

Let's Make a Deal



Looking for cash to grow your business? Turn to an asset-based lender. These firms give companies exactly what they need: financial flexibility.



*Industry hook:
Asset-based loans
are an option for
companies coping
with a cash-flow
challenge.*

M

any financial managers know a lot about rejection. They've gotten a crash course on the subject while hunting for bank loans to get through seasonal downturns in their business, or to fund an unexpected growth spurt. No matter how healthy a business is, chances are there will be a time when it suffers growing pains that will prod its se-

nior executives to look at the broader universe of credit options.

Luckily for them, commercial finance companies and banks that provide asset-based loans secured by various forms of collateral—everything from accounts receivable to inventory and sales contracts—offer the financial flexibility they need. These financiers come

More experience.



ENERGY ALLOYS

\$130,000,000

Energy Alloys Corporation has acquired the U.S. oilfield distribution assets of Ryerson Inc. The financing was provided by LaSalle Business Credit, LLC and a UK affiliate of ABN AMRO, Venture Structured Finance.

Energy Alloys Corporation is a Houston-based company that provides oilfield metals, service and solutions to the global oil and gas industry.

April 2006
Global Administrative Agent:

LaSalle Business Credit, LLC

Asset Based | Corporate Restructuring | Cross Border | Retail Finance

The creative financing ideas of LaSalle Business Credit can turn almost any asset into opportunities for growth, acquisition and more. Our affiliation with ABN AMRO Bank N.V. enables our connections and brings a truly global perspective to every relationship. Turn your assets into working capital. From lines of credit to term financing to acquisition opportunities, we offer a variety of flexible solutions for unlocking the power of your assets. LaSalle Business Credit is your simple, but powerful "one-stop shop" for your global capital needs.

For more information about LaSalle Business Credit, contact John Mostofi at 312-904-8141.

Making more possible



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in all sizes, from credit boutiques like Rockland Business Credit, located near Baltimore, which provides factoring services (the process of purchasing accounts receivable at a discount) for smaller companies, to large finance companies like JP Morgan Chase, in New York City, which handles larger asset-based deals and many types of collateral and lending arrangements. And many specialize in particular niches, such as Allied Financial in Atlanta, whose product lines include financing for staffing companies.

Some companies consider this form of just-in-time financing a lifeline. For 20 years, Argo International Corp., a global distributor of electrical and mechanical equipment, components, and renewal spare parts for industrial, marine, and other industries, has used an array of commercial finance lenders to grow its business. "It's been an essential element in our company's expansion," says chairman John Calicchio from his New York office. "We've participated in many financing deals where we've borrowed against accounts receivable, inventory, and fixed assets, and the strategy has allowed us to significantly expand our business worldwide by taking advantage of the value of our assets."

He then adds, "We view this as similar to the use of mortgages by a real estate developer. Argo's reliance on asset-based finance has enabled us to develop business opportunities that we otherwise wouldn't have had the cash flow or financing capabilities to handle."

Other business executives and owners clearly agree. During 2005 the U.S. asset-based lending industry grew by 16% to a record level of \$420 billion, in terms of total year-end outstanding obligations. According to the Commercial Finance Association (CFA), a 62-year-old trade group with members throughout the U.S., Canada, and elsewhere, that compares to \$362 billion in outstanding loans in 2004 and \$334 billion in 2003.

Companies that make use of asset-based finance have working capital assets that can be secured by a lien. They are typically—although not always—manufacturers, distributors, and wholesalers whose goal is to unlock the value of their assets for growth, acquisition, recapitalization, or other business purposes.

“This is a traditional form of financing and it remains vital,” reports Bruce Jones, CFA’s executive director, “because it can work so well for so many different kinds of companies—whether they’re startups or small businesses or very large and well-established ones. Companies might have a great business concept or strategy but lack the capital to develop it. Or they might have experienced a business downturn and need help to get through it. Or they might need help coping with some other type of cash-flow challenge. There are many circumstances in which asset-based financing is more effective and more accessible than traditional financing.”

ANATOMY OF A DEAL

In an asset-based loan situation, a lender evaluates one or more of the borrower’s assets, which might include its accounts receivable, outstanding business contracts, equipment, inventory, or perhaps even its intellectual property. “If satisfied, the lender then makes a secured loan against assets, holding them as collateral until the loan is paid off,” explains Jones.

Thanks to the nature of this secured relationship, asset-based lenders have a reputation for being more patient than traditional commercial lenders. Finance charges tend to be higher than with non-asset-based loans, but rates vary depending upon the nature of the collateral securing the deal, a company’s creditworthiness, and other criteria.

