



Business Refinancing

Cash flow is the lifeblood of any business. Without it, the business will fail. Unfortunately the credit crunch has resulted in many businesses becoming starved of cash because they are unable to raise the funds they need from traditional sources such as bank loans and overdrafts. In addition, in many situations, agreed lending facilities such as overdrafts are being reduced or even withdrawn completely.

The economic downturn has also led to commercial property values plummeting. The effect of this has been that unless your business owns a property outright and therefore has significant equity in it, it may be virtually impossible to raise mortgage finance against commercial property.

Despite these issues, there are other avenues that you can investigate that may well be the answer you are looking for in terms of raising cash and improving liquidity in your business.

Management Buy Out

Re-financing techniques are not just for the turnaround and rescue of troubled businesses. They can also be used in more positive situations: the cash raised from re-financing can facilitate both Management Buy-outs (MBO), and Management Buy-ins (MBI).

If the existing management of the business wishes to buy out the existing shareholders it is rare they will have the funds at their disposal. A refinancing of the businesses assets could raise funds to enable this to happen.

Some serial entrepreneurs who regularly buy businesses can use invoice and asset re-financing as a means of funding the purchase. Companies who look to buy out other businesses can either refinance their own assets, the bid target assets, or both, to raise the funds to make the purchase.

Phone Kevin Pritchard for any further help or assistance:

Free phone: 0800 8047471

Mobile: 07515945835



The Alternatives to Bank Loans and Commercial Mortgages

Asset Refinance

Asset refinancing is borrowing against the value of fixed assets within the business. In theory any business asset can be financed as long as an independent value can quantify its market value. However, asset refinancing generally works well in sectors where a business is likely to own large assets such as machinery and plant, which have clearly quantifiable resale values. Examples of such businesses might be manufacturing, engineering, print, construction and transportation.

To have a good chance of raising cash through asset refinancing, the assets must firstly be unencumbered meaning that they are wholly owned by the business and there is no finance or charge currently outstanding on them. The assets are then valued and a loan can be granted as a percentage of the valuation. The amount of the loan will vary but will normally be up to a maximum of 70% of the asset depending upon the underlying credit strength of the business. There will be some due diligence undertaken in respect of the company's ability to service the debt. However, as a true asset-based lender, the security in the asset is most important. Clearly if a loan is provided and subsequently not repaid, the loan provider will have the legal right to repossess the asset and sell it to try and recover their loss.

It is important to remember that Assets that are already on finance can also be refinanced as long as the existing finance company is paid off as part of the process. The term of the loan is usually up to 60 months although it may be shorter if assets are old or have a short working life.

By releasing cash tied up in assets, money can be injected back into the business to help with cash flow, purchasing new assets and/or the reduction or consolidation of existing borrowing.

Invoice Financing [CID Confidential Invoice Discounting & Sales Debt Factoring]

Invoice financing is the process of raising money based on a company's outstanding invoices. Invoice financing could allow a company to draw down up to 90% of the invoice value immediately on the issue of a valid invoice.

The advantage of invoice financing is that the company does not have to wait for invoices to be paid before cash is available to it. This enables those managing the business to focus on running and growing the company business rather than being held back while waiting for invoices to be paid.

Of course, the company still has the responsibility for ensuring invoices are paid on time so invoice financing is not designed to replace a credit control department. If



invoices are not paid, the finance that has been borrowed against them will ultimately have to be repaid by the company or an individual who has guaranteed the repayment.

Because credit control and the collection of debt is so important, many invoice finance companies offer credit control services which can be more effective and time efficient than in-house credit control.

Invoice Finance is generally available for any business with a turnover between £50,000 and £500m, including sole traders, partnerships, limited companies, PLCs and export businesses.

Trade Finance

Very often when cash is tight, a business may secure an order but lack the funds to fulfill it. Trade Finance can enable a business to receive up to 80% of the confirmed order value to pay the suppliers required to fulfill the order.

The finance company will normally pay suppliers directly or open a letter of credit with them. The company delivers the goods and once the customer has accepted them, the Trade finance company will invoice the customer directly. Once the customer has paid the finance company, adhering to the typical payment terms, they will release any profits back to the business, minus their fees.

It is possible to link Trade finance with Invoice finance. Where this is achieved, the finance company may advance up to 90% of the invoice value at point of delivery to repay the trade finance and provide you with surplus cash. This method speeds up cash flow and ensures that the business always has sufficient funds.

Payroll Finance

Payroll finance provides a source of unsecured funding for company payroll, PAYE and NI. Subject to credit approval the finance company will give a business up to 60 days rolling credit on its monthly payroll, with the ability to allow for growth in payroll needs.

How Payroll finance differs from other types of finance?

No Personal Guarantees are required from company directors. There are no restrictions to using Payroll finance to fund payroll while the business continues to use other financial services such as factoring, invoice discounting and overdrafts.



days credit instantly. If the company has been trading for more than one year, turns over more than £100,000 and has more than 5 employees then Payroll finance could be available.