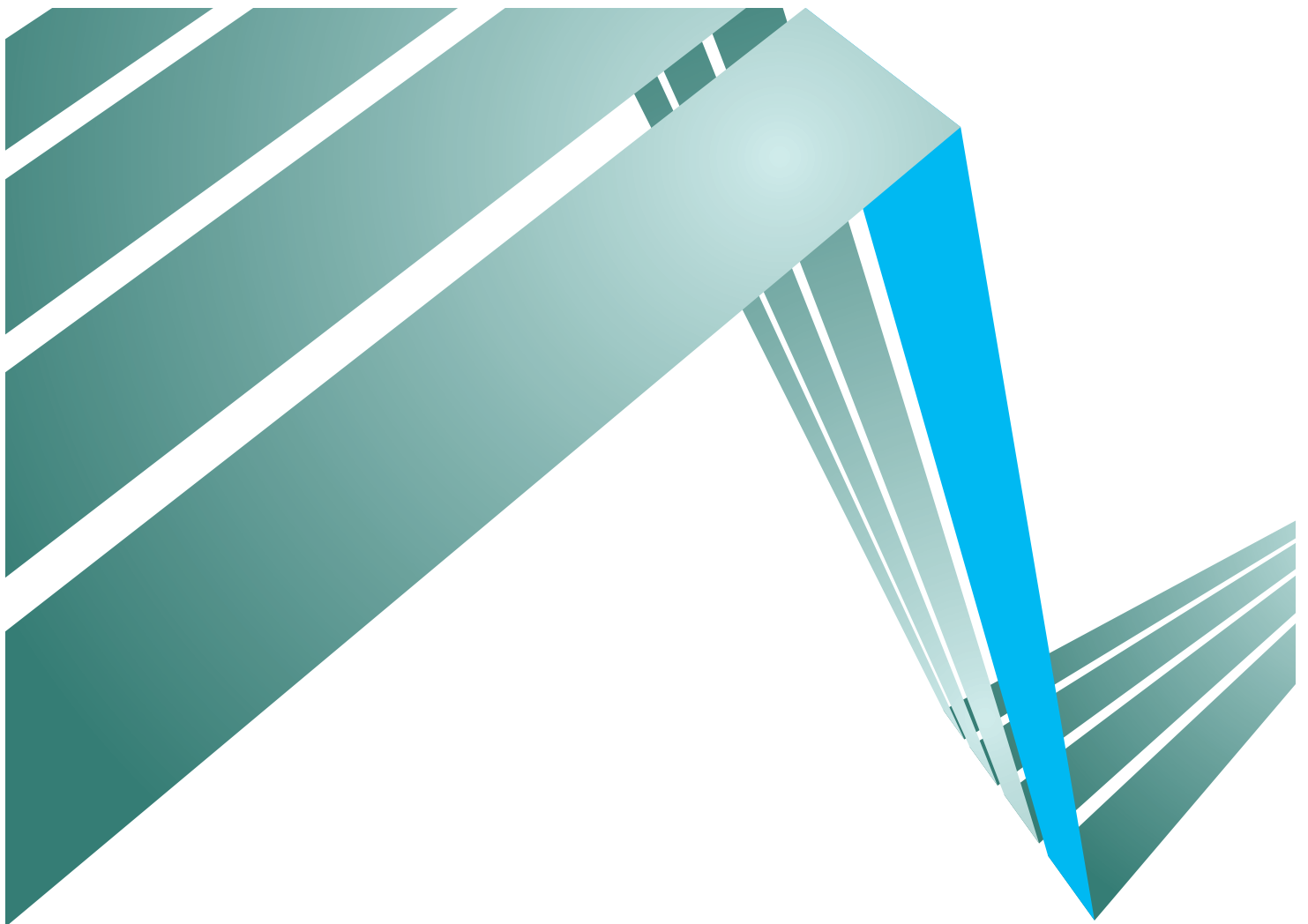


***THE BEST LAID PLANS.***  
*ACCESSING STRATEGIC FUNDING.*



***TURNING  
THE CORNER***

***ON THE 27TH AUGUST 2009, THE CBI ISSUED A REPORT\* WHICH INDICATED THAT BUSINESS CONFIDENCE WAS STARTING TO RETURN TO THE MARKET. THE REPORT SHOWS THAT MANY COMPANIES ARE NOW THINKING ABOUT STRATEGIC OPTIONS AND ARE LOOKING FOR A FINANCE PACKAGE THAT WILL HELP THEM TAKE ADVANTAGE OF POTENTIAL OPPORTUNITIES.***