Here’s the bottom line: Based on a thorough investigation, these lenders make loans according to a percentage of each asset’s appraised value. Typically, these per-

centages vary according to the type of asset serving as collateral. With accounts receivable, for example, the amount lent might be as high as 85% if A/R accounts are strong; with machinery and equipment, the so-called “advance rate” (or borrowing level) could add up to 80% of the asset’s anticipated liquidation value.

Since these financing arrangements rest upon the strength of a company’s collateral, asset-based lenders “check it and recheck it,” emphasizes Jones. “Let’s say a lender makes a loan against a warehouse full of televisions. It will send experts in to open up the boxes to make sure that the televisions are in the warehouse and that they’re worth what the company says they’re worth. The prospective lender will also check the relevant legal documentation to make certain that the company really owns the inventory. And it will conduct occasional field examinations to make sure that the as-

Asset-based lending is on the radar of CFOs and finance professionals across all industries, and more lenders have entered the business as demand has heated up.

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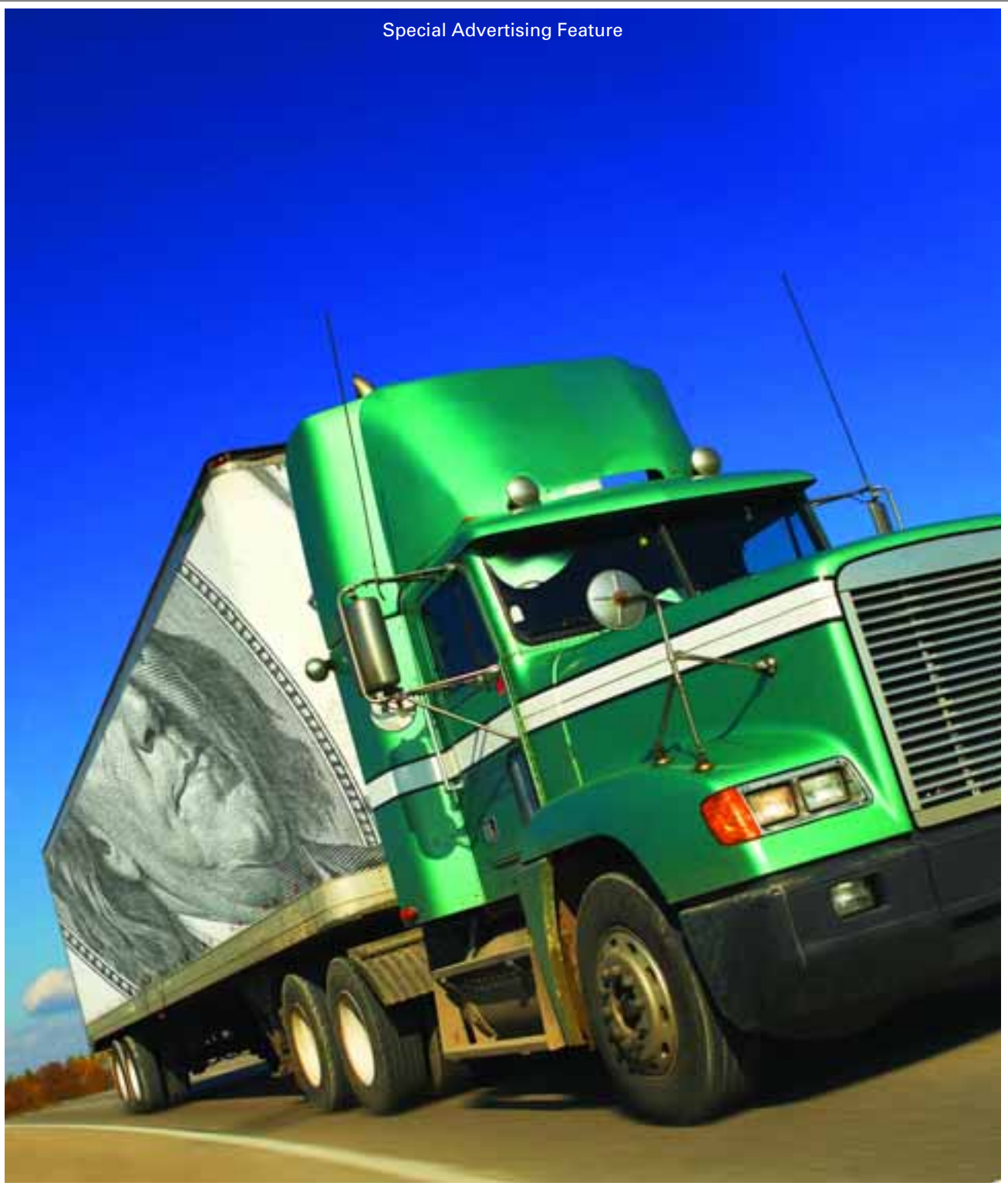
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This just-in-time financing often is a lifeline for businesses.

sets remain where they're supposed to be." That's understandable, of course.

