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The McLean Group is a national, middle market investment bank serving businesses generating up to $500 million in annual revenue. For more information, visit www.mcleanllc.com.

Feature Article:
Asset-Based Lending In Vogue – Trend or Fad?

By Greg Boucher, CMAP, CMEA, SBA

Thanks to the credit crunch, asset-based lending – a financing option once viewed with disfavor as a final act of desperation – has a newly resurrected reputation.

Unlike more orthodox lending practices that distribute loans based on cash, asset-based lending focuses on the collateral worth of the borrower's company based on its accounts-receivable, equipment, inventory and even trademarks and intellectual property.

The Commercial Finance Association notes that asset-based lending, other than mortgages, increased by 8.3% to $600 billion in 2008. Asset-based lending volume very likely increased at least 10% in 2009 (final results pending) even as Dealogic, Inc. reports that syndicated lending declined 39% in 2009.

Despite asset-based lending's current attractiveness, significant downside risks remain for both borrowers and lenders that otherwise may be absent given more conventional forms of lending. For example, borrowers often pay steep interest rates and missed payments could mean forfeiting assets to the lender.

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Expert Tip:
The Importance of Commitment and Strategic Direction during an Acquisition Process

By Zane Markowtiz, Senior Managing Director

The cornerstone of any acquisition process is commitment. Without strong corporate commitment at the Board level, acquirers run the serious risk of wasting time and money and of failing to acquire the "right" company. Commitment – in the context of a pro-active strategic acquisition program – is highly stressful and acquirers must be prepared to deal with the inevitable frustrations that will crop up during the acquisition process.

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Ford Motor Company: An Asset-Based Financing Success Story

As of March 2010, Ford Motor Company appears to be among asset-based financing's most note-worthy success stories. Back in 2006, Ford, under new CEO Alan R. Mulally, had calculated that its planned corporate restructuring could generate a $19 billion asset "burn" through 2009. In late November 2006, Ford pledged virtually all domestic corporate assets – manufacturing plants, office buildings, patents and trademarks, including the trademark "Blue Oval Logo" – as collateral to secure up to $25 billion in loans to finance its critical restructuring. Ford's stakes in Ford Credit and Volvo also were included in the package. Without a doubt, Ford put everything on the line to survive in a move that proved extraordinarily prescient as the US economic downturn caught GM and Chrysler off-guard and auto sales plunged. GM and Chrysler proved too highly leveraged to react, let alone restructure, as recession hit and eventually were forced into bankruptcy and historic US bailouts. Ford, having secured its financing well in advance of the economic crisis, continued to pursue its restructuring while remaining the only surviving, publicly-traded member of the US Big Three automakers. In February 2010, Ford reportedly outsold GM for the first time since August 1998.

"Asset-Based Lending..." continued from p.1

Lenders face their fair share of risk, too. Reporter Kyle Stocks of The Wall Street Journal, in an article titled, "Asset-Based Lending Grows in Popularity," wrote that roughly 50% of the industry's top 25 firms significantly reduced their participation in asset-based financing at the peak of the credit crisis. Despite this, mega firms continue to dominate the industry even as those that took an asset-based lending hiatus relaunch their efforts with this funding alternative.

In fact, asset-based lending increased by 23% among top lending companies in 2009. However, such leading banks as Wells Fargo, Bank of America and JPMorgan Chase still must compete with smaller firms that filled the breach while they enjoyed their asset-based lending holidays. Founder and CEO Mitch Jacobs of New York-based asset-based lender On Deck Capital, Inc., draws attention to the positive impact small businesses had on the financial world during recent tough times, noting, "We're counting on these [small] businesses to push our economy forward." Since On Deck made its first loans in 2007, it has handed out $50 million to some 2,000 businesses.

TD Bank has benefited from its asset-based lending market participation in recent years, building a household name for itself while finding itself on the brink of becoming a top asset-based lender. TD's anticipated upcoming surge of US merger and acquisition deals may be just what it needs to become an industry leader as mergers and acquisitions may become increasingly dependent on asset-based loans.

Tough economic times made asset-based lending particularly important to all small scale lenders and borrowers. The mega-firms that backed off on asset-based loans perhaps did so because they could afford to cut the service and, given the economy, may have seen it as potentially contributing to a loss. This gave small banks an opportunity to win asset-based loan seeking clientele that the big banks had abandoned. Asset-based lending thus enabled small banks and struggling companies (hence the need for asset-based lending) to stay afloat during the worst of the financial crisis. Time will tell if small banks will continue to thrive as top lenders reemerge in the market. ◆

"The Importance of Commitment..." continued from p.1

To determine the extent of a company's commitment to a planned acquisition program, ask these questions:

- Do the Board and/or CEO have any acquisition reservations based on past acquisition disappointments?

If there is merely "benevolent interest" in making an acquisition, one may waste significant time and money only to find out that an acquisition is a nonstarter. Even worse, halfhearted interest can result in setting up price criteria so unrealistic that it will be impossible to close a transaction.

- Is the company only interested in acquiring another business if one comes along begging to be acquired?

If so, the buyer may have problems setting up an active, targeted program. Such a program requires the buyer to be the aggressor. If the buyer is not aggressive, she/he could wind up with less than optimal transaction terms and price.

- Are the acquisition requirements realistic?

Companies with 15% to 20% annual growth rates, before-tax margins of 20%, and the potential to be bought for 4 times EBIT are rarely a reality. It is better to lower expectations to decrease the chance of disappointment.

By understanding the buyer's motivations, one can better understand his commitment and overall expectations. A successful acquisition program requires the full commitment of the acquiring CEO and senior executives as well as a sense of consensus regarding how the acquired company will be integrated into acquirer's business. It is essential that this kind of mutual agreement is created before the purchase and that the seller is included in these discussions. ◆

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Columbus, OH
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El Paso, TX
Erie, PA
Hartford, CT
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About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. The McLean Group serves businesses generating up to $500 million in annual revenues. Headquartered in Northern Virginia's technology, communications and government contracting corridor, the firm is among the largest independent middle market investment banks in the Washington, DC area. The McLean Group is a FINRA Registered Broker/Dealer and Member FINRA/SIPC.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.

- **Capital Formation:** The McLean Group arranges private equity, venture capital, senior debt and subordinated debt in amounts ranging from $5 million to $250 million to support clients' expansions, mergers & acquisitions (M&A), refinancings, recapitalizations, leveraged buyouts and shareholder liquidity objectives.

- **Market Intelligence:** By leveraging superior competitive analyses, the firm provides business executives with comprehensive market intelligence reports, which provide the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.

- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.

- **Litigation Support:** From quantifying economic damages to valuing a minority interest in a business, the firm has the business valuation experience and credentials to support cases involving a variety of legal issues.

- **Exit Planning Services:** Based on its extensive experience advising owners of middle market businesses, The McLean Group has developed a proprietary process that analyzes more than 60 value/risk drivers that can have a significant impact on the value of a business.