BARCLAYS

Funding business expansion

Asset Finance and Asset-Based Lending as alternative approaches to Debt Finance

Targeting growth

If there was any doubt whether the UK economy remains on the path to growth, look no further than the soaring demand from companies looking for funding alternatives to traditional Debt Finance. Asset Finance and Asset-Based Lending volumes are reaching new highs, largely driven by business expansion plans instead of the replacement of traditional loans or overdrafts.

UK companies raised £25.4bn[1] in Asset Finance in 2014 – borrowing against a business's non-property physical assets, according to the Finance & Leasing Association. That is up about 13% on 2013, and the highest annual rate of increase since the global financial crisis. Asset-Based Lending, which provides funding against assets such as receivables and inventory, reached a record £19.4bn in September 2014, says the Asset Based Finance Association (ABFA).

Barclays expects similarly healthy increases in new business growth in these flexible forms of funding for 2015. "Asset-Based Lending and Asset Finance have moved into the mainstream in the UK," says Wayne Hiley, Head of Debt Finance (Northern Region) at Barclays.

"With the economy picking up speed, companies are looking to expand and quickly take advantage of fresh opportunities. Sometimes traditional Debt Finance isn't right for a business and other mechanisms are sought to optimise working capital or diversify sources of funding," he says.

This article explores the way organisations can often more efficiently utilise their existing asset base, or future capital expenditure, to provide additional or alternative borrowing facilities to traditional bank loans.

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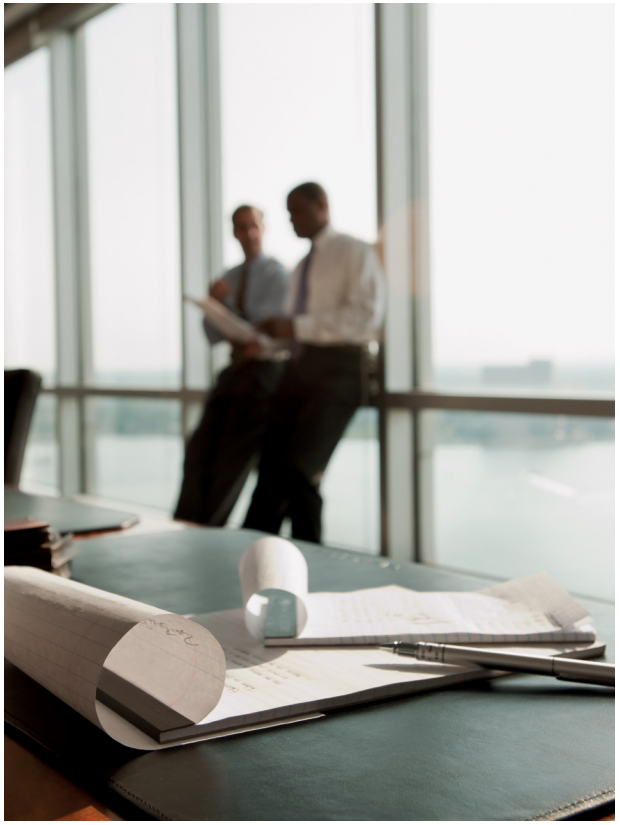
David Hawkins, Director of Asset Finance, Barclays

Asset finance: investing in equipment

In a sign that business operators are becoming increasingly familiar with the advantages of leasing and hire purchase, about 750,000[2] corporates used these methods to invest in new vehicles, equipment and machinery last year. Finance & Leasing Association statistics show that funding for over 25% of all fixed capital investment is now provided by the Asset Finance industry.[2]

"Financing capital expenditure where the asset itself is the security package has many advantages for companies looking to maximise funding against a fixed asset base. It is generally quick and simple to arrange and execute, with different types of Asset Finance products available to suit an organisation's accounting and tax requirements," says David Hawkins, Director of Asset Finance at Barclays.