LOAN RANGERS

Although in the past, asset-based loans were viewed as a financing strategy of last resort, appropriate only for troubled companies, that's far from the case. In fact, many of the most avid customers for these

loans are successful companies that are growing so rapidly that traditional commercial bankers can't or won't keep up. Imagine, for example, a clothing manufacturer that just won a major new customer, with sales orders that would double last year's revenues. If it relied upon the financing opportunities that its current cash flow could qualify for, it might not be able to

buy the supplies and equipment to fulfill those orders.

Indeed, some lenders are focused primarily on situations like these. One is Capstone Business Credit (www.capstonetrade.com), a venture merchant bank in New York City. The firm—which offers alternative financing techniques such as factoring and purchase-order financing—has a long client roster of borrowers involved in the domestic and international trade of finished consumer and industrial products. “We are not a traditional asset-based lender, but help many firms across a wide range of industries that are in a cash crunch,” explains Joseph Ingrassia, a managing member of Capstone. “Many of our clients are first introduced to us when traditional asset-based lending options cannot be obtained because their balance sheets are not strong enough and they do not have adequate collateral. We bridge the financing gap for them. They have significant order backlogs which we help finance, causing an immediate increase in sales.”

Given this focus on growth, Capstone’s employees often work with clients to help them expand their businesses in a measured way. The financiers provide on-site assistance to monitor and ensure that executives are managing the process properly. Ingrassia adds, “One of our underwriting criteria is to make sure that our clients have growth potential. If a client is looking to stay the same size as they are today, we would suggest they look to another firm.”

In all, there are over 250 members in the Commercial Finance Association, and their profiles vary. About half are smaller finance companies, which often concentrate on certain types of asset-based loans (perhaps only accounts receivable or factoring arrangements), a limited number of industries, or a certain geographic region. Depending upon the financing firm’s risk appetite and capabilities, it may or may not limit its participation to smaller loan arrangements.

Chicago-based LaSalle Business Credit LLC (www.lasallebank.com) is a good example of how larger asset-based lenders can help companies creatively turn almost any asset into an opportunity for growth. With 19 offices across the U.S. and Canada and an affiliate relationship with ABN AMRO, LaSalle Business Credit serves as a global lender on many types of deals. “Our historic footprint is in serving middle-market entrepreneurial companies with loans ranging from \$5 million to \$50 million,” notes president Michael Sharkey. “But we’ll handle smaller loans, as well as arrangements as large as our financing of the CDN \$1.3 billion buyout of the Hudson’s Bay Company.”

Major asset-based lenders typically offer a comprehensive menu of product lines. With offices in Atlanta, Boston, Chicago, Dallas, Los Angeles, New York, San Francisco, and elsewhere, Wells Fargo Foothill (www.wffoothill.com) provides revolving lines of credit secured by accounts receivable and inventory, as well as associated term loans tied to fixed assets. But there’s also much more, including secured financing for smaller specialty finance companies, credit facilities secured by certain intangible assets, and financing specifically for retailers.

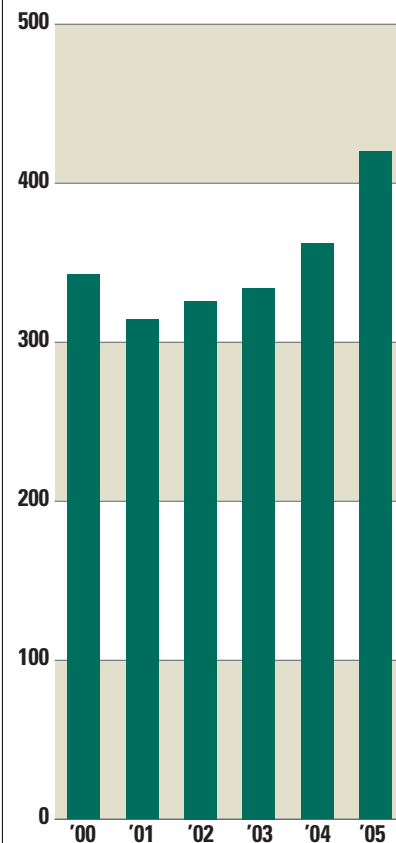
Scott Diehl, president of the commercial finance division of Wells Fargo Foothill, explains: “On large-scale deals, we might participate in a loan syndicate with other asset-based lenders, sometimes by filling an agency role and managing the relationship ourselves. But as the marketplace has evolved, large borrowers can raise funds in a variety of ways, including by working with an investment-banking firm that will put together a loan syndicate, and we might participate in these arrangements as well.” Wells Fargo Foothill has a dedicated unit, Syndicated Finance, to source, fund, and manage these transactions.

