CORE ELEMENTS CONTENTS

THINK OUTSIDE THE BOX

THE BANKS MAY BE DRAWING IN THEIR PURSE STRINGS, BUT PLENTY OF ALTERNATIVE FUNDING OPTIONS EXIST, SAYS ADAM JOHNSON

Bank funding across Europe is set to become scarcer as finance institutions strategically retrench, focus on their domestic markets and exit certain product lines and jurisdictions. The Basel III bank capital efficiency regulations, together with pressure from governments, are also affecting the funding landscape, while the changing political climate across Europe (in particular, France, Greece and Spain) is likely to create further volatility across the eurozone.

As competition for bank capital intensifies, CFOs and their corporate treasurers are starting to search out alternative sources of finance. Besides traditional bank overdrafts, revolving credit facilities and term loan financing, there are many options for treasurers who are prepared to seek out and consider the funding alternatives that are available from bank and non-bank specialist finance sources.

Debt capital markets

Bond markets, typically a haven for major corporates, are currently open for both investment and non-investment grade institutions, although investor appetite has become increasingly volatile in the non-investment grade arena. The US private placement market has also become an attractive source of alternative capital for corporates with a good credit story. Combining financing from capital markets with traditional and non-traditional bank funding may work for those corporates with the right credit profile and/or strategic positioning.

Institutional capital

Long-term (5-10 years) non-bank institutional funding is increasingly available, in the right situations, to those corporates unable to access the capital markets. But investor-yield requirements can be equivalent to those in the high-yield market and there may be other structural

As competition for bank capital intensifies, CFOs and their corporate treasurers are starting to search out alternative sources of finance

and equity-inducement constraints. This is food for thought for companies seeking out value for money.

Asset-based lending (ABL)

Historically, there has been a myth that ABL is the alternative funding domain of SMEs and companies in distress. But ABL is a mainstream funding option in the US market; it is used by investment-grade corporates (through receivables securitisation, itself a form of asset-based lending), and is now increasingly seen in the capital structures of mid-market and corporate borrowers across the UK and Europe.

Typically, ABL is funding that is secured by trade receivables, but it also provides funding by leveraging a company's inventory and other longer-term fixed assets.

Commodity finance

Bespoke working capital financing is available for businesses regularly engaged in soft and hard commodity trade flows, for example, oil-based, food and agricultural products, minerals, metals, etc.

Equipment finance

Leasing solutions (operating leases, finance leases, sale and leaseback, and managed services contracts) exist across a wide range of assets. Because of this, leasing remains a core term funding option for a multitude of businesses, particularly where bespoke asset finance is required against individual/multiple assets, generating core, stable recurring revenues for the underlying business.

Distribution finance
This is a specialist financing solution that facilitates the distribution and sale of assets. In this instance, working capital is secured against finished goods from the moment they leave the production line through the dealer network and on to the end customer.

EXPLORE THE OPTIONS
Pools of alternative liquidity are available to treasurers who are willing to explore the funding options available to their business. Whether the financing requirement is for working capital, M&A, organic growth, turnaround or even refinancing away from dwindling traditional sources of liquidity, businesses are turning to their asset bases to secure the finance they need to stabilise, grow and even survive in a volatile environment.

KIM BROSKY

Alternative specialist finance business models are set to emerge into the mainstream

Given the likely regulatory and political climate of the immediate future, alternative specialist finance business models are set to emerge into the mainstream. From dedicated specialist asset-based and asset-backed lenders to mainstream banks, funders will devise considered solutions to meet the liquidity needs of their clients and fulfil their own ever-increasing return on capital requirements.

In future, we should see coordinating product verticals that follow the trade flow of clients – where securitisation, supply chain finance, ABL, commodity and trade finance disciplines can all coexist.

Adam Johnson is managing director of GE Capital. To find out more about alternative funding solutions for your business, email him at adamlr.johnson@ge.com

TOP TIPS FOR FINDING SUCCESS

❶
Plan well ahead. Research, review and consider the alternatives. Above all, allow for elongated credit decision processes.

❷
Whatever the scale or credit standing of your business, give due consideration to the underlying asset profile of your company. Assets are often overlooked as a viable alternative financing lifeline for many businesses.

❸
Consider the blending of the preferred capital structure: loan maturities, cost of funds, whether the debt is secured/unsecured, institutional mix, etc. Build flexibility into your financing arrangements and documentation to ensure that other forms of financing can be accommodated at a later date.

❹
Where appropriate, consider using a debt adviser or intermediary to help you understand the funding options available.

❺
Beware of over-reliance on historical relationships. The markets have changed, pools of traditional liquidity have dwindled and the cost of funding has increased across the market. Loss leader relationships are few and far between.