

# Midmarket Businesses Turn to Asset-Based Lending

**I**t's official! Apparently the UK's economic performance has returned to pre-recession levels, but while this is good news, many of the businesses that we are talking to believe it is not a relevant measure of the health of the economy and are still struggling to raise business funding.

Gross Domestic Product – the official measure of our economic health – grew 0.8% in the last quarter, taking us 0.2% ahead of the pre-crisis peak according to the Office for National Statistics. But are we really back to the boom times again? Somehow it does not feel like it.

For many of our clients in the midmarket, the broad macro-economic indicator of GDP is not that relevant. While it has its place with government and economists, more localised information on the business environment is needed for business owners.

London, for example, on the surface looks to be booming, but when you examine different parts of the capital there is still plenty to worry about. One major concern for midmarket businesses is high housing and rental costs, which threaten staff recruitment and retention. Average weekly rent for a one bedroom flat in London is now £293 per week, according to data from the Valuation Office Agency, and many businesses are moving out of London with more likely to follow.

The absence of previously reliable sources of business funding is also a problem. Capital constraints and an unwillingness to take credit exposure to enterprises rather than individuals continue to keep traditional bank funding in the doldrums. But there are other options for viable businesses that find themselves frozen out of long-standing lending relationships.

A crucial alternative to traditional unsecured bank lending is the growing field of asset-based lending. Many of these are the very banks that companies will have

been used to dealing with before the financial crisis hit lending, but there is an encouraging number of new entrants from outside the banking world looking to deploy capital where it is needed.

As the name suggests, asset-based lenders provide credit to business secured on borrowers' own balance sheets. This could include any property a borrower owns, from real estate to machinery; inventory owned by the company; or even access to debts owed to it, such as accounts receivable.

Different collateral will give companies access to financing on different terms but the good news for would-be borrowers is that a "no" from the bank manager does not mean that credit is unobtainable from an asset-based lender.

Asset-based lending is nothing new in the US, but UK businesses have long been more reliant on traditional bank funding than their US counterparts. For that reason, it's important for them to seek the right advice when looking to asset-based lenders for support. Here are the top tips we give to clients when they approach the market for the first time:

1. Have a solid business plan and strategy. It is crucial to give lenders a clear idea of where the business is going and how it will get there.
2. Decide on the level of funding required. It is counter-productive to underestimate your financing needs: the level of funding must be sufficient to fund the delivery of the planned result. Take a long-term view, considering all likely and potential costs that will need to be met for you to get to where you have told your creditors you are going.
3. Put a strong management team in place. A good accountant is as important as a good set of accounts. It can be



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lonely being on your own, so bringing in new shareholders or incentivising management is a very good thing.

4. Have an exit plan. This is one of the keys to obtaining investment. If you are building a business to sell it, be up-front about that with any lenders.

Given Duff & Phelps' coverage of the UK market, and access to a global network of funders, we are very well positioned to help clients access funds. Our clients include both profitable and distressed businesses and we are equipped to advise whatever the situation or stage of life a company is in.

We have many contacts at all levels and for opportunities of all sizes. If you would like to find out more, please call me to arrange a confidential meeting to discuss your goals and requirements for funding.

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