BROAD SCOPE

From a corporate borrower’s perspective, there may be advantages

INDUSTRY SNAPSHOTS

The U.S. asset-based lending industry has logged steady growth since the economic downturn of 2001, rising last year to record levels.



Source: Commercial Finance Association, 2006

THE TOP TEN BORROWERS

Many kinds of companies benefit from asset-based finance, but there are some industries that find this technique particularly valuable. For 2005, here's a checklist of those industries that were the largest borrowers in lenders' portfolios:

Automobile parts and supplies manufacturers

Department stores

Food processors/manufacturers

Groceries and related products

Lumber and other building products

Metal goods manufacturers

Metal service centers

Motor-vehicle supplies and parts

Radios, TVs, consumer electronics

Steel products manufacturers

Source: Commercial Finance Association, 2006

to working with a larger, asset-based lender with broader capabilities. William Davis, managing director at Wachovia Bank and head of its asset-based lending business (www.wachovia.com), says the ability to offer a full banking relationship to its asset-based lending clients remains one of the company's most important competitive advantages.

"In Wachovia's 50-plus years providing ABL solutions, experience has taught us that no two of our clients' needs are alike—and a full range of banking and capital markets services are necessary to tailor a solution," says Davis. This can include insurance, trust services, and wealth management, he notes.

Wachovia, the Charlotte, N.C. banking giant—with 2006 assets of \$542 billion—typically makes asset-based loans from \$3 million to over \$1 billion. A significant part of its business in this arena comes from middle-market companies that are performing well, but may have limited capital at their disposal. Typical scenarios: A company that needs to fund rapid growth but may be unable to qualify for traditional loans that consider only historic cash flow; or a company that doesn't want to dilute equity ownership by selling stock.

Indeed, Davis says the biggest change he has seen in the industry is the widespread acceptance of this kind of borrowing by companies of all sizes. Asset-based lending is now on the radar of CFOs and finance professionals across all industries, and more lenders have entered the business as demand has heated up.

Joyce White, president of Bank of America Business Capital (www.bofa.com/businesscapital103), notes that there is a "continued convergence" between debt and capital markets, which brings with it a variety of benefits for borrowers. For companies with multifaceted financing needs, she says, "Bank of America can offer a total capital structure solution with the advantage of providing treasury services, second-lien loans, high yield, and more." As such relation-

ships develop and a company's situation changes, it may be able to more expeditiously transition between different types of financing arrangements within Bank of America than switch from an asset-based lender to an entirely new lender.

Another advantage to working with larger, sophisticated lenders, White emphasizes, is their ability to respond to evolving trends in the corporate world. "We can evaluate and structure financings around nontraditional assets such as intellectual property, trademarks, and patents, which is increasingly important for many companies. It's also the case that, as growth-oriented corporations move overseas or start new operations abroad, they need to work with asset-based lenders that have global capabilities."

For businesses that are interested in exploring their asset-based financing options, the best place to start is by visiting CFA's website, www.cfa.com, which includes a search engine that can help businesses locate potential lenders based upon criteria that include the type and size of financing sought, as well as the borrower's location.

John Colicchio, Argo International's CEO, offers some time-tested words of advice. "As with any loan, price comes into play, so it makes sense to comparison-shop. We deal with a number of different lenders, since their appetites and capabilities differ, at varying points in the business cycle. But I'm convinced that the most important thing to look for is a lender that truly understands your company's situation and its objectives. Those are the kinds of financing institutions that it makes sense to build relationships with."

He concludes, "Companies need asset-based lenders whose objectives are parallel to their own. This type of financing can help your business develop in very significant ways, but only if you're truly in synch with your lender."

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