New CEO heralds new territory for Demica

11 March 2015

Michael Bickers talks to Demica's recently appointed CEO, Matt Wreford, about his new strategy for the company

Matt Wreford is the new CEO of Demica, but his appointment is about more than just taking over the reins from Phillip Kerle, the previous CEO, who managed a very successful operation, providing platforms for over USD60 billion a year of receivables finance services for Demica's multinational clients. Wreford now promises a new Demica under his leadership.

Until March 2014, Wreford was CEO of IPGL, a financial services holding company based in London. IPGL were involved in a range of businesses within the broader financial services sector, including fixed income brokerage, asset management and structured finance, some of which touched on receivables finance. In fact, the final project that IPGL worked on while he was CEO was the funding of Tungsten, the specialist acquisition vehicle set up prior to the purchase of OB10 and subsequently the granting of a banking license and the creation of alternative supply chain finance provider, Tungsten PLC. He left IPGL to launch a new supply chain finance firm in San Francisco focused on sub-investment grade corporates – business that he will continue within Demica.

Wreford's appointment followed Demica's purchase by a consortium of private investment companies: JRJ Group, TomsCapital, and 76 West Holdings, from the Huber Corporation in August last year. The new owners have significant experience in funding sub-investment grade corporates and saw Demica, with their sophisticated technology, as a vehicle to exploit significant funding opportunities, particularly in the space created by Basel III restrictions and impending changes in IFRS rules.

Wreford's and the new owner's plans for Demica move strategically beyond the supply chain finance, trade receivables securitisation, and invoice discounting platforms it currently provides. The 'new' Demica, as Wreford describes it, will also be providing capital in the SCF and TRS transactions that are on its platform.

For SCF, Demica will target a market currently not serviced by the banks. As Wreford explains, "During the period just prior to my move to Demica, we began to work on SCF concepts concentrating on sub-investment grade corporates and some of the challenges that relate to working in that space. In order to achieve the required arbitrage here you have to look further down in terms of size of supplier. This means in order to get the same level of spend as the banks are typically achieving (with their investment grade clients) at supplier penetration rates of around 15 per cent, you need to target maybe 1000 suppliers instead of 100".

Demica wants to focus on cross border supply chains where the suppliers are in places where the cost of capital is high, like China and Mexico, and where there is a lot of manufacturing for European and US corporates. In these regions, Wreford believes the required arbitrage levels can be achieved.

According to Wreford: “the banks rarely operate in the sub-investment grade SCF space because they don’t have the technology systems and legal structures to efficiently on-board suppliers on this scale, whereas Demica aims to automate the process.” Wreford wants to offer a mixture of technology combined with legal and accounting structures to bring a unique and novel approach to SCF. Wreford said: “the banks are not focused on this space and it has particular challenges for them in offering cross border SCF, although they may in time - already HSBC and Standard Chartered have very sophisticated SCF offerings”.

Wreford believes that Demica’s platform has significant advantages for handling these kinds of operations, but they are not alone in this space. “I would not say that there is no competition, but these things are complex and not easy to do. We control our own platform, which is a critical advantage in making modifications to the service,” he said.

The other major change in Demica’s business model is in the TRS market and, again, in the provision of capital. There are important impending regulatory changes to IFRS rules regarding balance sheet treatment. There is also Basel III under which there are significant capital requirements for banks if funding sub-investment grade corporates, explained Wreford. He went on to say that: “in the past the banks would have provided mezzanine capital in TRS structures but this has become prohibitively expensive under Basel III.” Demica will effectively offer, through collaboration with another party such as an insurance company, mezzanine capital as an alternative provider. “It’s a compelling opportunity for Demica because of the daily reporting requirements and our ability, using our monitoring and analysis technology, to manage the programme and mitigate the risk to funders.” This means that Demica will be able to partner with banks that it already has relationships with, in providing mezzanine capital in TRS structures, which those banks will no longer be able to economically provide themselves.

It was not that long ago that deal sizes in TRS needed to be in the hundreds of millions, but Demica’s technology and partnerships means it can target smaller sub-investment grade corporates which the banks are no longer focusing on. “Perhaps down to USD40 million dollars in deal size” said Wreford.

The combination of Wreford’s obvious drive and focused vision, together with Demica’s new owner’s access to capital and their experience in the sector, seems ideally positioned to take advantage of a growing and vastly underserved market. One to watch I think.