ABL stands firm

ADAM JOHNSON PRESENTS THE ASSET-BASED LENDING ALTERNATIVE IN A CHANGING FINANCING ENVIRONMENT.

What a year it has been. Even as I take stock, market sentiment is once again clearly turning, with new (and old) headwinds emerging, including benign economic growth, inflationary pressures, fiscal tightening, sovereign debt crisis and the onset of new banking regulation, following publication of the Vickers Report.

Just three to four months ago, equity markets were buoyant, high-yield issuance was at record levels and the leverage markets were starting to evidence higher debt multiples in structures of up to 7x in some instances, along with the loosening of covenants. In GE Capital's asset-based lending (ABL) businesses, we had a record first half for both commercial lending (UK SMEs with turnover up to £100m) and corporate structured finance (UK and pan-European mid-market and corporate enterprises, with turnover between £100m and around £3bn).

We were closing transactions covering turnaround financing, working capital growth, acquisition financing, cross-border financing and refinancing. Nor did specific industry trends emerge, with activity in evidence across paper, packaging, automotive, consumer goods, retail, printing, pharma and equipment hire segments, to name but a few.

Most recently GE Capital put its balance sheet to use in acquiring the UK business of Eurofactor (UK) from Crédit Agricole, cementing GE Capital's position as the leading independent ABL provider in the UK. There is widespread consolidation across the industry, and as an independent industry leader GE Capital is naturally a big part of that. There is a dramatic growth focus within our organisation and a business development acquisition such as this is complementary to our organic growth. GE Capital lends more than £4bn in volume terms to UK SMEs and corporates through its accounts receivables (AR) finance business every year. The acquisition of Eurofactor (UK) will increase GE Capital's lending to SMEs by more than 60%, supporting its position as one of the UK's leading non-high street providers of AR finance.

Turning the corner into the second half of the year, the market and economic murmurings that were self-evident throughout the first half have suddenly sprung into life, and market and economic volatility has re-emerged. Equity and European high-yield capital markets have shut, CLO (collateralised loan obligation) funds are winding down, and banks are reviewing their risk appetite, their future business and jurisdictional strategy, and the allocation of capital and returns. A wall of refinancing also remains to be accommodated in some capacity.

This uncertain and evolving environment should be an excellent opportunity for asset-based lenders on a growth trajectory and with capital to spare. The ABL business model has evolved from the traditional domestic, SME factoring and invoice discounting model. It now encompasses more bespoke structured financing solutions, both domestic and cross-border, tailored to the mid and corporate markets, and provides a credible source of liquidity and financing options for CFOs and treasurers alike. It can be used for refinancing, acquisition finance, working capital growth or financing to assist in turnaround and restructuring.

Increasingly, ABL is in evidence across multi-tiered capital structures, sitting comfortably alongside existing senior debt, high yield, subordinated debt and equity stakeholders. Importantly, with the depth of liquidity available from the ABL market and development of cross-border financing solutions, ABL is increasingly a significant presence in this evolving market environment and should be an important consideration for treasurers and CFOs alike.

As we close the year out, and take a sense check of the near-term outlook into 2012 for the current economic, banking and capital market environments, we believe there will be considerable corporate financing activity. For a number of corporates, this will require a diversification away from conventional funding sources to alternative forms of financing, including ABL.

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