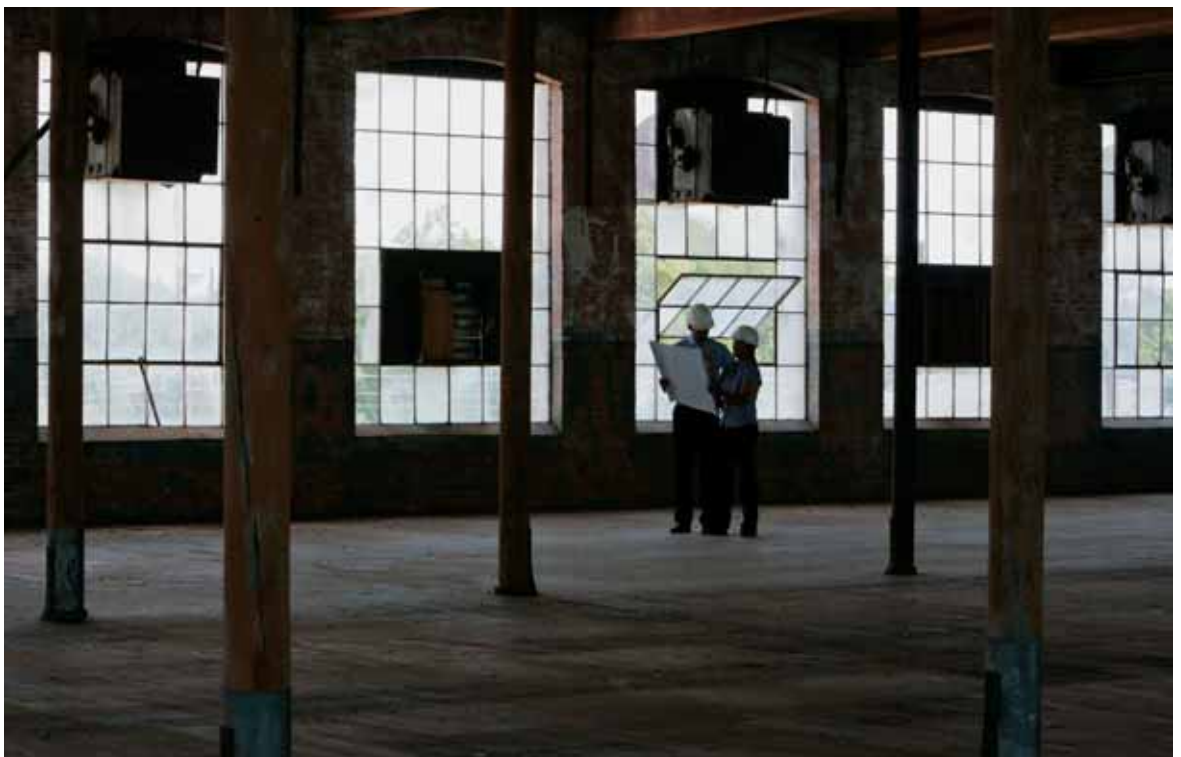
If you are considering any kind of strategic event or reshaping your capital structure and your strategic demand for capital is in excess of £10m, then you may wish to consider strategic debt finance as a means of raising some or all of that capital.

For advice on what banks look for when lending lower amounts, see our banking funding guide “A Different Perspective”.

Many of you will have been through the lending process before, so the following guide to strategic debt finance will be more of a refresher compared to those looking to fund a strategic event for the first time. However, in the current environment, where companies can see the value in taking advantage of strategic opportunities but when the economic outlook is still a little unclear, you need to ensure a strong strategic partnership with your bank to demonstrate that whatever event you want to carry out can be supported and will be successful.

The following guide provides an insight into the current lending environment and areas to focus on when considering if strategic debt finance is the right option for your business.

\*The Distributive Trades Survey covers 20,000 outlets of firms responsible for 40 percent of employment in retailing.



## THE LENDING ENVIRONMENT.

One outcome of the recession is that funding, of any nature, has become harder to come by for businesses. This has been compounded by a slowdown in deal-making between businesses and in investments made by private equity firms. Barclays is, however, open for business and has signed and funded a number of transactions for strategic debt finance in 2009.

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Each bank will have its own parameters for approving strategic loans and businesses that make an effort to forge a close relationship with their bank will stand a much better chance of success. Broadly speaking, if you want to arrange a strategic term loan you should consider the following steps:

- Contact the bank early in the process
  - Articulate your business strategy thoroughly and be prepared to explain how you plan to achieve it
  - Be realistic about the market and the debt multiple (size of loan)
  - Be prepared for the wider management team to attend meetings with the bank, not just the finance director, as they will want to learn about the management structure and get a full view of who is leading your business.
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The bank will then work with you to construct the best structure for your business's specific circumstances.

