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## Factoring comes to Israel

14.2.2005 |

10:51

**Shmulik Yannay**

Almost a year ago today, Advocate Micah Avni was sitting in the bar at the Peninsula Hotel in Hong Kong with Shuki Schwartz, former point guard for the Maccabi Tel Aviv basketball team. Schwartz told him about the difficulties that he had faced as a young entrepreneur building his office furniture business.

In retrospect, Schwartz's furniture business, FINISH, is a success story, having been recently sold to a large Canadian company. But in the early days, he had difficulty raising money to pay employees and suppliers while waiting for customers to pay their bills.

This week Micah Avni, a partner at Jerusalem Global Ventures, signed an agreement to establish the first independent factoring company in Israel. Its purpose is to help small- and medium-sized businesses bridge the gap between payments to employees, suppliers and others, and the time it gets payment from customers.

In other words, factoring provides businesses with funding in exchange for an assignment of obligations and debt collection.

Avni named the company Peninsula Financial after the place where the idea was born. The company's investor group includes DE Shaw & Co. a major U.S. investment fund, the Dovrat Group, Goldman Investments & a leading private factoring company in the U.S., and Aharon Cohen from Pi Financial.

Avni brought Mariano Ptascinsky to Peninsula from Investec Bank, where he specialized in factoring. The company's board of directors includes Eylon Penchas & VP of Dovrat & Co.; Dr. Shlomo Kalish, the founder of Jerusalem Global Ventures; Nir Brunstein & CEO of Poalim Capital Markets and Darren Rockman & a Partner in Goldman Investments.

### Learning the business

Avni, 35 years old, immigrated to Israel some 20 years ago and worked at the law firm of Yigal Arnon & Co. Later he moved to Jerusalem Global Ventures where he served as a general partner. In the past year, Avni dedicated much of his time to visiting with factoring firms in the U.S. and learning the business.

In parallel, he recruited a number of investment houses that specialize in the field to provide financial backing for Peninsula. Avni discovered that factoring, which is a trillion-dollar business worldwide, is almost non-existent in Israel.

According to the World Bank, in 2003, factoring volume amounted to \$208 billion dollars in the UK, \$95 billion in France, \$145 billion in the US, \$195 billion in Taiwan and \$2.6 billion in Cyprus.

However, in Israel the factoring business is underdeveloped. According to the World Bank, the annual factoring value in Israel was only \$250 million, mostly from import and export deals financed by the banks.

Avni is sure that the situation will change in the near future: "The business will start to gain momentum over the next few months. We plan to provide one billion shekels in financing over the next five years. It is clear to me that we will not be alone in this market for long."

He stresses that he is entering the business for Zionist reasons as well. "All around the globe, small and medium sized businesses are recognized as the most important drivers of job creation" he said. "Large companies lay people off, while high tech companies recruit a small number of employees with a lot of money. Jobs are being created today in low tech."

Avni emphasizes that factoring companies diligence the quality of the clients and their business, and in this respect are positioned somewhere between banks, who focus on the company's financial situation, and venture capital funds, who fund only high tech. "This business is highly profitable, and highly risky. Our expertise is making sure that in 90% of the situations a polite phone call from a clerk reminding the customer to pay will be sufficient, so that we don't have to rely on collection proceedings."

Avni's new offices in Ramat Gan are not furnished yet, but that does not seem to bother him. "We are located on the 39th floor," he quips, making it the highest factoring company in the Middle East.

According to Avni, Peninsula will fund entrepreneurs who have started business and are seeking financing for the growth stage. "Our aim is to help 100

businesses get on their feet over the next five years. " Peninsula has already signed millions of shekels in deals with a professional cleaning service in Ran Gan, and a firm that specializes in importing and exporting chemicals.

**What is factoring?** Factoring aims to solve cash flow problems faced by most businesses. Today, businesses have no choice but to provide their customers with an average of 90 days of credit. During this time, the company must finance salaries, raw materials, and other expenses to provide goods and services for the customer. The cash flow problems that result from this situation prevent businesses from taking on new customers that require working capital. Factoring companies purchase the credit that businesses provide to their customers, and pay them cash immediately. By doing so, they alleviate the risk that the customer will not pay at the end of the day.

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