Q&A

# How ABL enables businesses to thrive

BZ's regional managing director *Ben Milner* and regional director *Cem Yaslak* explore how asset-based lending can provide a flexible alternative to more traditional leverage finance structures in buyout scenarios

**What role can asset-based lending (ABL) play in supporting private equity through acquisitions and the investment cycle?**
*Ben Milner*: We are increasingly seeing private equity turn to ABL as the preferred debt provider in leveraged buyout situations for several reasons. ABL provides certainty; because it is structured around the balance sheet of a business and asset-based lenders can provide an early view on the level of debt they can raise against those balance sheet assets.

ABL offers a mix of revolving facilities against working capital assets, as well as term debt facilities against fixed assets. At BZ, we can combine this with a cashflow term loan to maximise the level of debt that sponsors can access. This creates optimal headroom in deals and provides execution certainty.

*Cem Yaslak*: ABL providers tend to have a more flexible approach to the level of equity that a sponsor commits to a deal, meaning that returns for the sponsor can be optimised while also preserving capital to invest further down the line.

We recognise that ABL is also relevant to private equity beyond the initial acquisition scenario, including situations where firms are looking to refinance their current debt to either upsize or provide more flexible facilities. This may be to fund further growth or increase the level of revolving facilities in order to optimise debt service levels versus an amortising term loan structure.

**How can ABL provide certainty for businesses in an uncertain market?**
*Milner*: Having a debt facility that is linked to a business' asset base provides more certainty versus a leveraged structure, which is tightly linked to covenants based on P&L performance. As a result, ABLs are more likely to be supportive during any trading volatility because their collateral remains secured by the assets. Sponsors are comforted by having a supportive lender through the cycle.

*Yaslak*: In 2024, we provided a large, multi-jurisdictional financing package for Cooper Turner Beck, comprising full-suite ABL and cashflow loans across five countries. The business was previously funded by a fixed, inflexible term debt structure that was not meeting the needs of its changing working capital cycle.

**Buy-and-build remains an increasingly popular strategy for private equity. How are ABLs prospects aligned with the outlook for these acquisitions?**
*Milner*: Recently, buy-and-build has been a prevailing theme in the slightly depressed market. We have experience supporting clients that have needed a responsive funding facility to acquire a target business coming out of administration. Being focused on the target's balance sheet means that we can work around accelerated M&A timelines as well as traditional M&A.

*Yaslak*: One of the unique aspects of our business is that we have a high maximum hold level of £150m, which provides further certainty to the sponsor if they need to make significant bolt-on acquisitions.

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**Ben Milner**
*BZ*

When initially structuring a facility, we can also add a small M&A accordion facility on top of the ABL facility. That additional tranche is easier for a private equity fund to drawdown if they identify a bolt-on.

### What are the international prospects for ABL?

*Milner*: One of our most significant points of difference is our ability to provide funding across multiple jurisdictions, including North America, Europe, Asia–Pacific and Australia. When sponsors are acquiring a business that operates on an international basis, knowing they can leverage the balance sheets in each country is distinctly preferable. It means they only need to transact with one lender, as opposed to having to raise debt in each jurisdiction; which may require an intercreditor agreement and the administrative burden of managing them all individually.

Being able to fund the balance sheet in each country also optimises the internal treasury function of a business; they can fund the working capital in each jurisdiction using their own assets. Structuring a deal in this way, as opposed to a traditional credit fund, helps to improve the efficiency of debt facilities and reduce debt service costs.

Last year, we provided a facility to the international logistics company Asco, which incorporates funding against its subsidiaries in Norway and Canada, as well as the UK. This was to support Endless' acquisition and the ongoing working capital requirements of the business.

*Yaslak*: One of the advantages for private equity in using a fund like ours is that we are flexible regarding the amount of equity sponsors that contribute to a deal, meaning we have to maximize debt capacity as far as possible. That usually leads to us lending into non-UK jurisdictions to generate the extra quantum that we otherwise would not be able to generate by focusing on UK assets.

### How has the ABL market evolved in recent years?

*Milner*: We have increasingly seen ABLs working alongside other lenders to create optimised structures. For us, that has been in the form of first-in, first-out structures that enable us to combine the lower cost of capital – from a more traditional ABL – with our increasingly flexible approach to providing facilities across all asset classes; in multiple jurisdictions and including cashflow term loans in a single structure. We have created several of those structures, which have worked well for the sponsor, borrower and lender group.

*Yaslak*: While ABL was traditionally perceived as a product primarily focused on supporting turnaround situations for businesses lacking the earning profile to obtain traditional leverage funds, its scope has expanded significantly. Today, private equity houses collaborate routinely with BZ to not only fund turnarounds but also drive growth opportunities, including acquisition finance.

### What is the outlook for ABL in the coming year?

*Milner*: Based on the high level of dry powder in the private equity space, we are expecting to see more transactions in 2025 across performing businesses, as well as those experiencing some stress. While 2024 was a slow year compared to 2023, the momentum grew from the summer onwards and we are expecting that to continue this year.

*Yaslak*: The sponsor-driven M&A market has been subdued in the last few years. But, towards the end of 2024 we saw an increase in sponsor-driven M&A enquiries; that will drive transaction flow in 2025. There is pressure building on sponsors to transact; around 15,000 portfolio companies are held globally by PE sponsors for four years or longer, and these will need exits. As those portfolio companies come to market and we see some churn it will create more flow for ABLs. ●