Coming of age

ADAM JOHNSON EXAMINES THE LATEST SOLUTIONS IN CROSS-BORDER AND PAN-EUROPEAN RECEIVABLES FINANCING.

Asset-based lending (ABL) has evolved from the invoice discounting and factoring markets, which typically serve the local needs of small and medium-sized enterprises (SMEs) and small mid-market corporates across UK and Europe. But with an innovative product mix, structuring options and large pools of capital available, corporates, sponsors and the advisory community are increasingly turning to the ABL market as a mainstream source of funding. In the aftermath of the credit crisis, with a dearth of traditional bank funding, strategic exits by a number of funding institutions in certain markets, and the forthcoming implications of Basel III, the ABL community is at long last making its presence felt.

As a wave of refinancings and "amend and extends" approach maturity in 2012 and 2013, CFOs, treasurers and the advisory community are realising the need to review their existing bank relationships and the depth of liquidity available from traditional senior debt markets. They seek to determine the extent to which they should consider alternatives and broaden their horizons into the debt or equity capital markets… and more often, now, into ABL.

ABL FITS WELL ACROSS MULTI-TIERED CAPITAL STRUCTURES
ABL should not be viewed solely as an occasional source of additional liquidity. It works increasingly well with multiple stakeholders and different tiers of the capital structure – e.g. high yield, convertible bonds, subordinated debt, mezzanine finance and even conventional senior debt.

Importantly, applications of ABL are much more widespread than is typically appreciated. Recently, ABLs have been seen to support a multitude of requirements, including acquisition finance, management buy-outs and buy-ins, senior debt refinancing and turnaround finance. Increasingly they are considered a credible alternative to the trade receivables securitisation markets.

MITIGATION OF EXECUTION AND DISTRIBUTION RISK Under the right conditions and with the right structures, ABL can be used to optimum effect in either removing or significantly mitigating distribution risk for the corporate client, through a combination of fully underwritten, "underwrite and hold" or anchor hold positions of a material nature. At GE Capital, the structuring capabilities and pools of capital available have been used optimally in the £175m underwrite and hold financing for Jaguar Land Rover, financing finished goods across both UK and US jurisdictions, and more recently in the $500m underwrite and hold cross-border financing for Alcan, which required GE Capital to fund pools of receivables in France, Germany and Switzerland and additional asset classes in the US. In the past few weeks, GE Capital has also closed a combined $450m

financing for International Automotive Components Group, incorporating a $275m ABL solution in the US and a €125m pan-European receivables financing solution across five European jurisdictions.

CROSS-BORDER AND PAN-EUROPEAN RECEIVABLES FINANCING It is GE Capital's approach to – and capabilities in – structuring cross-border and pan-European financing solutions that can provide corporate treasurers and CFOs with a genuine, credible financing alternative or a supplement to other pools of liquidity, where there is a need for simplicity, a large capital hold appetite and increasingly, a desire to minimise the number of relationships across multiple stakeholder groups.

One such solution that is finding increased favour with corporates is GE Capital's Securitisation Lite receivables financing, which creates a single source of funding by pooling receivables from multiple European jurisdictions into a single bankruptcy-remote entity. It typically caters for corporates with a European receivables pool of more than £500m and which may have been considering multiple standalone financings across Europe or a rated securitisation. A typical GE Capital corporate client will be either unrated or rated to an equivalent of BB+ to CCC.

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Figure 1: Structure and key benefits of Securitisation Lite

