ABL

Pictured: Paul Hancock, MD (JP Morgan), Ted Ettershank, MD (Lloyds TSB Commercial Finance)

Welcome to ABL

In the Autumn of 2006, a group of leading industry players came together to talk about the need to raise the profile of our asset based lending (ABL) offerings. Although competing for business, we were finding more and more need and interest in collaborating and syndicating deals but still finding that the benefits and use of ABL were not fully understood.

While ABL has been widely used by restructuring professionals of the accountancy firms; they were telling us we were missing out by not bringing ABL to the attention of other corporate finance professionals and the wider world. So, in January 2007 an initial meeting was held and with the reality of a joint funding capability of £1 billion for UK and European deals as a key message, the decision to launch ourselves to the wider business community was agreed.

Just to be clear, we are not a committee and not a trade body, rather a group of like minded individuals from 16 financial institutions operating in the UK who all saw the benefit of joining forces to highlight the value and strength of the UK's ABL community. Our group includes Bank of America, Barclays, Burdale Financial, Davenham, Eurofactor, Five Arrows, Fortis, GE, GMAC, HSBC, JP Morgan, KBC Business Capital, Landsbanki, Lloyds TSB, RBS and Venture Finance.

Three things prompted us to believe in raising our profile in the first place. The first is a response to the rising tide of interest from local financial sponsors (particularly local offices of US players who are much more familiar with the product in larger deals) and corporates seeking out alternative sources of finance. An ABL revolving line of credit against working capital assets doesn't require amortisation of the loan during its life and this, combined with fewer financial covenants, can make ABL particularly attractive in certain scenarios eg asset rich companies.

Secondly, we are being asked to lead increasingly larger ABL deals. Historically ABL has been a small / middle market product but as deal sizes in Europe continue to grow, we are being asked to offer finance for large, corporate and private equity backed transactions. We are embracing the larger corporate deals and are now working more in the mid to large market M&A sector. ABL is a genuine alternative to traditional cashflow finance and in certain circumstances offers either greater flexibility or higher levels of debt - sometimes both. It can be either "standalone" or work alongside other senior or junior debt.

Finally we have the experience of the US market to draw upon. In comparison to the $30 billion UK market, the US lending industry is substantially greater and now worth $400 billion. Deal numbers are increasing year on year and more than half of the 15 largest ABL transactions executed so far were done in the last twelve months including a $2.0 billion facility for HCA, Inc. Its use in M&A activity is also increasing. Of the total US ABL deal volume in 2006, M&A related volume was 35 per cent compared to 28 per cent in 2005. Financial Sponsor/Private Equity deals accounted for 25 per cent of the total 2006 ABL deal volume.

The European market is much less mature than the US but we already have some strong client testimonials including Ashtead plc which uses a $1.75 bn ABL facility. Deal capacity in Europe is showing significant growth, five years ago it would probably have been about £150 - £200 million and a year ago around £500 - £600 million.

There is no doubt that ABL really has taken off in the last two to three years for acquisition finance. It appeals for a variety of reasons but in particular for the fact that for some businesses it can provide a higher level of debt, that often much of the debt is non-amortising and typically there are fewer financial covenants. As such ABL genuinely represents a new form of debt capital when compared to traditional cashflow debt.

Please take the time to read the case studies from our members and comments from some ABL advocates. And finally, do feel free to contact us or any of our fellow members. We recognise that collaboration is the way forward and we very much want you to be part of ABL's undeniably exciting future.

Ted Ettershank, Managing Director, Lloyds TSB Commercial Finance

Paul Hancock, Managing Director, JP Morgan

Personal Care and Attention

In February 2006, Venture Structured Finance, a division of the financier Venture Finance plc, provided COSi Group Limited, the outsourcing manufacturer of cosmetics and personal care products, with a £20m refinancing package.

COSi approached Venture Structured Finance to replace their invoice discounting and term loan facilities and also to provide additional working capital to finance the company's growth.

"We delivered a close, personal service; complementing COSi's experienced senior management team. As a result of the deal, plans are now set for the business to turnover around £118m in 2008, increasing year on year. With this they can attract new blue chip customers and acquire new foreign production facilities" said Chris Hawes, Managing Director of Venture Structured Finance.

