Material The Tokenization of Goods

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This paper provides an overview of how independently operated warehouses and distribution centers can act as custodians of physical assets enabling them to leverage the Sweetbridge Synchronized Accounting platform to enable customers to access lower cost financing of inventory. For information on the tokenization of assets see our paper on Trusted Tokenized Assets.

Lower cost financing of inventory and raw material

The Sweetbridge Synchronized Accounting platform enables LSPs¹ (Logistics Service Providers) to help companies lower their working capital cost or their working capital requirement. This is possible because these organizations can provide the evidence of existence, location, and condition of goods as well as facilitating the transfer of goods to new owners if loans default.

This means LSPs can act as custodians for the goods if they have the proper level of controls, insurance, physical audits, independence, and information about the products they control. Providing real-time information on the goods allows Sweetbridge to automate all seven corporate audit controls. This means financing sources can trust the information regarding the physical inventory. It also means that if inventory needs to be seized, it is already under the control of a third party that is ideally suited to transfer the inventory to new buyers in the case of default.

The Sweetbridge platform empowers LSPs to offer four new options to their customers:

- Automate the audit of financial controls around inventory
- Reduce the risk and, therefore, the cost of inventory financing
- Move the inventory financing from balance sheet-based to asset-based financing
- Hold the inventory off balance sheet

Working capital management is one of the key disciplines that distinguishes well-managed businesses from others to financiers, capital market analysts, and shareholders who evaluate the company. The less working capital is needed and the lower the cost of working capital, the lower the WACC (Weighted Average Cost of Capital). Lowering WACC increases profits and can actually affect the value of the share capital of the company. Holding inventory off balance sheet reduces the need for working capital and can change a positive working capital requirement into a negative working capital requirement.

How lower cost is achieved

The Sweetbridge Synchronized Accounting platform enables LSPs to reduce risk for companies that use their services. Risk is a significant driver of interest rates on loans. These risks come as a result of error, fraud, and latency on one hand and the risk to the bank's balance sheet from default on the other. By using the Sweetbridge platform, LSPs can reduce or eliminate these risks.

- Error and fraud are reduced by the platform's ability to audit inventory via the LSPs systems
- Latency is reduced via the platform's ability to perform these audits in real-time
- Bank risk is reduced by tokenization and real-time pricing of inventory so that its ownership can be changed instantly if a default occurs

The last thing banks want is to take back an asset. The platform can tokenize these assets so they can be sold to someone else easily on default using a swap to prevent the bank from taking them back.

Benefits

Automating the audit, reducing the latency of information, and providing new ways to lower the cost or need for working capital are new value-added services for LSPs. The value of these services is high and the costs are low creating new streams of high margin revenue in a low margin market. Acting as a custodian for goods in a supply chain offers a strategic value proposition that elevates the relationship from operational leadership to executive leadership. All of this provides a distinction in a crowded market and increases the motivation for companies to turn over inventory management and transport of goods to an independent external party. Customers using the Sweetbridge financing platform can even buy down their interest rate by 50% or more using a platform asset called Sweetcoin.

¹ independently managed warehouses, distribution centers, and logistics transport services