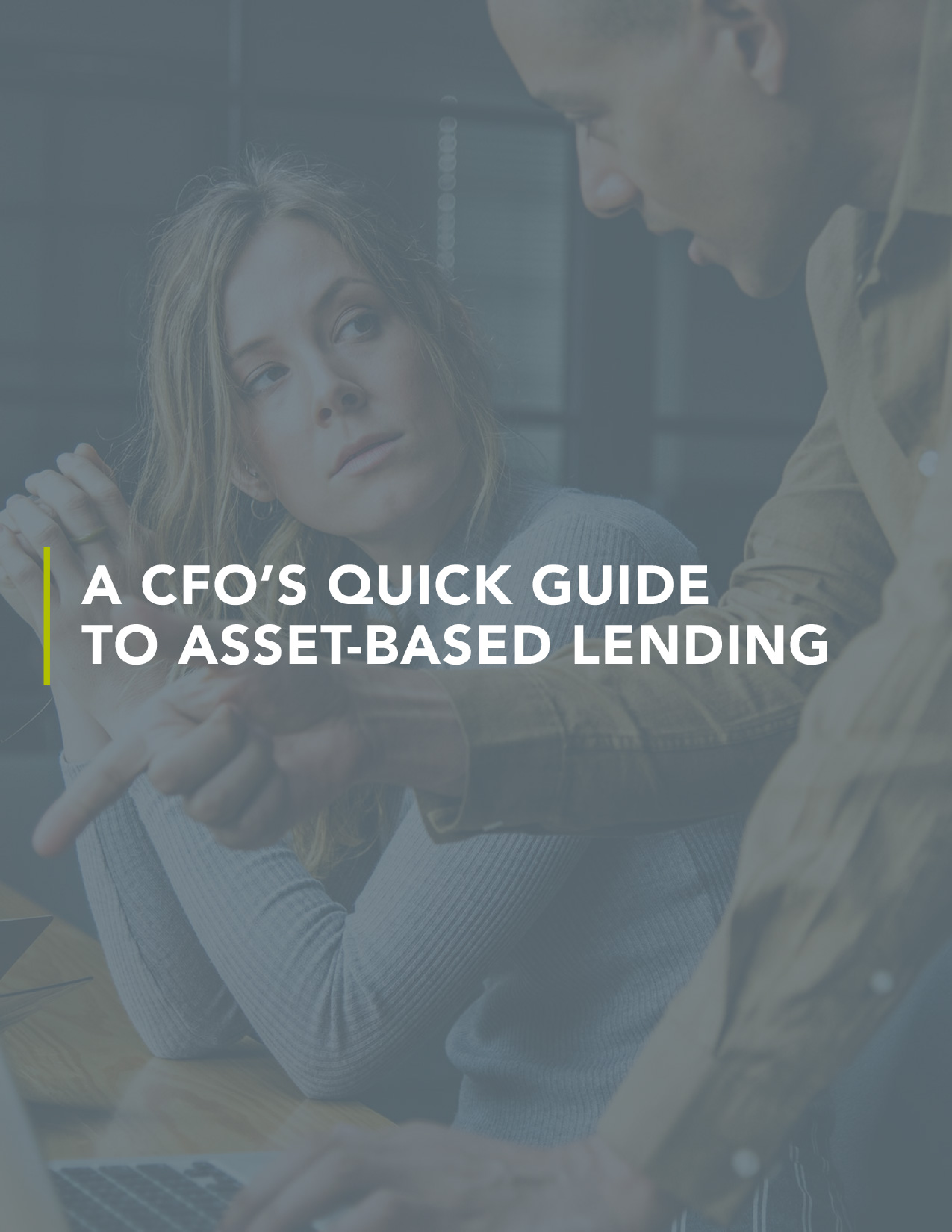
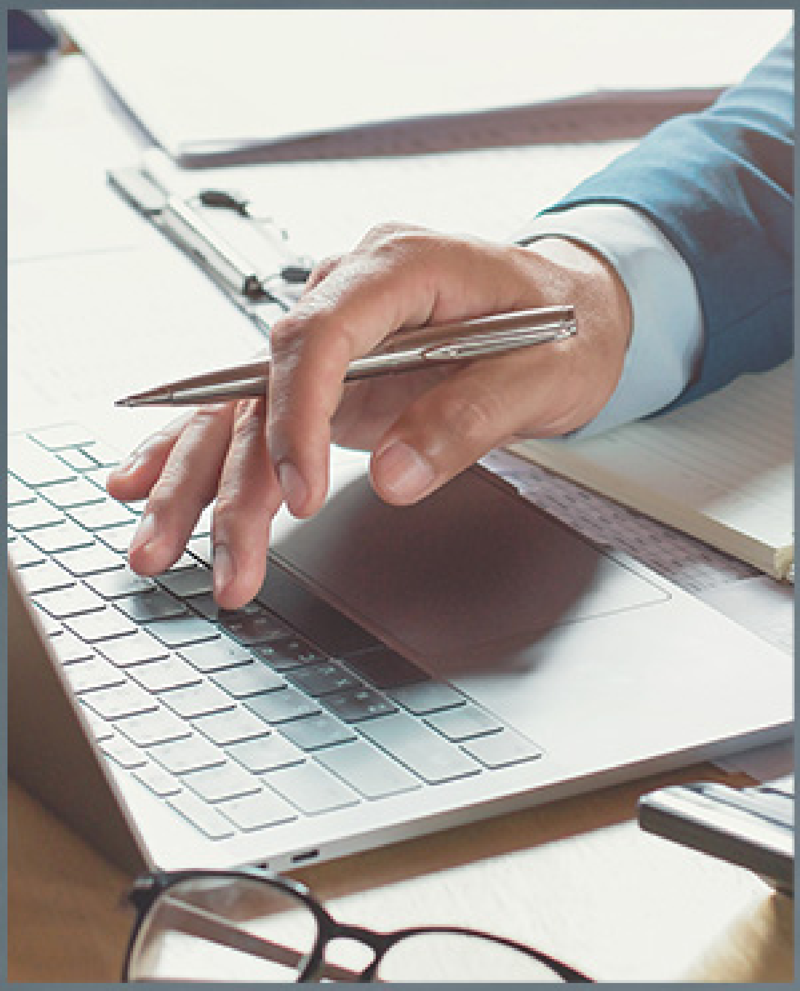