The refinancing package included debtor finance (£8m), stock finance (£6.75m), a plant and machinery loan (£1.052m), a capital expenditure loan (£1.5m) and cash flow loan (£2.5m).

Having previously financed with a clearing bank, the management team at COSi were keen to work with Venture Structured Finance. Hawes comments: "Our independent status, track record, speed and willingness to understand their business and work with their senior management team reassured COSi that they were right to go with us."

COSi is a well managed business, which has reacted to changes in its market in a positive way, seeking to restructure and grow. The previous bankers were unable to support this change process as they placed too much emphasis on the financial history of the business.

COSi has an excellent blue chip customer base, including The Body Shop International, L'Oreal, Cussons and Next. The current assets of receivables and inventory turn well and were subject to in depth appraisals to fully understand value.

Due to a thorough understanding of the assets of the business, and an ability to work closely with management through the change process, Venture Structured Finance has been able to provide flexible support to the business on an ongoing basis.

Hawes concludes: "As a result of the deal, the company can now look to the future with confidence as they plan for domestic and international growth."

"As a very active user of the ABL product we are delighted to see this initiative that represents the interests of this expanding asset class."

Philip Dougall, Managing Director at Sun European Partners, the European adviser to Sun Capital Partners, a US-based investment firm.

GE Commercial Finance

Hunting the Benefits of ABL

In October 2006, GE supported Och-Ziff, the US hedge fund manager, on its groundbreaking public to private deal of Whitehead Mann, one of the world's best known executive headhunters.

GE provided £16m of structured facilities to support the transaction. "Speed was of the essence throughout the various phases of this P2P transaction and coupled with the enormous amount of publicity generated, this made it an extremely challenging and ultimately rewarding deal" said Adam Wardle, Business Development Director of GE.

Leading the MBI deal, the first by a US hedge fund in the UK, was Piers Marmion, former head of a rival recruiting consultancy. Well known in the industry, both he and the FD, Steve Barber, had a strong track record of growing executive search companies.

Since the deal, the business has turned around and is now going from strength to strength. "Proof, in our view, that the decision to take the company private was sound. The company's stronger proposition is now delivering sound financial results" comments Wardle.

The Whitehead Mann deal followed close on the heels of GE's work with Swift Technical Group in June of the same year (2006).

GE provided £59m structured facilities in support of Gresham Private Equity's MBO of Swift Technical, the leading recruitment and staffing solutions business to the oil and gas sector.

Again, the deal was a groundbreaking one for ABL as something like 60 per cent of the company's business is conducted in Azerbaijan and Nigeria - making it extraordinarily complex from a purely geographical point of view.

The business post deal has been so successful that GE has provided further funds to Stuart Cantley, the new Chairman. "In effect we have lent more money to the MBO team. It just proves how much we believed in them in the first place!" concludes Wardle.

ABL Takes Off in Aerospace

In May 2007 RBS Invoice Finance and The Royal Bank of Scotland ("RBS") funded the acquisition of All Metal Services Limited (AMS) - one of the UK's largest distributors of aircraft-grade aluminium to the global aerospace industry.

The RBS team was successfully mandated to provide a debt package to support the existing management team of AMS to acquire the remaining 49.84 per cent share holding.

AMS provides speciality material processing, tailoring the metal (mainly aluminium) to the specific needs of the customer and on-selling to the aerospace, defence and other high technology industries.

AMS is based in the UK with its head office at West Drayton, Middlesex and operates out of five strategically located warehouses in the UK exporting to over 35 countries worldwide, generating annual revenues in excess of US$200m. AMS offers one of the most comprehensive stock ranges in Europe, with probably the widest selection of American specifications held outside the USA.

RBS provided a debt package which included an ABL facility (funding debtors and stock) along with senior term facilities. The RBS team was represented by Peter Russell (Head of Manufacturing & Infrastructure), Paul Noel (Manufacturing & Infrastructure), Mike Rose (RBS Invoice Finance) and Graeme Elliot (RBS Invoice Finance).

