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# FLYING HIGH

Building an asset-based lending team can be a tough challenge, but when you have decades of experience, and the backing of a famous wealth management firm, it presents a tremendous opportunity.

Marc Mullen speaks to the Arbuthnot Commercial ABL team

PHOTOGRAPHY: IVAN JONES



In 2018, Tim Hawkins, Andrew Rutherford and James Shaw headed for Gatwick Airport. They had no luggage and no intention of flying anywhere.

They were setting up their new venture in the Beehive – the iconic circular building at the original terminal. Having first worked together at NMB-Heller/GE Capital some 16 years before, with Hawkins and Rutherford going on to co-found Centric Commercial Finance, the trio was now embarking on another new journey to set up an asset-based lending (ABL) business at Arbuthnot Latham private bank.

For companies with a lot of assets, using them to fund growth is a no brainer, and ABL is increasingly deployed in transactions. The Arbuthnot Commercial ABL team was quickly up and running. In 2018/19, it completed 35 deals, providing more than £130m from 29 key business introducers – including corporate finance advisers and private equity sponsors.

#### SMALL WORLD, BROAD COVERAGE

One of the key strengths is the range of ABL facilities on offer. Among the deals was a £12m facility to fund Tivoli's acquisition of ISS Facility Services; a £10m facility to support the MBO of VNA Trucks; and a £3.5m facility to support the MBI of Bornmore Metals.

"The business has become established very quickly, which simply would not have been possible without the support of our corporate finance advisory network," says managing director Tim Hawkins.

"We've been able to assemble a hand-picked team that's aligned with our entrepreneurial ethos. Having the strength, stability and heritage of a 186-year-old private bank behind us is a significant advantage in an M&A market, which requires certainty."

There are four regional business development directors – James Marler in the South East, Richard Ackers in the North East, Joe Taviner in the North West and Keith Rose in the Midlands and the South West. "They have been successful in attracting business from many of the key UK M&A advisers," adds Hawkins.

Arbuthnot's regional strength was felt particularly during the acquisition of the £40m Centrifugal Castings Division of Doncasters Group by Nimbus in December 2019. "The client was using a lawyer based in Leeds and sought a lender with a presence in the region. We won the mandate and provided them with certainty that the deal would be completed on time," explains Hawkins.

The 'whole team approach' has been central to the growth story, according to Hawkins: "Wendy Parish joined at the outset as senior client manager and Philip Squire, an ACA, joined as senior underwriter. We've worked

with both for many years." The firm plans more back office recruitment, particularly of ACAs. That the recruits 'love the business' is key. "Because of the success we've had already, I'm confident we can attract strong candidates."

#### ADVISORY NETWORK CRITICAL

In terms of deal flow, the advisory network is absolutely critical, says commercial director Andrew Rutherford, and a business taking on good corporate finance advice gives the business case more credibility. "This significantly enhances the likelihood of maximising the level of funding that can be advanced, while minimising execution risk." The new firm is therefore a very active member of the Corporate Finance Faculty.

Meeting clients on-site often with their advisers is part of the credit process. "We're all ultimately working in the best interests of the client and never forget that every referral we receive is effectively entrusting us with the introducer's reputation," says Rutherford.

Operations and risk director James Shaw adds: "We've delivered transactions for a variety of UK businesses going through event-driven change, such as buy-outs, buy-ins and acquisitions, and we've supported a number of family-run businesses as well as retirement sales and partial exits.

"As a result, we have a varied portfolio with a balanced mix, which currently stands at 33% for manufacturing followed by a range of businesses spanning materials handling, transport, construction, food and drink, textiles, technology, health and beauty, leisure, media, engineering and fire detection industries."

When it comes to their use of technology, starting with a clean sheet from the first day and no legacy IT infrastructure has proved beneficial. "As a result everything is best-in-class, even down to our legal documents. The HPD Landscape system enables us to engage with clients' ledgers seamlessly and pull the data directly from the client system with no extra effort on behalf of the client," says Shaw. "It takes away a lot of the manual work, speeds up the process and enables the client to access cash quicker and more efficiently."

Prior to the 2008 global financial crisis that affected bank lending, the default for the M&A world would have been to go straight ▶

# £130m+

Sum Arbuthnot Commercial ABL provided to complete 35 deals in 2018/19

#### PANORAMIC VIEW

In December 2018, Arbuthnot Commercial ABL supported the Panoramic Growth Equity-backed MBO of Plumbworld, one of the UK's leading e-commerce retailers of bathroom-related products, from Grafton Group, with a £3.5m stock-only facility.

