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Asset Based Lending: Flexible Financing With Broad Appeal

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In the past, asset based lending (ABL) was considered to be the financing method of last resort for distressed companies. However, with total ABL commitments reaching \$241.7 billion in the U.S. in 2Q17, ABL has become the financing structure of choice for many high-performing businesses across a wide range of industries.¹

An asset based loan is a specialized loan product, in which financing is predicated not only on the creditworthiness of the borrower and the strength of its balance sheet, but also on the value of the collateral provided to support the extension of credit. ABL may be used to finance seasonal or periodic spikes in inventory and receivables, recapitalize balance sheets, support organic growth, and fund acquisitions, among other things.

Advantages of asset based lending

ABL structures typically include revolving lines of credit and term loans. Various types of collateral can be used to back ABL financing, including inventory, accounts receivable, machinery and equipment, real estate, and other tangible assets. Intangibles—such as brands, customer lists, etc.—are sometimes included as well. And while collateral reporting for ABLs was once an onerous task, advances in corporate IT systems have made this information readily available for easy reporting.

ABL financing is often formula-driven against these collateral assets. For example, a company may have an ABL credit facility that allows it to borrow up to 50% of its inventory and 85% of its receivables. During certain times of the year or to support certain strategic activities, these percentages may vary.

The primary appeal of ABL is its flexibility—the availability of financing grows and shrinks with the corresponding availability of company assets. ABL financing can be customized to fit a company's business cycle and easily adjusted on a monthly, weekly, or daily basis.

This trait is particularly attractive to companies in seasonal industries where sales, working capital requirements, and cash flow can change substantially quarter-to-quarter. For example, a company in the seafood industry may need greater flexibility to support its inventory growth during peak fishing seasons when a traditional loan with tight covenants might put the borrower in jeopardy. ABL can eliminate that risk and give the company access to credit precisely when it is needed.

Who uses ABL today?

Throughout our 70 years of experience in providing ABL in the U.S., we've found that ABL financing attracts customers of all credit ratings, who use it at various points in their company's life cycle. While many companies initially turned to ABL due to financial performance issues, many of them have continued with this form of financing as their performance has improved, won over by its flexibility, competitive rates, and ease of access to cash.

The broad appeal of ABL financing is reflected by the array of client industries we serve. Recent examples of the opportunities Santander has helped our clients pursue with ABL financing include:

- A take-private acquisition of a leasing company with an ABL financing package that relied on a significant portfolio of lease receivables.
- A customer-base expansion strategy of a national distributor of convenience store products with an ABL financing package to support a significant increase in inventory levels in anticipation of the expanded business.
- An industry expansion strategy of a contract manufacturer of cosmetics products that was able to enter another industry with an ABL facility that financed an initial spike in inventory and allowed for high accounts receivable concentrations with certain customers.
- An international expansion strategy of an electronics manufacturer with an ABL facility that allowed for financing of international inventory and receivables.
- The organic growth of a seafood processor/distributor with an ABL facility that allowed for high seasonal spikes in inventory ahead of less seasonal sales activity.

Financing that fits your needs

When considering whether ABL financing is right for your company, consider the size and type of credit facility needed throughout your business cycles. An ABL structure may be right for you for several reasons:

- The ABL market remains robust, so funding remains accessible even when other sources of capital may be less so.
- ABLs generally don't have the sizable pre-payment penalties that are associated with bonds or notes. This gives companies greater assurance of the flexibility to change financing easily if needed.
- Many ABL revolving lines of credit are evergreen and do not carry a requirement to be paid to a zero balance at some point during the year.
- ABLs are often coupled with debt products supported by government agencies, such as EXIM Bank.
- ABL advance rates against assets can vary to accommodate seasonal needs or periodic investments in strategic initiatives.

For companies with international ambitions, another important point to consider is that ABL is already used extensively in Canada, the United Kingdom, Germany, and Australia. ABL is also becoming increasingly popular in markets such as Mexico, Spain, and France, where regulations are being established for asset registry systems and bankruptcy protection.

If you would like to learn more about ABL financing options, please contact your Santander relationship manager.

¹ Commercial Finance Association, 10/18/17.

<http://community.cfa.com/Go.aspx?MicrositeGroupTypeRouteDesignKey=46e3ad1c-91b3-4a9d-94f6-21089947ff5d&NavigationKey=b101a81e-d8bc-4980-93de-8d1f0639857d>



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