A CFO'S QUICK GUIDE TO ASSET-BASED LENDING



WHAT CFOS SHOULD KNOW ABOUT ASSET BASED LENDING

In a recent client interview, Luke Blackwell, Chief Financial Officer of Horizon Mud Company, offered his perspective on asset-based lending and what CFOs need to know about it.

As a seasoned finance executive with experience in investment banking and equity analysis, Luke has found ABL to be helpful during upswings and periods of retraction.

If ABL is structured properly, it can be extremely responsive to business cycles, helping a company manage its debt effectively at all points in the cycle.

WHY DO CFO'S NEED TO GIVE MORE ATTENTION TO ALTERNATIVE LENDING?

Luke points to his own company's changing situation to illustrate. "Usually bankers have very standardized options that may or may not meet the needs of your business. Alternative lenders work closely with a company to develop an individualized plan to address their situation.'"

Luke believes flexibility is a key benefit. Alternative lenders can provide funding to help a company achieve growth, but also

in a downturn, when you face a shrinking asset profile, they may have more options to offer than a typical bank lender.

WHAT DO CFOS NEED TO KNOW ABOUT ASSET-BASED LENDING?

Once again, flexibility is key, explained Luke, and simplicity. "ABL is a relatively simple solution and I believe that's one of its benefits. The more complicated something is, the more potential problems it can create."

Another benefit is that ABL can provide growth financing that is potentially less expensive than other forms such as equity and mezzanine debt. Importantly, as the company grows, the credit facility can grow with it.

Alternatively, in a down cycle, ABL can be just as responsive and flexible.

"In a down cycle the credit facility can shrink, so you need to understand that too, " said Luke. "

This is actually a positive point. Anytime you're adding debt, you're taking on risk and you need to look at how that risk will play out. ABL gives you the maximum potential credit you'd want to borrow and you can't ever borrow more than the business can justify. It comes with a level of prudence, a built-in set of checks and balances."