[1] fla.org.uk 5 February 2015.
[2] The Finance & Leasing Association: fla.org.uk – Facts and Figures, 2014.

The underlying feature of Asset Finance is that the bank takes its security by physically buying the asset and leasing it to the client. Often no deposit is required. Legal title remains with the bank while the client has full use of the asset.

"The lending period is based on the longevity of the asset or its useful life to the client and might range from three years for IT assets to seven years for a transport trailer," says Hawkins.

"The asset's revenue generation is the repayment source and clients can choose between facilities structured to the value of the asset using a balloon or residual value, or structured to the cashflow generated by the asset."

Flexible finance options

Operating leases are best suited to businesses that need assets for core activities but do not want the risks and responsibilities of ownership. The borrower only repays part of the asset cost, the bank takes the remaining residual value risk in the asset. Finance lease and lease purchase arrangements fully repay the cost of the asset, and in the case of lease purchase give the option to buy the asset outright for a nominal amount at the end of the lease.

Asset Finance covers many business asset types, with the exception of buildings, and can be used for assets acquired new or for re-financing existing assets using a sale and leaseback. Barclays finances an extensive range of assets including: cars, commercial vehicles, industrial plant and machinery, yellow plant, agricultural equipment, medical equipment and IT assets.

"This lending line leaves intact other funding sources. In addition a security structure and repayment that directly attaches to the asset can be particularly useful where assets are used by a client in servicing third-party contracts," says Hawkins.

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The growth of ABL

From financing mergers and acquisitions to tooling up for seasonal peaks, more UK organisations are turning to Asset-Based Lending (ABL) to respond quickly to cashflow challenges and business opportunities. Unlike traditional bank lending products, Asset-Based Lending focuses on the current status of assets and cash generation, as opposed to leverage tests, and thus the product is gaining increased advocacy from the professional community.

However, ABL isn't only focused on receivables and inventory. It is increasingly an option for businesses with large, asset-rich balance sheets requiring higher levels of funding than is typically available through traditional loans or overdrafts.

Suitable uses for Asset-Based Lending:

- As ABL grows in line with the business, it is being increasingly used by businesses entering a period of high growth where there may be a disconnect between earnings and growth
- ABL works well for businesses with a distinct seasonality e.g. build-up of inventory to support seasonal selling period
- ABL is collateralised and is a good use of capital for any bank. As such ABL providers can consider higher hold levels than traditional leverage deals whilst still considering club or syndicated deals.

Its versatility allows businesses to raise working capital in creative ways, says Nick Littleford of Large Corporate Asset-Based Lending at Barclays: "This is a well-established product in the US which is now gaining popularity in the UK because it is linked to assets which grow with the business. A funder will lend money against a range of assets – including receivables, inventory, property, plant and machinery – and sometimes against a company's brand name and other intellectual property."

Monetising corporate assets

Asset-Based Lending is a viable alternative where a company may not have the strongest cashflow, but has strong assets on its balance sheet, points out Paul Woodward, who heads Large Corporate Asset-Based Lending at Barclays with Littleford. "ABL is much more than invoice finance as many assets can be monetised and provides a single source of finance across those asset classes. As the loan is directly collateralised, the borrower is typically able to raise working capital at a lower margin than through traditional bank facilities. We provide funding at pre-agreed advance rates against assets within the Borrowing Base Certificate," says Woodward.