Terry Stocker from AMS Ltd said: "The RBS team worked under significant time pressures to provide a complete funding package that met our requirements for the acquisition. Their approach was both innovative & competitive and will allow AMS the flexibility to develop the business and meet our strategic growth plans." Peter Russell, Head of Manufacturing & Infrastructure, Major Corporate Banking, RBS said: "I am delighted to welcome AMS as a new customer to RBS Group and look forward to working closely with the management team in the future.

"Our success turned on the ability to understand the needs of both the business and management. Using specialist knowledge and expertise of the Invoice Finance and Major Corporate Banking Manufacturing and Infrastructure teams, RBS was able to construct a truly integrated financing package sufficient to permit the transaction to proceed."

Carmen Bernardis (Bank of America), Martin Risman (Davenham), Alan McLaren (Landsbanki), Paul Hancock (JP Morgan), Paul Beveridge (KBC Business Capital), Ted Ettershank (Lloyds TSB Commercial Finance), Phil Lammas (GMAC), Steve Chait (Burdale), Jeff Longhurst (Eurofactor); Missing are representatives from Barclays, Five Arrows, Fortis, GE Commercial Finance, HSBC, RBS and Venture Finance

FINANCIAL TIMES

US-style debt for private equity

GENERAL FINANCIAL

By Sarah Spikes

US-style financing that allows borrowers to take on more debt than is typical for mid-market private equity deals is gaining popularity in the UK and continental Europe, as more US private equity firms look to replicate their domestic strategy abroad.

The technique, known as asset-based lending, differs from more widely-used techniques in the UK, where total sums extended are based on assumptions about corporate cash flow. Asset-based lending to private equity is based on the value of corporate assets such as office equipment, real estate, accounts receivable and inventory as collateral.

In the US last year, this rose to $63bn (£32bn) from $51bn in 2004. The number of deals using ABL increased to 472 from 352 over the same period.

A group of 16 banks including JPMorgan and Lloyds TSB sees the current ABL capacity in the UK as being £1bn.

Paul Hancock, managing director in JPMorgan's ABL unit, estimates that capacity was up from £500m to £600m last year, and up from about £150m five years ago.

"We wanted to put a number on the total in response to what we see as a rising tide of interest from local financial players, particularly local offices of US private equity firms that are more familiar with the product" said Mr Hancock.
Lenders establish the value of assets, such as office equipment and industrial machinery, using specialist appraisers who find recent sale prices for similar assets.

In the US, more than half of the 15 biggest transactions using ABL took place in the past 12 months, including a $2bn loan to the private equity consortium that acquired HCA Inc, the US hospital chain, for $33bn last year.

Recent UK deals that have employed ABL included last year's public-to-private acquisition of Whitehead Mann, the headhunting company, by Och-Ziff, the hedge fund. In that deal GE made an asset-based loan against the company's outstanding receivables. In January, MFI Retail, the UK furniture chain, used a Pounds 50m ABL facility from Icelandic bank Landsbanki to fund working capital.

Mr Hancock said that in the US ABL is often less expensive than other types of financing and is comparable to competing methods of finance in the UK.

Using ABL routinely does add to the total amount of financing available, he said.

As its use grows in Europe, he sees it as likely to become more common in larger transactions as well.

"Historically ABL has been a small or middle-market product, but as deal sizes in Europe continue to grow, we are being asked to offer finance for large, corporate and private equity backed transactions," he said.

Burdale
Financial Limited

ABL - Part of the Furniture

In February 2006, Burdale Financial Limited (Burdale) and Lloyds TSB Commercial Finance provided MFI Furniture Group, the UK's leading national retailer of quality fitted furniture, with £150 million to replace MFI's existing revolving syndicate credit facility.

The joint refinancing arrangement is one of the UK's largest asset based lending packages to have ever been completed. It was agreed to fund MFI Furniture Group in its turnaround strategy to aid its profit and improvement plans and to accommodate the needs of the pension fund trustees. The flexible deal is secured on debtors, stock and property and revolves on a daily basis, allowing MFI Furniture Group to draw down funds easily. At the time of the deal, MFI Furniture Group was considering selling the retail business. The funding from Burdale and Lloyds TSB gave the company time to consider its options without additional pressure from its former banking syndicate. In October 2006, MFI Furniture Group decided that a disposal of the retail stores was in its best interests at which point the company changed its name to Galiform plc.

