

Give liquidity a lift PART II

Executive summary

- Leveraging the balance sheet can raise funding for a variety of key corporate scenarios such as M&As, refinancing or restructuring and complex cross-border transactions.

Cash management issues have inevitably come into sharper focus during the current economic downturn, but treasurers have at their disposal a number of sophisticated tools to help boost working capital and release funds for expansion. An increasingly popular source of funding with treasurers and other cash managers is asset-based lending (ABL), which includes invoice discounting and cashflow loans.

Increasingly, ABL is demonstrating its suitability for meeting complex funding requirements by enabling companies to secure financing based on the amount, quality and liquidity of their accounts receivable, inventory and fixed assets.

The flexible nature of ABL means it can be used in a variety of scenarios which require strong cashflow and access to working capital, such as M&A activity, refinancing and restructuring, funding for growth, public to private transactions and buy-outs.

MERGERS AND ACQUISITIONS When carrying out a strategic transaction such as a merger or acquisition, many businesses are unable to use funding from cash reserves alone and would often prefer not to relinquish equity or take on additional senior debt.

Earlier this year, Smiths News looked to acquire book wholesaler Bertram Group, a former division of the Woolworths group, to build scale and extend its capabilities. Smiths News demerged from WH Smith Group in 2006 and has grown to become the UK's largest newspaper and magazine distributor, delivering over 59 million publications to 23,000 customers every week. It has since acquired the business and assets of Bertram Group, a leading wholesaler of books to independent, online and multiple retailers.

To facilitate this acquisition, Lloyds TSB Commercial Finance



developed a £20m package of working capital facilities secured against the value of the firms' existing assets not only to fund the deal but also to increase stock availability post-transaction. The ABL facilities were structured to match the needs of the business, and designed to provide rapid access to working capital post-completion.

The enlarged firm will have a combined turnover in excess of £1.2bn and will employ over 4,500 people. The acquisition will expand Smiths News' product and service offering and, following the deal, management are using the enhanced scale, resources and distribution channels of the enlarged company to maximise cross-selling opportunities and drive further growth.

ABL is increasingly being called upon to help structure complex deals which involve forming close working partnerships with advisers and management teams. These deals require the strength of the enlarged business to provide the funding required, not only to complete the initial transaction but also to ensure strong working capital post-deal. This highly strategic approach gives a business the headroom to target further organic growth and the ability to ramp up facilities quickly to support further complementary acquisitions.

CAPITAL FOR EXPANSION AND CONTINUED INVESTMENT In addition to funding M&A activity, ABL can be tailored to match and support a firm's short, medium and long-term goals. For example, it is often used to help businesses to continue investing in their growth by providing the capital needed to enter new territories, diversify product range or boost capacity. Being linked directly to the value of the debtors and inventory is very attractive, particularly to working capital-intensive businesses, as it enables a firm to borrow against its existing assets to execute their expansion without putting additional strain on cashflow.

Lloyds TSB Commercial Finance recently put together a £77m ABL package for the UK's leading animal feed manufacturer, BOCM PAULS, to enable it to continue investment in production and support its ongoing growth strategy.



SIMON FEATHERSTONE CONCLUDES HIS REVIEW OF ASSET-BASED LENDING BY DELVING FURTHER INTO THIS FORM OF FINANCING AND SHOWING HOW DIFFERENT BUSINESSES HAVE USED IT TO MANAGE THEIR CASH MORE EFFECTIVELY.

Established in 1992, the £500m turnover business produces over two million tonnes of cattle, pig and poultry feed annually for livestock breeders in the UK and Europe. The firm employs 1,000 people in 20 mills located across the UK.

The refinancing package is secured against the value of BOCM PAULS' sales ledger, property, plant and machinery and includes a £55m accounts receivable facility. As a result of the funding, the business is expanding distribution of its animal feeds across the UK and aims to open up a new plant before the winter feeding season commences.

Recognising the value of ABL, James Powell, finance director of BOCM PAULS, says: "This improved funding package gives us the facilities we need to support our growth strategy. Completing a refinance in this difficult financial climate is a major achievement and demonstrates the confidence that Lloyds TSB Commercial Finance has in our business. We look forward to continuing our working relationship with them."

ARRANGING MULTI-CURRENCY FACILITIES The ABL industry has become highly sophisticated over the last decade and is able to provide tailored solutions for businesses of all sizes, from SMEs right up to multinationals with complex cross-border requirements. ABL is a robust means of financing and, by working in conjunction with the corporate finance community, syndicates can be formed which are capable of releasing enough funding to complete major transactions.

One of the biggest multicurrency ABL deals ever completed in the UK was arranged last year – a \$500m syndicated facility for Aero Inventory – to enable it to continue its growth plans.

The business is a provider of inventory management and procurement services for the consumable parts used in commercial aircraft maintenance. It holds over 34 million components across 10 countries and has contracts in place with airlines and aircraft maintenance, repair and overhaul businesses.

The refinancing package developed by our Large and Major Corporates team was secured on the company's inventory and trade

debtors in the UK, Ireland, Canada, the US, Hong Kong and Australia.

The scalable ABL package increased the company's available facilities and provided working capital headroom to support potential future contract wins and growth. In addition, the ABL package provided Aero Inventory with sophisticated loan management and close monitoring techniques. The scale of this transaction proves just how complex ABL offerings can be and demonstrates the growing global presence of this financing solution. Rupert Lewin, chief executive of Aero Inventory, says: "The ABL package is a further positive step in support of Aero Inventory's growth plans."

REFINANCING The current economic climate has brought about an increased demand for refinancing once an existing package expires as other forms of funding can be more suitable for a firm's changing requirements. ABL can closely match an individual company's needs and be scaled up or down depending on its circumstances, allowing it to fulfil maturing debt obligations.

Earlier this year, timber venture Pontrilas Group secured an £8.3m refinancing package to enable the continued investment in its two trading subsidiaries. To support its ongoing plans, Pontrilas Group invited one of the UK's leading banks to provide an integrated funding package. Lloyds TSB Corporate Markets provided £1.8m of facilities and worked alongside its ABL division, Lloyds TSB Commercial Finance, which provided a £6.5m funding package.

Established in 1947, Pontrilas Group is a £26m turnover, third-generation, family-run business that provides timber and timber-based products to a wide range of industries, including construction for new-build projects, repair and renovation, as well as the manufacturing and distribution sectors.

As a result of the new funding, the company expects to expand, develop new markets and continue to invest in the growing renovation sector, which now represents almost half of the total building work carried out in the UK.

Edward Hickman, managing director at Pontrilas Group, says: "The teams at Lloyds TSB took time to really get to know us and our business, which means that the facilities we have been offered are tailored to our exact requirements. This will enable us to meet our commitment to invest in our business and to continue providing customers with quality products and efficient customer service."

CONTINUED POPULARITY OF ABL Cash managers are increasingly realising the benefits of leveraging the balance sheet to raise cash to fund a variety of scenarios such as M&As, refinancing or restructuring and complex cross-border transactions.

The most sophisticated ABL providers take a case-by-case approach to lending and, as well as funding a firm's initial working capital requirements, provide "through the cycle" support to enable the facility to grow in line with sales and match the business's ongoing corporate strategy.

Its benefits and applications are expected to continue cementing ABL as one of the most popular types of credit facility in the current financial climate and it will play a key role in helping businesses to capitalise on increased demand in a post-recession economy.

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