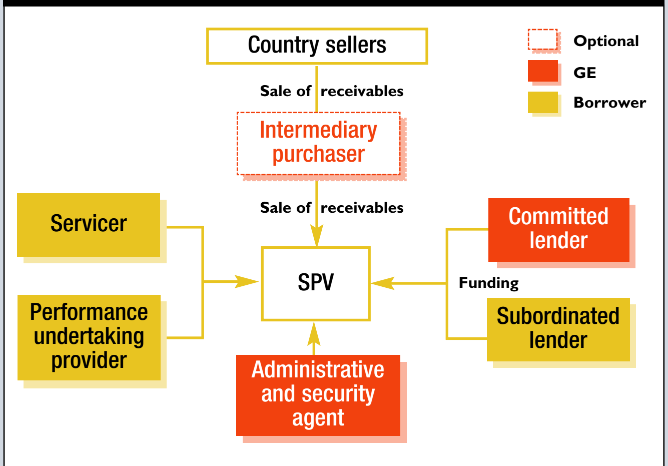


Figure 2: Securitisation Lite vs traditional securitisation

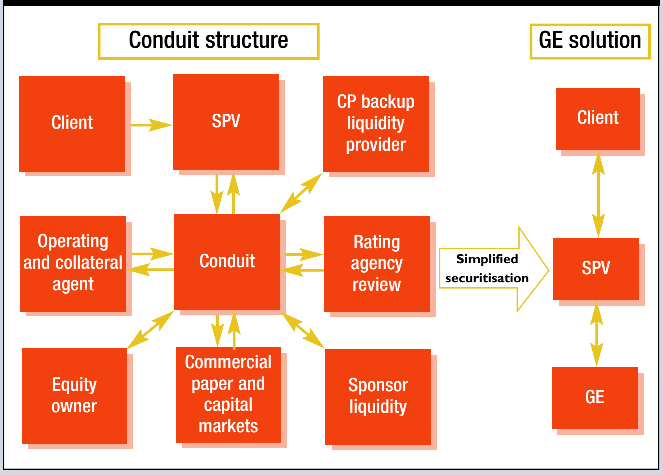
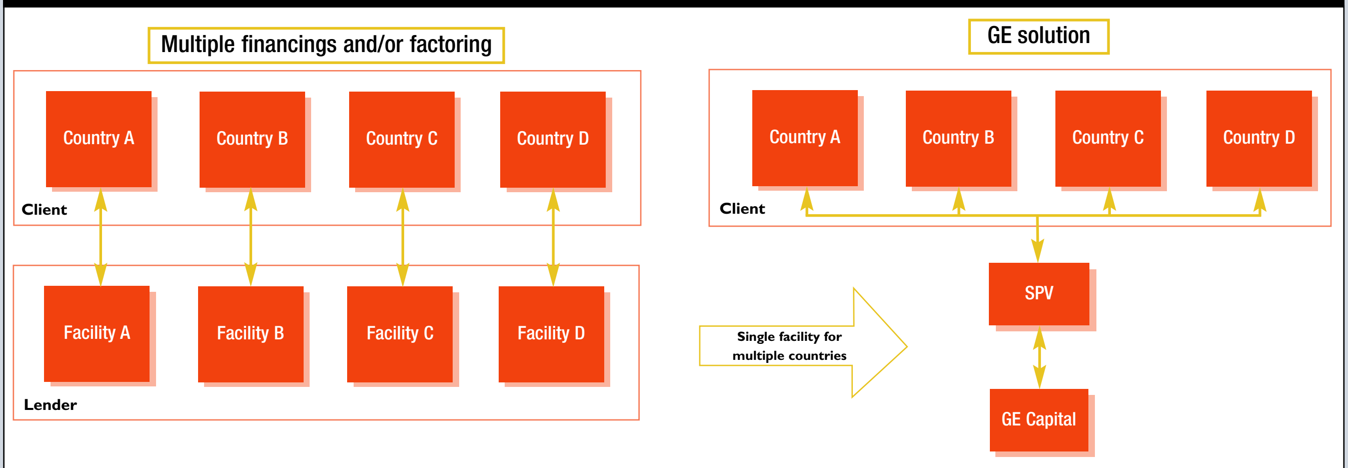


Figure 3: Securitisation Lite compared to standalone local factoring facilities



Put simply, GE Capital's solution removes the need to manage multiple stakeholders, thereby removing material distribution and execution risk. At the same time, GE Capital puts its own balance sheet to work by committing tangible amounts to provide funding to clients.