To optimize a company's usage of ABL, it's important for a CFO to understand appraisals and asset valuations and how fluctuations can change the company's liquidity profile.

HOW DO YOU KNOW WHEN ABL IS THE RIGHT FUNDING OPTION FOR YOUR ORGANIZATION?

Luke believes that ABL is a good funding option for companies that have assets that are valuable and generating a return. "Be honest with yourself. Don't leverage assets that aren't producing. Use the assets that are driving earnings to support a credit facility to grow your business.

"Also, create a strong, transparent relationship with your lender, because there is so much potential for responsiveness in this type of lending. You're really working together, so an open dialogue works in your favor."

WHAT IS MOST IMPORTANT WHEN SELECTING A LENDER?

Given the importance of the relationship, Luke stressed the importance of choosing a lender who is willing to put real time and effort into understanding your business. He explained that you can get a sense of their level of understanding from the questions they ask and the proposal they create for your company.

He also recommended getting references from clients, especially those who have come through difficult times and worked through challenges with their lender.

"It's important to find out who is going to be involved in managing your loan, too," he said. "Access to the real decision makers is key. Are the people who bring you into the relationship going to be the ones that are with you all along the way, managing through the company's ebbs and flows?"

Gibraltar's experienced team members partner with clients to understand their unique business and capital needs. That level of understanding allows them to personalize lending in a way that other lenders can't.

BENEFITS OF ASSET BASED LENDING

For seasonal businesses, companies going through explosive periods of growth, or organizations in other forms of transition, traditional lending options aren't always viable. The answer to the cash flow concerns of many organizations, especially asset-heavy organizations, is a type of alternative financing called asset-based lending (ABL).

"ABL FOCUSES MORE ON ASSET VALUE, LESS ON PERFORMANCE RATIOS"

In contrast to commercial loans that are based primarily on financial ratios heavily driven by company profit and loss, asset-based lending focuses on the value of a company's assets to establish lending availability.

Various company assets can be leveraged as collateral, including accounts receivable, inventory, machinery and equipment, or real estate. Asset-based lines of credit are based on a "borrowing base" of the value of all eligible assets and an advance rate that varies by the type of collateral.

NON-TRADITIONAL LENDERS CAN RESPOND MORE FLEXIBLY TO CIRCUMSTANCES OUTSIDE THE BOX

Non-traditional lenders can offer more flexibility in structuring loans, including asset-based loans, because they are regulated differently from traditional lenders. Banks typically have tighter terms regarding loan limits, liquidity, repayment schedules and other special covenants. They have less leeway to be forgiving of performance hiccups, fluctuations, high-risk industries, atypical customer concentrations or anything outside the box.

Specialty ABL lenders have deep knowledge and resources to determine asset values and are able to finance many special situations.

A lender with expertise in your industry may offer, in addition, better advance rates on your specialty assets.

They also may include include certain types of collateral such as unbilled accounts receivable that traditional lenders do not accept.

WEIGHING COSTS VS. BENEFITS

While costs can be higher and lender reporting requirements (regular evaluations of current asset values) may be more frequent, alternative financing from a specialty lender can help companies manage through a transitional period. You must weigh the costs and benefits for your company's special circumstances.

Remember that one of the largest benefits offered by a specialty lender can be industry expertise. This expertise can result in extra liquidity for your business that can make all the difference in meeting payroll, buying supplies, or investing in growth initiatives.

Timing also can be a consideration, especially since companies often seek out this kind of funding to meet a short-term challenge. Banking regulations lead to longer turnaround times and complicated committee approvals may be less flexible and timely than those with easy access to senior decision makers.

ABL CAN HELP COMPANIES WITH CASH FLOW CHALLENGES AND GROWTH PLANS

Companies leverage ABL to help them overcome a variety of challenges — temporary sales downturns, industry upheavals, unbilled receivables, etc. — but another important usage is to support expansion and boost profitable growth.

It's essential to choose a lender who understands what your company is going through and is willing to provide the personalized service it needs to get to the next level.