Dennis Levine, Chief Executive of Burdale said: "It was with great pride and pleasure that we joined up with Lloyds TSB to provide this innovative financial package to Galiform. We feel that it translates Burdale's ongoing commitment to providing bespoke and tailored financial solutions to companies wanting to benefit from efficient and effective financing."

Ted Ettershank, Managing Director of Lloyds TSB Commercial Finance continued: "Galiform needed a new facility that would effectively support their ambitious new plans and we were only too happy to work with Burdale to achieve this. We all worked hard to develop this flexible facility that would suit Galiform's business strategy to the bone. The deal demonstrates the relevance of asset based lending facilities for major UK and International corporations looking for flexible funding arrangements that meet their cash flow needs and provide them with working capital headroom."

Both Lloyds TSB and Burdale feel that the £150m facility illustrates the ability to succeed no matter the scale of financing.

"We have benefited from our ABL facility. It works well for an asset intensive business like Ashtead and has given us the capacity to invest in additional fleet to meet strong market demand."

Michael Pratt, Director of Financial Reporting at Ashtead Group plc, one of the largest equipment rental groups in the world

Lloyds TSB | Commercial Finance

The Perfect Fit for Peter Black Holdings

July 2006 saw Lloyds TSB Commercial Finance (Lloyds TSB) develop a multi-million pound working capital package to lead the management buyout of Peter Black Holdings Ltd (PBH) for Endless LLP. The transaction was effected through a new parent company Peter Black International Limited and included four trading divisions.

Lloyds TSB led the process and worked closely with Lloyds TSB's Banking and Acquisition Finance teams who provided debt as part of the banking syndicate. They extensively modelled the ABL package to ensure it would provide adequate capital post-completion and provide support for the business' cash flow during seasonal peaks.

PBH began trading in the 1940s and is a leader in product design, development, sourcing and logistics for premiere UK and European retailing groups in the Personal Care and Footwear, Accessories and Gift markets. The company has adapted to changing economic circumstances, evolving to become a significant design, development and sourcing operation for major UK retailers. At the end of January 2006 the twelve month turnover figure was an impressive £223 million.

Chris Clegg, Investment Director at Endless said: "Lloyds TSB Commercial Finance's contribution to the deal was significant. Their flexibility and receptiveness to suggestions ensured that the structure of the working capital facility provided maximum benefit for the business."

Bank of America

Crystallising a Positive Future

In January 2006, Bank of America Business Capital provided Waterford Wedgwood plc, the world's leading luxury lifestyle group, with a £200 million asset-based revolver and, in a separate facility, Banc of America Securities provided a $60 million tranche B loan.

In their search for a lender with broad resources and worldwide facilities to provide the liquidity to complete their restructuring plan, Waterford Wedgwood assigned Bank of America, who worked in tow with Banc of America Securities, to deliver a total finance solution. The resulting deal delivered Waterford Wedgwood financial flexibility helping the company to build its market position as a world leader in the sector.

"We utilised our global capabilities to help Waterford Wedgwood achieve its goal of restructuring and growth. This financing provided them with the liquidity to complete their long-term plans of enhancing a strong market position," said Carmen Bernardis, Managing Director of Business Capital Europe for ABL member Bank of America.

"With the flexibility and liquidity provided by our credit facilities, the client has been able to undertake a number of restructuring initiatives which have dramatically improved the company's operational performance and financial results," said Bernardis.

The Bedrock of Funding for MFI

Landsbanki
Commercial Finance

In January 2007, Landsbanki Commercial Finance, the global asset based lender and structured finance provider, provided a £50 million revolving credit facility to help fund working capital for MFI Retail, the UK's leading kitchen and bedroom retailer with over 200 stores and over 3,000 employees.

Landsbanki Commercial Finance supported Merchant Equity Partners (MEP), who bought MFI Retail following a period of poor trading and losses at the company. MEP brought in a new management team with the aim of unlocking the substantial potential presented by MFI Retail's market position and operational gearing. The working capital facility will allow the new team to complete inventory requirements to support the turnaround of the business.
The flexibility of the arrangement, which enables MFI Retail to meet seasonal fluctuations in its working capital cycle ensured that it was going to be an attractive option for all parties.