If the size of the loan is such that more than one bank is involved, your bank will help by communicating with the other institutions and by leading the process of coordinating meetings and documentation.

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## KEY AREAS FOR FOCUS.

If you are looking for finance to fund a strategic event you will need to prove to your bank that your business will be able to stand the test of time by demonstrating good management, a strong customer base, a solid supply chain and suitable systems. You should also be able to articulate the key performance indicators for the business. The financial results that your business produces will be the output of these elements, but the financial figures are also something that the bank will want a clear understanding of. In the following section we take a closer look at these areas.

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### *BUSINESS MANAGEMENT*

This is arguably the most important aspect of your business and will undergo the most scrutiny if you are considering any type of strategic debt finance. Key focus areas for management structures are:

- **Experience** – Do you have the right mix of people to undertake and manage the planned strategic event?
  - **Structure** – Do the reporting lines and culture fit the business?
  - **Succession** – Is there a succession plan in place and is the experience of potential successors aligned to the strategic plans of the business?
  - **Strategic objectives** – Do the objectives of the business complement those of the bank?
  - **Incentives** – Is the team incentivised to make the deal work long term?
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### *CLIENT BASE*

No matter how strong your business is, if you rely too heavily on a single or small group of big customers, this may present a risk in your ability to obtain strategic debt finance.

Therefore, the nature of your customer base will influence the level of debt a bank will be willing to consider. Alternatively, a good selection of loyal customers will put you in a stronger position.

In some cases, where a business relies on a few sources of income, a bank will seek to assess the customer base through professional due diligence. It will look at the strength of the contracts and of the businesses you supply. If the results are positive, the bank could still approve finance.

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## *SUPPLY CHAIN*

Your supply chain is central to your continued viability as a business and potential to grow. Key focus areas for any lender are:

- Who are your suppliers?
  - How robust are they?
  - Can they scale with you?
  - What are the risks to your supply chain?
  - Could your input costs rise?
  - Are your suppliers able to change your terms easily?
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## *SYSTEMS*

This is particularly relevant to larger businesses with multiple locations and senior management based in more than one country. You will need to demonstrate that you have systems in place to collate management information easily.

How information is packaged up, delivered to central management and ultimately acted upon must be appropriate to the business's goals. For example, in a manufacturing business it may be desirable to have rigid systems whilst 'people-based' service firms may require a less structured approach.

This aspect of your business will be magnified if you have acquired other businesses in the past.

- Do your systems match up?
  - Have you integrated them fully and is there a centralised network upon which the business is run?
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## *KEY PERFORMANCE INDICATORS (KPIs)*

Both financial and non-financial (operational) KPIs are relevant.

Financial KPIs are an output and derived from the operation of the business.

Outputs that banks will be interested in include:

- Turnover
- Cash conversion
- Gross profit margin
- Working capital ratios.
- Operating profit margin

Operational KPIs will vary across industries. For example a nursing home would look at occupancy levels as one of its KPIs, while a subscription based publisher will look closely at renewal rates.

The key focus areas when discussing KPIs with your bank include the ability to:

- Understand and share the appropriateness of your KPIs
- Explain KPI trends
- Articulate how you act on KPI outputs.

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## *FINANCIALS*

Financials are an output of your strategy and whilst they are a snapshot in time, they provide an insight into the financial health of the business. Banks will want to understand and evaluate both historic and projected performance. Focus areas include:

- How you are benchmarked against your peer group
- Accounting policies – revenue recognition is key
- Trend analysis of the last and next three years – T/O, GP, EBITDA, EBITA, margins, working capital ratios, capex, cash conversion
- Off balance sheet assets/liabilities
- Free cash flow (FCF) – analysis and sustainability are key.

In terms of your projected performance, be prepared to supply forecasts for up to three years and a financial model. Ensure you provide clear detail around the assumptions that drive the forecasts and be realistic.

Most forecasts will project growth; however banks will consider potential risks to the forecasts and will look to discuss sensitivities with you.

## **MARKET POSITION.**

You do not necessarily need to be a market leader to obtain strategic debt finance. However, you must be prepared to demonstrate how you plan to develop your market share and articulate possible challenges. The size, shape and nature of the market you operate in are also key factors.

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### *1. ARE YOU OPERATING IN A MATURE MARKET?*

A market that is proven and established is more likely to be robust, stable and predictable – all factors which are attractive to lenders.

We now live in a fast-changing world and both the dot.com boom at the start of the decade and more recently the rise of social networking websites, contain examples of industries that challenge the way we have traditionally thought. In both cases market share would have been taken from “traditional” businesses and due to rapid growth online, established online names would have been overtaken by newer rivals. This is one example of an evolving and less predictable market.

