



Financing shareholder buyouts

Whether a company is following its succession plan, avoiding a bankruptcy situation, or even seeing the retirement of an owner, all of these events can propel a shareholder buyout. As part of the buyout process, a company must be able to pay for the value of the ownership interest; asset-based lending and accounts receivable factoring are two potential ways that the needs of a buyout can be met.

Asset-based lending

An asset-based loan is 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
- *Lower cost.* 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:

- *Timely.* 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

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