



Flexible financing for recapitalization

Any company making solid plans for the future often considers recapitalization. However, as a company elects to take on additional debt, it is important to balance the need for working capital to keep the business running smoothly with the need for necessary funding to service the debt. Generally, a recapitalization is structured to respond to this need for balance. Two instruments that can be used in a recapitalization are asset-based lending and accounts receivable financing.

Asset-based lending

An asset-based loan is a revolving line of credit and/or term loan that is secured by assets, such as accounts receivable, inventory, machinery, equipment, real estate, and others. This kind of financing can provide a company funds quickly, and bolster its cash flow on an ongoing basis.

Benefits of an asset-based loan include:

- *Fewer covenants.* An asset-based loan often lacks the financial performance covenants imposed by traditional cash-flow loans
- *Flexibility.* The loan can alleviate short-term cash flow challenges
- *Elasticity.* The loan amount can increase as a company's inventory and receivables increase, which keeps pace with its growth
- *Less costly.* The cost of an asset-based loan is often less than that of raising additional equity

Accounts receivable financing (Factoring)

A factor, or an accounts receivable financing company, can buy a company's receivables and quickly give the company a percentage of the money it is owed. This kind of financing can be ideal when a business needs cash quickly, or it can be a means to establish a steady flow of working capital.

Benefits of factoring include:

- *Timeliness.* Typically, a company can quickly secure financing for supplies, rent, payroll, and other business needs when it faces fluctuating (or seasonal) sales or a growth spurt
- *Nothing to pay back.* Because the factor converts accounts receivable to cash, there is nothing to pay back, and the company will not have a loan on its balance sheet

Example

[QuadraMed secures financing for restructuring](#)

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