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### *2. IS YOUR BUSINESS COUNTER-CYCLICAL?*

Economic growth moves in cycles and the majority of businesses fair better when the economy as a whole is strong. However, some businesses perform better during a downturn as many look to seize the opportunity to expand either by acquisition or organically. These could include firms that offer value to customers or ‘must-have’ goods and services, regardless of prevailing economic winds.

In the current climate, your business will stand a better chance of being approved for strategic finance if you can demonstrate growth potential even when the going is tough.

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### 3. MARKET ANALYSIS TOOLS

Porter's Five Forces and PESTLE are useful market analysis tools that you might wish to consider when identifying key risks.

#### Porter's Five Forces

The Economist Michael Porter came up with the hypothesis that all industries are governed by five forces which determine the competitive environment for companies working within it. Many banks use this model to help construct a risk profile for your business. The Five Forces are:

- **Supplier power** – How big and powerful are your suppliers and can they command the market easily?
- **Barriers to entry** – How much does it cost to enter the market? Are distribution channels accessible? Can you be copied easily?
- **Threat of substitutes** – How likely are customers to switch? Will new products make yours less attractive?
- **Degree of competitive rivalry** – This is ascertained from an analysis of the company's competitors.
- **Buyer power** – How much control do buyers have in the market? Is there high price sensitivity, high levels of education and clear product differentiation?

#### PESTLE Analysis

It is important to analyse the political, environmental, social, technological, legal and economic factors which could pose a risk to your business.



## ***FURTHER CONSIDERATIONS IF YOU ARE MAKING A STRATEGIC ACQUISITION.***

If you are looking to make a strategic acquisition, banks will also need the following information.

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### *EMOTIONAL DRIVERS*

Banks will look to understand the following:

- Why the business you are considering purchasing is up for sale
  - Why it is of particular interest to you
  - Where the equity piece of the purchase is going to come from.
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### *DUE DILIGENCE*

If you are looking to make a strategic acquisition, it is in both your and the bank's interest to commission external due diligence on the business you are looking to purchase. The main purpose of this is to confirm your knowledge and understanding of the target company. Due diligence can take many forms but the most common are:

- Financial
  - Commercial
  - Operational
  - Legal.
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### *INTEGRATION PLAN*

If you are looking to acquire another business then successful integration is absolutely key. Banks will want to understand the following:

- How do you intend to integrate the target company?
  - Do you have a 100 day plan?
  - What are the operational assumptions behind these?
  - How will you monitor progress?
  - What (if any) extra resource is being taken on for the integration? Management stretch should not be underestimated in making an acquisition.
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## DEBT QUANTUM.

Once you have been successful in conveying your business case for strategic debt funding, the bank will need to assess the amount of debt it is willing to offer.

Your bank will take into account a range of factors in its assessment of how much it will be prepared to loan you. The following is a list of some of the things it will consider:

- The size and profitability of your business
  - The attractiveness of your market
  - The value of your assets
  - Whether those assets are available to secure the loan
  - Your company's value
  - Level and sustainability of your cash flows
  - The company's ability to scale.
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## IN A NUTSHELL.

- *CONTACT YOUR RELATIONSHIP DIRECTOR EARLY IN THE PROCESS*
- *ARTICULATE YOUR BUSINESS STRATEGY THOROUGHLY AND BE PREPARED TO EXPLAIN HOW YOU PLAN TO ACHIEVE IT*
- *BE PREPARED FOR THE WIDER MANAGEMENT TEAM TO ATTEND MEETINGS WITH THE BANK, SO THEY CAN GET A FULL VIEW OF WHO IS LEADING YOUR BUSINESS*
- *CONSIDER ALL DEBT STRUCTURES AVAILABLE*
- *BE REALISTIC ABOUT THE MARKET AND THE DEBT MULTIPLE.*

### ***WHERE TO GO FOR MORE INFORMATION.***

If you would like to discuss this further, please contact your local Barclays Corporate Relationship Team, visit [www.barclayscorporate.com](http://www.barclayscorporate.com) or call 0800 015 1921\*.

This item can be provided in Braille, large print or audio by calling 0800 400 100\* (via Text Direct if appropriate). Or order online at [www.barclays.co.uk/accessibleservices](http://www.barclays.co.uk/accessibleservices)

\*To maintain a high quality of service, your call may be monitored or recorded for training and security purposes. Calls to 0800 numbers are free of charge, when calling from a UK landline. Charges may apply when using a mobile phone or when calling from abroad. Lines are open 9am to 5pm Monday to Friday.

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