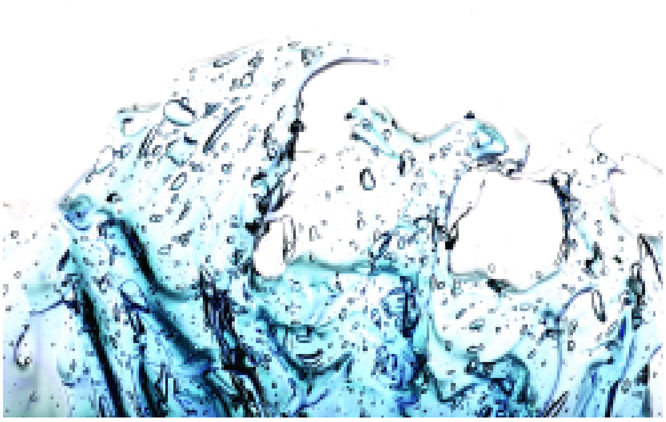
Capitalise your assets

ASSET-BASED LENDING OFFERS A GENUINE RELATIONSHIP AND FINANCING ALTERNATIVE, SAYS **ADAM JOHNSON**.



If ever there was a time for corporate treasurers and CFOs to proactively review legacy debt capital structures, maturity profiles, banking relationships and, importantly, the depth of liquidity available to them from both the traditional banking and capital markets, it is most certainly now, in today's "reset" environment.

With a combination of increasing tier 1 capital requirements, Basel III banking standards and Independent Commission on Banking reform recommendations looming, financial institutions are looking to the appropriate allocation of and return on capital deployed in their businesses. The "share of the relationship wallet" requirement has never been so strong. For financial institutions where the UK market is either non-core or where, in the absence of ancillary business opportunities, mere lip service has been given to high return on capital deployed, times are most certainly changing. Corporates are finding that relationships with their traditional funding partners are dwindling, both in respect of the number of partners and the volume of capital they are prepared to commit to the relationship.

The refinancing wall that looms ahead in 2012-2013 is likely to compound the problems, as corporates jostle for the attention of their funders and the broader capital markets in tapping the pools of liquidity available.

TRANSACTIONAL FLEXIBILITY AND RELATIONSHIP ALTERNATIVES Asset-based lenders offer genuine optionality, with a combination of structural flexibility, relationship and availability of capital. Certainly, for the independent asset-based lenders, where the share of the relationship wallet is less of an issue, we are increasingly seeing capital being put to use in support of refinancing, turnaround financing, acquisition financing and working capital solutions, without the insistence on ancillary business as an additional requirement to put their balance sheet to work.

WORKING IN HARMONY With an appropriate capital structure and asset profile, asset-based lending (ABL) works well alongside and in conjunction with other elements of a corporate's capital structure. Already in 2011, the GE Capital team has successfully executed transactions and is currently working with corporates, where there is a need to accommodate an ABL solution alongside senior debt, mezzanine, high yield, leasing, private equity and other elements of a corporate's capital structure.

SECTOR FLEXIBILITY In 2011, GE Capital has already put its capital to work in supporting many business segments, including packaging, paper, automotive, recruitment, printing, engineering, IT, distribution, equipment hire and retail.

LEVELS OF LIQUIDITY AND DISTRIBUTION RISK The level of liquidity from the ABL market is higher than most would expect, with the market being able to accommodate individual transactions of up to £500m.

Depending on the transaction size and structure, the approach at GE Capital is either to remove distribution risk entirely by holding assets on its own balance sheet through the provision of a bilateral ABL line, or to take an underwriting, club and material anchor-hold position in transactions of a certain magnitude. The team is currently engaged on a number of transactions looking to accommodate financing requirements ranging from £15m to £275m.

Capital is most certainly available and the challenge for asset-based lenders is to enhance communication with and their visibility to the UK corporate market. Based on transactional activity at both GE Capital and in the broader ABL market, we have high expectations that 2011 will see an increase in ABL penetration across the UK corporate market. As we head into 2012 ABL will be positioned as a mainstream, credible alternative and supplement to traditional forms of bank and capital markets financing.

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