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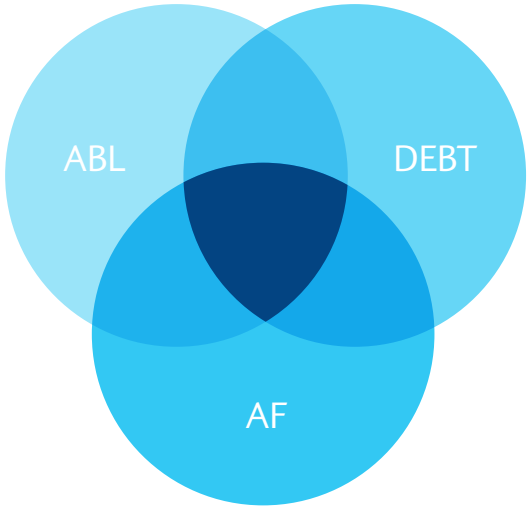
> **Paul Woodward,** Co-head of Large Corporate Asset-Based Lending, Barclays

"Solutions are often tailored in conjunction with debt finance and asset finance specialists and other lenders. The nature of the transaction, as well as the unique requirements of the client, are taken into consideration when structuring deals," says Woodward.

"We are seeing more private equity sponsor-backed deals in the ABL market particularly for the core working capital requirement. There has been a historical scepticism from investors regarding a traditional invoice finance facility because when the receivables value reduced then so did the associated funding availability. ABL provides a wider asset-based working capital solution.

What's the right financing for my business?

Funding can be a blend of solutions



"Investors like the certainty that this provides around the working capital. In addition, the approach an ABL provider will take to providing structured working capital solutions presents the investor with visibility on how the business is performing based on asset performance, as monitored through our ongoing audit and due diligence work.

"We look at any potential structure and can offer facilities to global clients that are linked to specific debtors or specific receivables. Structured around our clients' trading requirements we can provide a flexible ABL package linked to the revolving nature of the business, often with less onerous debt servicing obligations compared to conventional debt."

Asset Finance or Asset-Based Lending?

Where Asset Finance is for purchasing fixed assets, Asset-Based Lending takes a holistic view of asset classes to improve working capital. There is some overlap in the types of assets that can be used as security.

Asset Finance would typically be of value to clients with a high fixed asset base relative to current assets (stock and debtors), whereas ABL suits clients with higher current assets and a suitable debtor profile.

Both of these alternative forms of debt funding are generally quick and simple to arrange and execute. Deals can be structured to suit an organisation's accounting and tax requirements.

"By taking the time to understand your business and evaluate your processes, our Relationship Directors can provide you with the right financial options that work for your business. From trade and receivables financing to liquidity and investment management, we can support and develop the most appropriate strategy for you," says Littleford.

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Applying the principles of ABL can open new doors – both this solution and Asset Finance are diversifying the sources of funding open to corporates and we look forward to discussing these with more of our clients.

Case study

Growth and diversification using ABL

Glasgow-based plant, tool and equipment hire company GAP Group plans to double its 1,300-strong workforce and annual turnover over the next five years.

To support this strategy, an Asset-Based Lending facility of up to £220m was set up, drawing against receivables, plant and machinery.

"It was clear from our first meeting with the team at Barclays, that they had the right people with the right attitude and a strong appetite to do business. Barclays took the time to understand our business and by doing so, were able to commit to terms early in the process which they were able to deliver on. Barclays' support of GAP Group allows us to continue to grow and diversify our business into new areas such as our Welfare Services division and Vehicle Hire business, which we have created to augment our traditional plant and tool hire offering."

Andrew Stewart
GAP Group Financial Director

Key takeaways

- UK companies are increasingly opting for structured lending to drive business growth as an alternative to traditional forms of bank loans and overdrafts
- Efficient use of asset values to maximise the amount of finance and speed of delivery can help companies seize opportunities that require investment
- Asset Finance can transfer the risks of asset ownership to the lender and spreads the costs of assets over their economic lives. It can reduce the total cost of ownership
- Asset-Based Lending allows corporates to rapidly raise and deploy funds against all asset classes of receivables, inventory, property and plant and machinery
- Companies should involve their bank early in the strategic planning process so that their lender can help them identify the best funding options to meet their ambitions.

Find out more about how Barclays can help with funding for growth. Speak to your Relationship Director or call 0800 015 4242*.

*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 from 8am to 6pm Monday to Friday.

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