

BDC Capital's ABL Program: Providing Daily-followed, Revolving Asset-Based Lines of Credit.

Asset-Based Lending (ABL) is the practice of providing loans that are secured by collateral, typically Accounts Receivable (A/R) and Inventory, and at times other collateral, and is a great solution for businesses that have financing needs that don't meet the requirements of a bank. It provides working capital financing with more flexibility. We rely on one covenant tied to a mutually agreed upon annual budget forecast.

The concept is simple: asset-intensive companies in need of cash for working capital can use their non-cash assets as collateral. In return, we provide a loan based primarily on the value of that collateral, rather than relying on the more restrictive financial ratios and other covenants that banks use to protect themselves with conventional loans. There is no debt service covenant required. Repayment is made via the conversion of current assets to cash in the normal course of business.

During challenging economic times, credit becomes tighter, and fewer companies qualify for a traditional commercial bank line of credit. For companies suffering consistent losses with a restructuring need, we work with management to "turn around" the business. We are not focused on financial ratios, rather we're more interested in the execution of the "game plan". We focus on management's turnaround strategy that may include continuing losses in the short run. A negative net worth does not preclude BDC from lending as there is no leverage covenant. We can provide financing from \$500,000 to \$10 million or more to get you through the tough times and/or for debt consolidation. This is not factoring. The company's assets remain on the books of the company. Borrower's customers are not notified of the financing relationship as is the case with factoring.

We can work with whatever bank is acceptable to you and provide introductions to lenders. BDC Capital is owned and funded by over 35 banks and has close relationships with lenders throughout New England.

What are the benefits to a borrower of ABL?

The greatest benefit is access to money to grow your business that would otherwise be tied up in Accounts Receivables. Working capital Asset-Based Lending allows borrowers to access cash immediately after the product or service is delivered to your customer.

Asset-Based Lending is easy to understand, and it is predictable and stable. It is a formula-based approach that allows the borrower to see the amount of money available to borrow on a daily basis. Borrowers can access the greatest possible capital based on their collateral, and cash that isn't needed can be used to pay down the loan balance, minimizing interest.

How is ABL different than a conventional revolving Line of Credit (LOC)?

Asset-Based Lending advances are based on a percentage of A/R, usually at 80%, with an inventory advance ranging from zero to 70% depending upon the collateral. In the event the company does not have A/R, BDC may be able to consider a loan secured by inventory. ABL requires close monitoring of A/R which along with the loan balance is updated daily through a lock box that collects the cash directly. An inventory update is

prepared weekly. We monitor daily the amount of receivables that have been collected, then based on the advance rate, provide money back to the borrower and reduce the loan outstandings.

Typically, a conventional LOC does not require a lock box but often requires additional side collateral especially during uncertain economic periods, as well as an annual pay-down or “clean-up” of the line. There are no such requirements with ABL.

Which Accounts Receivable are eligible?

No progress billings are eligible to be included in the borrower base. Other ineligible receivables would include those 90 or more days past due, contra accounts, intercompany receivables, and foreign receivables not backed by credit insurance.

How is ABL different than factoring?

ABL is substantially cheaper than a factor. With factoring, the borrower’s customer is directed to send the payment to the factor; with ABL, the customer is unaware of the financing relationship. A factor is usually buying the receivable with recourse, whereas BDC is only financing the receivable.

Will you lend against inventory and other assets?

Yes, we will lend against inventory, at advance rates of up to 70% depending upon the collateral. Specialized inventory that has limited resale potential is typically excluded. We can also lend against machinery & equipment and real estate which would require an appraisal to determine the advance rate.

BDC can be creative, supplying credit in the form of a CAPEX line, short-term or seasonal over-advances, 2nd and 3rd lien loans, revolving over-advances, revolving term loans, and even purchase order financing depending upon the collateral.

What is involved in a field exam?

A field exam will be done by our employees prior to funding then on a quarterly basis going forward. The exam includes a review of financial statements as well as an analysis of the accounts receivable agings along with inventory. The quality of the operational controls, such as an inventory control and costing systems, will be evaluated. Basically, we assess a company’s ability to generate timely and accurate financial information to insure the delivery of daily collateral reporting and the production of accurate monthly financial statements.

Other Details

Size: BDC Capital's portion of a loan can range from \$500,000 to \$10 million. We can provide higher amounts in participation with a lender.

Geographic coverage: borrowers located within the six New England states (MA, RI, CT, NH, ME, VT)

Typical Candidates: Manufacturers, distributors, wholesalers, and some service companies confronted with:

- ◆ Temporary earnings issues
- ◆ Balance sheet leverage, for instance, due to acquisition financing

Typical Non-Candidates:

- ◆ Companies with progress billings such as construction companies
- ◆ Borrowers who cannot demonstrate a believable management plan towards achieving a turnaround from recent losses

General ABL Loan Parameters:

- ◆ Loans are demand facilities
- ◆ A single covenant based on a company's projected pre-tax results, tested quarterly
- ◆ No debt service covenant required
- ◆ Personal guarantees are generally required
- ◆ Management support agreements (for non-owner managed companies) where applicable

General ABL Collateral Requirements:

- ◆ Daily submission of sales and cash receipts
- ◆ Up to 80% on 90 days receivables – and – up to 70% on eligible inventory
- ◆ A bank of the borrower's choice will provide treasury management services, including a lock box
- ◆ Monthly submission of A/R & A/P agings, weekly inventory, and financial statements on at least a review basis, or a review with inventory audit if we are lending on the inventory
- ◆ Quarterly field exams, initially
- ◆ Annual budget, balance sheet, and profit & loss by month

What We Look for in a Candidate:

- ◆ Solid management team
- ◆ Good internal financial controls, inventory costing, etc.
- ◆ Competent Chief Financial Officer or controller
- ◆ A credible plan to return to profitability, that is mutually agreed upon

"Typical" Term Sheet Includes:

- ◆ Interest rate; closing fee; quarterly field exams by BDC Capital staff; renewal fees

**BDC CAPITAL
OVERVIEW:**

The oldest business development corporation in the United States, BDC Capital has been recognized locally and nationally as a leader and innovator in business lending and capital investment. Many of New England's leading financial institutions invest in BDC to help promising companies expand. For almost 70 years, we have invested more than \$1.5 billion in thousands of companies in New England.

Whether the need is \$500,000 or \$10 million, BDC Capital provides a wide range of financing solutions. We offer asset-based lines of credit, senior debt, junior secured debt, mezzanine investments and private equity options, all of which are customized to suit the needs of a business.

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