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ALTERNATIVE BORROWING



ASSET CONVERTERS

The growth of lending against receivables and intangibles illustrates one of many creative ways of raising capital

In July this year we had two strong pieces of evidence to support the theory that asset-based lending is becoming more popular and more sophisticated. The first was that the Factors & Discounters Association changed its name to the Asset Based Finance Association (ABFA) simply to reflect the growing diversity in assets now used in lending. The second was the release by ABFA of figures showing that outstanding advances against assets grew by 22% during 2006 to stand at £13.65bn at the end of the year.

As Jeff Macklin, MD of FDUK, says: "45,000 UK companies have now used some form of asset-based finance, and the industry is now estimated to be worth £158bn and is growing by £10bn each year. While it was once seen as the last chance saloon of business finance, and a clear indicator that a business was in trouble, it is now increasingly being used by shrewd financiers as a strategic means of managing cash flow and providing working capital."

The invoice financing industry has been strong in the UK for some time, but until recently financiers have shied away from using other assets for finance. This has all changed in the past five years. Now, it is fairly common for companies that have invested heavily in stock, such as manufacturers, print firms and retailers, to borrow against stock, property, machinery and equipment.

Alternative finance

MFI is a good example of this. In 2005 it was in trouble: while its trade division Hewson was making £100m a year, its better-known retail division MFI was losing almost exactly the same amount. It was on the verge of breaching a loan covenant and so needed some alternative finance. It was unlikely to receive any from traditional finance sources, so it turned to asset-based lenders.

Terry Powell at Lloyds TSB commercial finance, says: "We looked into the business and in February 2006 we lent it £150m on the back of its debtors,

its stock and its property. This gave the company certainty of funding and allowed it to focus on its turnaround strategy."

A year later, when it sold the retail arm to venture capitalists and became Galiform, Lloyds was able to increase the lending to £175m, simply because it had removed the loss-making arm of its business, and so the financiers were more confident about its prospects.

"When we first started doing asset-based lending in 1991 it wasn't that popular. Now, though, it's coming to the forefront. It's a good way for us to help clients who have run into difficulties," says Powell.

Other finance companies are going much further. They are beginning to use asset-based lending not solely for business recovery, but also for mergers and acquisitions. In fact, according to a survey among 100 financiers by GE Commercial Finance, the most popular use of asset finance in 2006 was for MBO/MBI deals. Merger and acquisitions were also popular, with those 100 financiers reporting that, in 2006, they completed an average of 4.8 M&A deals each using this method, compared to just 3.4 in 2005.