Brent Osborne, Managing Director of Landsbanki Commercial Finance, who led the deal said: "Over the last year there has been a substantial increase in the use of asset based lending as a financing tool by private equity houses in public to privates, acquisitions and management buy-outs. The team has provided MFI Retail with significant funds and is implementing a very detailed turnaround strategy. All of this bodes well for the future."

FIVE ARROWS
COMMERCIAL
FINANCE

A Mark of Security

Curtis Fine Paper, the specialist manufacturer and supplier of quality uncoated paper used in the specialist publishing, packaging and labelling, letterhead and security sectors, has secured a secondary management buyout backed by a Five Arrows Commercial Finance multi-option facility worth £12 million.

The buyout has resulted in significant funds for capital investment, it has allowed for existing shareholders to retire and it has streamlined the Scottish company's management team. Financial and business advisers Grant Thornton and law firm McClure Naismith both assisted in completing the deal.

Simon Maddocks, Regional Manager at Five Arrows Commercial Finance said: "This deal represents an important milestone for Curtis Fine Papers. We provided acquisition finance and working capital and as result we have helped them enhance their reputation as being a top player in the paper manufacturing industry.

"With our ability to lend against trade debtors, property, plant and machinery and stock, plus the added benefit of providing cashflow loans, we ensured that the finance package was structured according to the needs of Curtis Fine Paper, with the asset based lending facility utilised to maximum effect.

Maddocks continued, "Curtis Fine Paper chose Five Arrows Commercial Finance to package the deal due to their specialist knowledge and experience in asset based lending and because of their enthusiasm demonstrated in the run up to the agreement.

"The management team is very excited about the future of Curtis Fine Papers and we are pleased to have helped in the growth and development of the business."

"By focusing on the full value of a business' assets, ABL is a proven approach to meet the urgent funding requirements of an achievable turnaround plan. ABL also has the advantage of enhancing predictability, as the facilities flex in real-time with the working capital requirements during an operational restructuring."

David Lovett, Managing Director at AlixPartners, the global restructuring, consulting and financial advisory firm.

"At Dawnay, Day we have seen a growing trend for CEO's and private equity houses seeking to finance an acquisition to consult us at an early stage on the benefits of an asset backed financing route.

"We welcome this initiative from the UK ABL community. It proves how the UK-based banks are, in our view, often more in tune with client needs - compared, for example, with continental Europe where there is less of a transaction culture.

"We already have a number of UK and continental European clients who have successfully used ABL and definitely see this as a growing trend for ABL to finance corporate acquisitions both in the UK and continental Europe."

Gerald Raingold, Chairman of Dawnay, Day Corporate Finance, the independent corporate finance advisory business of Dawnay, Day Group.

GMAC Commercial Finance

Ensuring a Rush to the Shops

Hertie, the German department store (formerly Karstadt Kompakt) secured a €55m financing deal with GMAC Commercial Finance (GMAC CF). The deal type is one commonly seen in the US and the UK, but not in Europe.

This innovative facility is secured against Hertie's inventory and is considered to be one of the largest loans of its type made to a European company.

Dawnay Day, the property investment, fund management and financial services company, the owners of Hertie, completed the deal with GMAC CF to finance the refurbishment and modernisation of the Hertie stores. The arrangement also included funds to implement new IT and logistic functions.

Preceding this, Dawnay Day and Hilco acquired 74 Hertie-owned department stores, the majority of which are located in North-West Germany. The stores sell a range of fashion, cosmetics, multimedia and home goods.

GMAC CF, who has enjoyed a long-standing relationship with the Hilco Group, utilised their experience in the retail sector to provide a creative funding solution.

Philip Lammas, Sales and Marketing Director of GMAC CF commented: "This creative financing solution ensures that Hertie will push forward, grow and be successful. Using our experience of funding retail and cross-border transactions, we have provided this flexible funding deal safe in the knowledge that Hertie's management team and its equity sponsors have made great strides in delivering a successful strategy for the business as a whole."

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