



Business Finance case study >>

This case concerned a Management Buy Out of small specialist building supplies company, where the purchasers had no cash stake and were reluctant to offer their homes as security. Following a referral from their accountant, we were able to arrange the required finance.

About the Client

Three employees of a specialist building supplies company wanted to buy it from the 100% shareholder. The purchase price was £800,000 with £300,000 due on completion and £500,000 payable over the next 5 years.

The Challenges

Lenders often view such transactions as complicated and inherently risky. They prefer to see a good cash stake from the new management team and need to be convinced that they have the skills to run the business. In this case, the clients had the required experience but no cash to put into the transaction. Two of them owned homes but were reluctant to offer them as security. Although the business appeared profitable, all the profits were being withdrawn making it difficult to show how the company could afford to repay the proposed borrowing.

The Solution

With their accountant's help, we worked out that future cost savings would allow the company to

retain more of its profits (the vendor had been taking a large salary and other benefits but had not actually been working in the business) and verified that the company's cash flow would be strong enough to service any borrowing. Having explained to the clients their various funding options, they decided on a confidential invoice discounting facility, which would allow them to use the company's book debts to fund the initial purchase and the ongoing repayments to the vendor.

Outcome

We submitted a detailed credit paper to a number of lenders, which gave them the required level of detail about the business, demonstrated the company's ability to repay, and explained the management's experience and practical capabilities. Several lenders were keen enough to submit terms for the required funding. The transaction completed on time and the clients benefitted from very attractive lending terms - the successful lender was so impressed with our credit paper that it felt sufficiently comfortable to offer the facility without personal guarantees or security from the new directors.





Conclusion

Our lending expertise supplemented the accountant's work to make the difference between success and failure. By providing lenders with a detailed credit paper to enhance their understanding, we were able to satisfy them that this was a strong proposition that they should fund.

The case is also a good example of the need to put lenders in competition with each other because there was a difference in cost of over £6,000 per annum between the various offers received.

The accountant was happy because he did not lose any non-chargeable time and retained his client, who could easily have gone elsewhere had the business been sold to an external buyer.

“ *Your assistance in finding the right finance deal and helping us through this process was invaluable.* **”**

Director, Building Supplies Company

About IBC

Everyone at IBC has extensive 'inside knowledge' and practical experience, acquired over many years spent working in commercial banks at all levels – as front line lenders, credit managers, recoveries managers, and in leadership roles. This means we understand how banks work and how they think; we know the right people and we speak their language, making us a valuable resource for business borrowers.

We have been trading since April 2000 and are proudly independent – no conflicts of interest or divided loyalties. We are also authorised and regulated by the Financial Conduct Authority for the provision of credit related services, including debt adjusting and debt counselling.

If you think you or your clients could benefit from our services then contact us in confidence

Email: enquiries@independentbankers.co.uk

