Hand in Glove…

ABLs, PE Firms Can Find a Perfect Fit in One Another

BY SAMI ALTAHER

The needs of PE firms and the services asset-based lenders provide not only benefit each other, but essentially help commerce though this crisis. Traditional lending appears to remain somewhat stagnant until market confidence resumes, but in the interim, the commercial finance community can use this time to step forward and provide credit to the ailing economy.

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The financial instability has brought on some of the toughest economic conditions we've experienced since the Great Depression. It is in these turbulent times that distressed companies with unpredictable cash flow come to a standstill with their lenders, as underwriting standards become more restrictive. Private equity (PE) firms in particular have been among the most challenged as funding has become less accessible. However, the clear consequence of the crisis represents an opportunity for the commercial finance community. Although times will continue to be tough for the remainder of the year and inevitably well into 2010, PE firms and asset-based lenders can join forces to propel their businesses forward while aiding in the economic recovery.

As the economic landscape changes, so does that of the private equity firm. Taking stake in underperforming companies does not quite evoke headlines for the average PE firm, but the recessionary backdrop has brought with it tremendous obstacles. The grease that keeps the PE wheels turning has become the very affliction of the crisis: *debt*. PE firms utilize leveraged buyouts as well as mergers and acquisitions to add and strengthen the core of their portfolio companies for resale and realize a gain on that sale. The key instrument making this possible is leverage – and lots of it. While this type of risk is not for the faint of heart, it is the forte PE firms *even* in a down market; however, many PE firms are now finding themselves in need of financial aid to keep their operations afloat.

Looking forward, as PE firms try to generate new capital in the coming year, there are a number of opportunities to be seized.

Traditional lenders are being forced to reevaluate business with riskier clientele, as government regulations become stricter and underwriting standards tighten. Unfortunately, this cold truth speaks to the hearts of PE firms worldwide. When loans become unavailable, PE firms cannot expand their portfolios, which is a necessary component of the business. The trouble truly lies with their current portfolio companies, which require a generous amount of working capital. For many, turning to conventional banks for funding is almost unthinkable in the current environment.

Enter: commercial finance industry. The platform (and risk) of asset-based financing is to lend to leveraged companies with minimal cash flows, a proverbial match-made-in-heaven for PE firms. Like hand in glove, asset-based lenders offer a much larger facility than traditional lenders, and in many circumstances do not require a positive bottom line. Furthermore, while traditional banks typically look at firm values and scrutinize credit history, asset-based loans side-step these factors (which may *appear* bleak in this market) in lieu of solid collateral and others protective measures. PE firms pride themselves on the prospect of reshaping a company's outlook, making commercial financing a complete tandem fit with their unique needs.

Looking forward, as PE firms try to generate new capital in the coming year, there are a number of opportunities to be seized. As PE firms are pressured by their investors to maintain their returns, they will naturally be turning to their higher net-worth partners to fill the gaps in funding. Yet declining overall satisfaction in the PE performance reported in year-to-date market surveys suggests that the scope of that tactic will quickly shrink. It is the opportunity of the asset-based lending community to make the complementary relationship between the two industries more well known.

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