



# ABL – an asset to your business



**S**imon Featherstone, managing director of Lloyds TSB Commercial Finance, examines the practical uses of ABL and illustrates with examples how his business has mastered the art of being a leader in this form of finance.\*

Cashflow issues have inevitably come into sharper focus over the past two years, but businesses have at their disposal a number of sophisticated tools to help boost working capital and release funds for expansion.

More and more advisors and firms are realising that a key means of strengthening cashflow is to manage the assets of a company more efficiently and effectively.

As a result, asset-based lending (ABL), which includes factoring, invoice discounting and cashflow loans, is increasingly being considered a vital tool for boosting working capital and releasing funds for expansion.

Increasingly, ABL is demonstrating its suitability to meeting funding requirements by enabling companies to secure financing based on the amount, quality and liquidity of its accounts receivable, inventory and fixed assets.

The flexible nature of ABL means it can be used in a variety of scenarios which require strong cashflow and access to working capital, such as M&A activity, private equity buyouts, refinancing, restructurings and funding for growth.

**Capital for overseas expansion and exports**  
Many UK companies with a competitive product or service are taking advantage of favourable exchange rates by entering international markets, in order to drive growth during the recession.

ABL is playing a central role in facilitating this, demonstrated recently by J Newsome Tools, which supplies hand tools to 2,000 retailers and manufacturers in the UK.

The business has expanded its European export business and started a new division importing supplies from China, after securing funding from Lloyds TSB Commercial Finance.

The firm was established in 1967 by Jack Newsome to sell handsaws, chisels and trowels for builders out of a van, and grew into one of the largest suppliers to DIY stores, and car and tractor manufacturers in the country.

Jack's son Martin saw rising demand from companies in Europe for high-quality tools and subsequently built a large inventory at its 16,000 square-foot warehouse, enabling it to speed the delivery to its growing customer base. The export business now accounts for about 15% of the company's turnover.

The company used an invoice discounting facility from Lloyds TSB Commercial Finance, which releases the value from its sales ledger, enabling it to access capital to support investment in its stock. This replaced the firm's existing overdraft and trade finance facilities.

**Simon Featherstone**  
Managing Director of  
Lloyds TSB Commercial Finance





**Gordon Forster - Head of Sales, External**

Martin also began importing goods so he could supply his customers with the latest tools being developed in China. The import division, which contributes 10% of revenue, secured contracts with two suppliers in China and imports in bulk to lower costs for its customers.

Total sales rose 10% in 2009 and are predicted to continue to grow at the same pace this year.

When we spoke to Martin Newsome, the owner of J Newsome Tools, he said: "The UK business is doing very well and we wanted to take advantage both of demand from overseas for our products and from demand in the UK for some of the tools that are being developed in China.

"By using a funding facility from Lloyds TSB Commercial Finance, we were able to capitalise on discounts when building-up stock because we have good access to working capital. The business is in a strong position for the future."



**Simon Woodcock - Regional Director, Scotland**

### **Mergers and acquisitions**

When carrying out a strategic transaction such as a merger or acquisition, many businesses are unable to use funding from cash reserves alone and would often prefer not to relinquish equity or take on additional senior debt.

ABL is increasingly being called upon to help structure complex deals which involve forming close working partnerships with advisors and management teams.

In 2009, Smiths News plc looked to acquire book wholesaler Bertram Group, a former division of the Woolworths group, to build scale and extend its capabilities.

Smiths News demerged from WH Smith Group in 2006 and has grown to become the UK's largest newspaper and magazine distributor, delivering over 59 million publications to 23,000 customers every week.

It acquired the business and assets of Bertram Group, a leading wholesaler of books to independent, online and multiple retailers.

To facilitate this acquisition, Lloyds TSB Commercial Finance developed a £20m package of working capital facilities secured against the value of the firms' existing assets to not only fund the deal but also increase stock availability post-transaction.

The ABL facilities were structured to match the needs of the business and designed to provide rapid access to working capital post-completion.

