



# A Guide to Achieving the Benefits of Asset-Based Lending

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# About Gibraltar

Gibraltar Business Capital is a non-bank asset-based lender serving the working capital needs of lower middle market businesses when traditional funding sources are limited or too restrictive. The company provides financing from \$2 to \$20 million based on the value of a company's accounts receivable, inventory, and equipment. Since 2010, the company has helped almost 200 different businesses navigate through transitional or special circumstances with their flexible financing solutions.

At a fundamental level, asset-based lending is business financing that is secured by a company's assets. Lenders base the amount of money you can borrow on the market value of your assets. In this guide, we're going to build an understanding of when and how asset-based lending can be used, what the major benefits are in different situations, how to determine if ABL is right for you now, and how to choose an ABL lender who will be a valuable and effective business partner.

## Contents

- Understanding the Value of Asset Based Lending
- Why Do Businesses Use ABL?
- Things to Know About Asset Based Lending And Lenders - Hear directly from a CFO
- What to Look For When Building a Relationship with Your Asset Based Lender

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# Understanding the Value of Asset Based Lending

Capital limitations can cripple any business, but cash-flow based financing may not be easy to get for companies with unpredictable or variable earnings. This includes companies with a limited operating history, in a transitional growth phase, with cyclical operations, or who depend on seasonal or fluctuating services or commodities.

For these companies, asset-based financing may be more accessible and beneficial. Instead of depending on minimum earnings rules, asset-based loans are commonly based on the value of a business' accounts receivable, inventory, and/or machinery and equipment.

**MANY BUSINESSES FIND THEIR COLLATERAL-DRIVEN BORROWING CAPACITY TO BE LESS RESTRICTIVE THAN TRADITIONAL LOAN LIMITS.**



Experienced ABL lenders are able to perform detailed analyses of a broad range of collateral options, enabling them to optimize valuations and advance rates against this collateral—equaling greater liquidity—for businesses in transition.

**ASSET-BASED FINANCING CAN BE STRUCTURED AS A REVOLVING LINE OF CREDIT OR TERM LOAN, DEPENDING ON THE NEEDS OF THE BORROWER.**

Many companies like the flexibility of a revolving line of credit. This structuring allows a company to borrow on an ongoing basis to cover expenses or investments as needed. However, multiple asset-based funding options enable lenders to structure loans appropriately for the widest range of business purposes.

## Takeaway

Asset-based lending is a flexible form of financing based primarily on the value of a company's assets. During periods of performance fluctuation for a business, ABL's reliance on asset value can offer more liquidity and flexibility than conventional bank loans and can help companies navigate transitions successfully.



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## Why Do Businesses Use ABL?

Asset-based lending can be leveraged by asset-rich companies during transitions of any kind, acquisitions, growth periods, or during restructuring or recapitalization processes.

ABL works well for companies with lendable assets which include accounts receivable, inventory and machinery and equipment. Many of them have a limited operating history, negative cash flow (either pre-profit or stressed), or some cyclicity or seasonality in their income that makes traditional funding sources too limited for their needs.

## These businesses use ABL to:



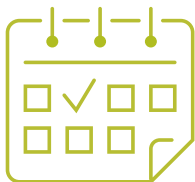
### Refinance existing debt to better manage cash flow or increase liquidity

Gibraltar recently provided a \$12 million revolving credit facility for a building products distributor to free up additional debt capacity to meet growing working-capital needs.



### Facilitate Growth

A \$5 million asset-based-lending line of credit and six-year working relationship with Gibraltar has enabled a mid-market healthy foods manufacturer to compete with larger consumer products companies and triple its sales.



### Fill in Seasonable Gaps

An industrial supplier with Far East manufacturers needed flexible financing to keep them going through special circumstances such as the Chinese New Year. After nine years of Gibraltar support, the thriving business transitioned to traditional financing.



### Support a turnaround

Gibraltar provided a \$6 million credit facility to a food product manufacturer that had lost a major customer. It allowed the business to right size their inventory and collect revenue ahead of schedule.

## Takeaway

Asset-based lending can be used during transitions of any kind—even when conventional banks are reluctant to get involved—to provide much needed liquidity to help a company meet temporary challenges or fulfill plans for growth.

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# Things to Know About Asset Based Lending And Lenders

ABL works effectively in both upturns and downturns. It is potentially less expensive than other forms of growth financing such as equity and mezzanine debt. And as the company grows, the credit facility can grow with it.

**"ABL CAN BE EXTREMELY RESPONSIVE TO BUSINESS CYCLES, HELPING A COMPANY MANAGE ITS DEBT EFFECTIVELY AT ALL POINTS." - LUKE BLACKWELL, CFO OF HORIZON MUD COMPANY & GIBRALTAR CUSTOMER**

In a down cycle, the credit facility also can shrink. This actually provides a built-in set of checks and balances, minimizing risk. ABL provides the maximum potential credit a company would want to borrow—no more than its business can justify and support.



Alternative lenders work closely with a company to develop an individualized plan to address its situation. The relationship is critical. A lender should be willing to put real time and effort into understanding the business. Company leaders should be prepared to engage in open dialogue and problem solving with their lending partner.

**"CREATE A STRONG, TRANSPARENT RELATIONSHIP WITH YOUR LENDER, BECAUSE THERE IS SO MUCH POTENTIAL FOR RESPONSIVENESS IN THIS TYPE OF LENDING." - BLACKWELL**

## Takeaway

ABL is flexible, cost-effective and designed with a built-in set of checks and balances that keeps risk at a reasonable level. To develop a successful individualized plan, lenders and company leadership must partner together to problem solve.

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# What to Look for When Building a Relationship with Your Asset Based Lender

Strong, trusting professional relationships are as important to a company's growth and vitality as the business plan. Choosing a financial partner is a crucial decision. You want the confidence of choosing one with a track record of implementing effective solutions in a timely manner.

**LOOK FOR A LENDER WITH A BUSINESS DEVELOPMENT TEAM THAT HAS A STRONG HISTORY WITH ASSET-BASED LENDING AND KNOWS THE RIGHT QUESTIONS TO ASK.**

You want a lender that completely and intelligently grasps the complexities and nuances of your business and takes the time to do their due diligence before a term sheet.



**YOU SHOULD HAVE THE OPPORTUNITY TO MEET WITH THE DECISION-MAKERS BEYOND YOUR DAY-TO-DAY CONTACTS.**

The decision-makers should be eager to meet you and your team, and be excited to be part of the process. You should be more than just a name to them.

## Takeaway

It's essential to have a lending partner with deep knowledge of asset-based lending and your business, who puts their decision-makers at your service and has a track record of doing what they promise, in a timely manner.