

Client Briefing 5

Cash from plant and machinery

Introduction

Refinancing plant and machinery is an increasingly popular way of raising trading funds for businesses, as banks traditionally do not ascribe significant security value to such assets for lending purposes.

Financing in this area is by way of a sale and leaseback of the assets and is driven by asset valuation.

To be financeable, plant and machinery in general has to be clearly identifiable, of significant size (so no small tools), have a significant remaining working life and be readily removable and realisable. Machinery that is too specialised or built in to the extent it would be difficult to remove will attract low valuations and be difficult to finance. Similarly, IT equipment is traditionally difficult to arrange this type of finance for given the steep depreciation and low residual values attaching to it.

Lenders

There are three main sources of this type of refinance funding:

1. Bank funders. We perceive that some of these funder have a significant 'captive market' of bank introduced leads and tend therefore to be less quick to move on externally introduced opportunities and less flexible on deal structure.
2. Structured finance providers. There are about three main independent players and these funders are in practice generally large invoice discounters who have added on plant and machinery and/or property finance capabilities in order to provide a full refinancing package. They tend to be interested in larger deals and only in deals that involve a debtor financing element.
3. Stand alone asset financiers. These specialise in undertaking stand alone plant and machinery refinancing deals.

Deal structure

A sale and leaseback will typically be over three to five years.

Interest rates vary dependent on the business circumstance but might typically be a flat rate percentage in the range 10%–15%.

All HP or other finance (eg peppercorn rentals) will have to be cleared on any currently financed assets to be included in a sale and a letter of priority obtained from any existing fixed or floating chargeholder (eg the bank), as well as an agreement with the landlord as to rights of access to allow the finance company to collect and/or sell assets from site as well as in some cases an agreement as to the limitation of the landlord's rights to distraint on plant and machinery for unpaid rent.

Lenders may also seek specific assurances as to business performance (eg that Crown debt is up to date or an agreed schedule of repayments being adhered to).

Lenders will want directors' warranties that the assets to be financed belong to the company and once financed, will not then be sold without the lender's consent.

Please reply to

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Lenders vary in their requirement for Personal Guarantees (PGs) from directors. Some deals are done without, other lenders insist on a limited PG of say up to 25% of the sum lent to ensure that the directors adequately maintain and protect the financed assets.

Process

The lending process is as follows:

1	Company advises sums to be sought
2	Company prepares a list of plant and machinery available to finance using the format of Creative Business Finance Ltd's Plant and Machinery Refinance Summary Form (below) to give sufficient detail on each item to allow a desktop valuation.
3	Creative Business Finance Ltd contacts lenders and obtains an initial estimate of borrowing potential based on above summary.
4	Assuming sufficient equity appears to be available, company signs Creative Business Finance Ltd's terms of business and completes the company information form which provides the basis for obtaining a funding offer. At some point during stages 3 and 4 the lender will generally issue an indicative offer of terms.
5	The lender (with relevant permissions) undertakes credit reference searches on the company/directors .
6	The company commissions a formal valuation from a valuer on the lender's panel.
7	On the basis of the company information form and the formal valuation, the lender issues a formal offer and the proposal is authorised by the lender's credit committee.
8	Company accepts offer and on completion of paperwork, draws down funding.

Free initial estimate of funding available.

To obtain a free initial estimate of the level of funding that might be available to you through sale and leaseback of plant and machinery assets, please complete and return the attached Plant and Machinery Refinance Summary together with your contact details and Creative Business Finance Ltd will contact you to discuss what funding may be available.

Checklist of additional financing information needed (where available)

General financial information (all products)

- last accounts
- most up to date management accounts
- set of forecasts

Please tick

Refinancing existing plant & equipment

- list of plant and equipment (in attached format to allow desktop valuation)
- list of outstanding HP/lease agreements/balance

Acquiring new plant & equipment

- details of proposed purchases (description and value)
- details of deposit available



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Plant and machinery refinance summary

Client: Date: Number of sheets...../.....

Ref						
Item						
Make						
Model						
Serial No						
Age						
Date acquired						
Bought new or used?						
Cost when new						
Usage (mileage, impressions, etc)						
Finance owed						
Condition						