The acquisition will expand Smiths News' product and service offering and, following the deal, management are using the enhanced scale, resources and distribution channels of the enlarged company to maximise cross-selling opportunities and drive further growth.

These deals require the strength of the enlarged business to be drawn on to provide the funding required not only to complete the initial transaction but also to ensure strong working capital post-deal.

This highly strategic approach gives a business the headroom required to target further organic growth and the ability to quickly ramp up facilities to support further complementary acquisitions.

### **Funding cross-border private equity deals**

As well as being a primary source of funding for M&A activity, ABL also sits comfortably alongside debt and equity in a deal structure and is able to provide tailored solutions

for firms of all sizes, from SMEs right up to multinationals with complex cross-border requirements.

By working in conjunction with the corporate finance community, ABL syndicates can be formed which are capable of releasing enough funding to complete major transactions.

In 2009, Lloyds TSB Commercial Finance completed its first cross-border private equity deal, providing £26m of ABL facilities to support the £52m Rutland Partners-backed MBO of the CeDo Group.

The CeDo Group is a leading pan-European provider of disposable household products such as bin liners, food and freezer bags, cling film and aluminium foil. The business supplies most of the leading retailers throughout Western Europe and is now expanding internationally.



**Nick Robson - Regional Director, North East**

With a turnover of £185m and employing over 1,500 people, CeDo operates from three manufacturing sites including a large facility in Telford, Shropshire.

The buyout was facilitated by a complex capital structure comprising private equity funding from Rutland Partners, a cross-border ABL package from Lloyds TSB Commercial Finance and a mezzanine tranche provided by Indigo Capital.

Lloyds TSB Commercial Finance put in place receivables finance facilities in the UK, Germany and France. We also provided a UK stock finance facility loan against the plant and machinery at the Telford factory, as well



**Mike Scowen - Regional Director, North West**

as manufacturing plants in Poland and China and a recycling plant in the Netherlands.

This transaction is the first European MBO of its kind to use a combination of ABL, private equity and mezzanine capital and demonstrates that ABL is a highly effective tool for supporting private equity-backed deals.

#### **Refinancing**

The economic downturn has brought about an increased demand for refinancing once an existing package expires or as other forms of funding become more suitable as a firm's requirements change.

ABL can closely match an individual company's needs and be scaled up or down depending on its circumstances, allowing it to fulfil maturing debt obligations.

In 2009, timber venture Pontrilas Group Limited secured an £8.3m refinancing package to enable the continued investment in its two trading subsidiaries.



**Martyn Freshwater - Regional Director, West Midlands**

Pontrilas Group was established in 1947 and is now a £26m turnover, third generation, family-run business that provides timber and timber-based products to a wide range of industries, including construction for new build projects, repair and renovation, as well as the manufacturing and distribution sectors.

To support its ongoing plans, Pontrilas Group invited one of the UK's leading banks to provide an integrated funding package.

Lloyds TSB Corporate Markets provided £1.8m of facilities and worked alongside its ABL division, Lloyds TSB Commercial Finance, which provided a £6.5m funding package.

As a result of the new funding, the company expects to expand, develop new markets and continue to invest in the growing renovation sector, which now represents almost half of the total building work carried out in the UK.

Edward Hickman, managing director at Pontrilas Group, was impressed with the service he received from us. He said: "The teams at Lloyds TSB took time to really get to know us and our business, which means that the facilities we have been offered are tailored to our exact requirements.

"This will enable us to meet our commitment to invest in our business and to continue providing customers with quality products and efficient customer service."

#### **Continued popularity of ABL**

The unpredictable market conditions of the last couple of years have brought the issue of cash management into sharper focus for businesses. The ability to closely manage and control capital is a necessity and more firms are taking advantage of the benefits of ABL tools as well as protecting themselves with debtor insurance and credit rating policies.

The most sophisticated ABL providers take a case-by-case approach to lending and, as well as funding a firm's initial working capital requirements, provide through the cycle support to enable the facility to grow in line with sales and match the business' ongoing corporate strategy.