Soon after, Plumbworld was introduced to Panoramic's portfolio company, Precision Technologies International (PTI), a Staffordshire-based motorsport engineering business. PTI provided a cash flow loan and receivables financing line, which will be used to finance growth. PTI's managing director, James Nicklin, said the speed of response gave them confidence that there would be no unnecessary red tape at the end of the transaction.

#### FUNDING A BUY-OUT

In March 2019, Arbuthnot Commercial ABL provided an asset-based lending facility to support the management buy-out of skincare product distributor Ken Lamacraft Marketing. While the amount was not disclosed, the receivables finance line and cash flow loan facility funded the 100% share purchase by joint managing directors Fiona Peerless and Kevin Gambrell, as well as some working capital to fund growth.

## "Good corporate finance advice maximises the level of funding that can be advanced"

to the banks for leverage. ABL was not really on their radar. The crisis was something of a game changer in that respect. Having lent to businesses 'through-the-cycle', Hawkins explains that market uncertainty could present an opportunity to drive growth by backing British businesses when liquidity may tighten from traditional sources.

"Our industry tends to fare well in uncertain times when banks typically become inward looking, as their priorities shift to maintaining higher capital ratios," says Hawkins. "This also means that they may start to look at their portfolios and start getting out of sectors they no longer favour. This allows us to build relationships with good management teams at a time when they need funding support the most, enabling them to grow their businesses in an uninhibited way."

### UNLOCK HIGH FUNDING

Today, ABL has progressed from a little-known form of finance originating in the US to a mainstream funding solution in the UK. For businesses with a strong asset base, to unlock high levels of funding from assets makes sense, whether organic or through acquisitions, buy-outs or buy-ins.

Despite plentiful leverage available in recent years, the genie is out of the bottle for the corporate finance advisory community. "Corporate finance advisers and PE houses alike are now very familiar with the advantages that ABL brings and have confidence that we will be there for them during and post-deal completion," says Hawkins. "We'll give them an approval very early in the process so that they know very quickly that we'll back the deal. The rest is down to a commitment to deliver our promises, keep to the term sheet yet remain flexible as situations change."

"We were welcomed by the corporate finance advisory and private equity world. It had previously been quite difficult to enter that space," Hawkins recounts. "They adopted ABL as a strategic solution. Now we're putting ABL into both existing portfolio businesses and new acquisitions in deal structures when the target company has significant tangible assets. We often include an additional cash flow strip, delivering a higher level of funding that is so often required in sponsored deals." ●

### REFINANCING FOR GROWTH

In November 2019, Arbuthnot Commercial ABL provided GJB with a £5m accounts receivable facility, supplemented by plant and machinery and cash flow loans. The facility provided an increase of £2.4m on those offered by the group's previous lender.

Established 30 years ago in Essex as GJB Developments, the company grew through the acquisition of Listers in Stoke. Then, in 2017, Roy Frost acquired the businesses. Now the company's managing director, Frost said: "We now have much bigger and more flexible funding facilities, which will support our continued growth."

### ABL FOR ACQUISITION

In October 2019, Arbuthnot Commercial ABL provided a £2m ABL facility to support EA-RS Fire Engineering's acquisition of Circum, a fire protection services specialist. The facility comprised a flexible confidential invoice discounting line and a term loan.

Its managing director Mark Wheeler said: "It was only when we discussed the acquisition with Arbuthnot Commercial ABL that we got traction on the deal. Their team sought an in-depth understanding of our business and what we wanted to achieve." He added that EA-RS would be making more acquisitions to further their geographic expansion and product offering.

### DRESSING IT UP

In September 2018, Arbuthnot Commercial ABL provided Angels Costumes, the longest-established costumiers in the world, with a £5m asset-based lending facility to fund future growth.

Angels has supplied many franchises, including James Bond, *Star Wars*, *Pirates of the Caribbean* and Harry Potter. Its TV credits include *The Crown*, *Call the Midwife*, *Downton Abbey*, *Poldark*, *Peaky Blinders* and *Ripper Street*. It has 8.5 miles of costumes at its premises in north-west London.

Tim Angel CBE, CEO of Angels, said: "Arbuthnot came in incredibly quickly and understood what we wanted. They took an interest in what you did and you have a relationship with them. That is really important."