That said, our industry needs to implement change, think much harder about innovation, and find new ways of thinking that better meet client needs. If we are to stimulate further growth in the overall UK market for ABL this will be essential and I am



**Ross Jordan - Regional Director, South East**

looking for Commercial Finance to lead the way. This will reinforce the message that we are 'open for business in today's challenging economic conditions.

#### **About Lloyds TSB Commercial Finance**

Since it was established 25 years ago, Lloyds TSB Commercial Finance has pioneered a full ABL approach which enables clients to draw on a diverse set of assets in order to access a tailored lending solution.

The latest quarterly figures released by the Asset Based Finance Association (ABFA) show that client sales for the industry fell, although Lloyds TSB Commercial Finance maintained its leading market share position at 22.7%.

Lloyds TSB Commercial Finance has a network of regional managers who work closely with their clients to facilitate quick and consistent service due to their underwriting mandate and local presence.



**Jon Adams - Regional Director, East**

# Identify and minimise risk

**A**s a result of increasing concern about customer insolvency and the huge negative impact it can have on a business, more companies are supplementing their ABL packages by using debtor insurance or protection policies in their package of ABL facilities.

These agreements take the legwork out of spotting potential credit risk problems before they lead to a bad debt, which also frees up management time to focus on running their business.

Crucially, they ensure firms receive payment of outstanding invoices should a customer become insolvent and protect against the full impact of a bad debt on cashflow.

In December 2009, a Dudley-based IT recruitment firm successfully safeguarded itself from the effects of a customer's insolvency using a debtor protection policy from Lloyds TSB Commercial Finance.

Concept Information Technology was established in 2000 and supplies trained engineers and IT staff to public sector and private sector firms on temporary and permanent contracts.

The company's success was threatened when one of its customers became insolvent, leaving a significant outstanding debt.

This would have considerably impacted the business' cashflow had management not had the foresight to put in place a debtor protection policy with Lloyds TSB Commercial Finance in 2007.

The policy protects a company's working capital by ensuring it receives payment of outstanding invoices should a customer become insolvent.

Within just 30 days of its client filing for administration, the firm received payment from Lloyds TSB Commercial Finance.

Chris Short, managing director of Concept Information Technology, commented: "Taking

out a debtor protection policy has provided us with long-term peace of mind and has ensured that we've been safeguarded against bad debts.

"Knowing that our working capital is protected has enabled us to continue our growth strategy and expand our client base further without fear of future failures – something that has helped us to achieve record turnover despite the tough economic climate."

Alex Fiddian, client manager for Lloyds TSB Commercial Finance, said: "It takes only one bad debt to significantly impact a business' cashflow. We are seeing more and more of our customers use debtor protection policies as a safety net to protect themselves from defaults.

"In the current economic climate, it's essential that businesses manage risk and insure themselves against insolvency so they can focus on their growth strategies.

"It can take only one bad debt to unhinge years of hard work and derail a company's ambitions for the future."

In addition to debtor insurance policies, an increasing number of companies are also using credit rating facilities offered by some ABL providers to identify potential risks where clients may default on paying invoices.

For example, Lloyds TSB Commercial Finance's Firstcheck system is an online credit rating facility which its new and existing clients can use to obtain credit information on an unlimited number of current and prospective customers.

The service provides credit checks on 3.5 million UK firms and is used to determine payment terms or credit limits for new clients.

It also evaluates current business payment performance data gathered from a daily invoice flow through Lloyds TSB Commercial Finance's factoring operations, which is one of the biggest in the UK.



Roger Brown - Regional Director, London

As part of Lloyds TSB Commercial Finance's New Business Charter, clients will incur no termination fees by choosing to close their facility at any time by giving 28 days notice, unless a fixed termination period has been agreed at the outset. If at the end of the initial six months a client is not satisfied, they may claim a refund of the service fee paid during the period.

For more information on Lloyds TSB Commercial Finance and its Art of The Leader campaign, visit our new website [www.ltsbcf.co.uk](http://www.ltsbcf.co.uk)

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\*Source: ABFA, Q3 2009, based on client numbers



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