Asset Based Lending – Outlook for 2024

INTERNATIONAL DEBT FINANCE INTELLIGENCE REPORT 2024 SUPPLEMENT

DLA PIPER

We expect to see a continuation of the trends that we've identified in the post-pandemic years:

- Steady if unspectacular **growth in the volume of receivables-only transactions** (with more growth anticipated in non-recourse/off-balance sheet), with lots of options for customers and advisors in the SME and mid-market in particular, where competition between the ABLs can generate attractive terms.
- The competition for 'vanilla' discounting transactions will prompt more ABL providers to look at funding **more unusual or novel types of receivable**.
- Banks with large portfolios of customers using non-ABL products (eg RCFs or overdrafts or HP) will **test whether an ABL facility can de-risk existing positions, and/or be used defensively to achieve lower pricing** or greater efficiency for an existing customer to preserve a relationship. For example, a plant hire business switching from a HP facility to an inventory facility can relieve the burden of monthly amortisation.
- **Greater cooperation between ABLs and term debt providers**, particularly the credit funds. It's often observed that when a customer gets into distress, the world view of an ABL provider can be very different from that of a term debt provider relying on EBITDA-based metrics and needing a longer "runway" to achieve an exit. The ABL market is sufficiently mature now to be sympathetic to these differences, and most ABL providers are willing to accept compromises when they get into intercreditor negotiations.
- Linked to the above, **ABL providers and credit funds will pre-argue intercreditor principles** so they can hunt for new transactions together and present a (relatively) "no-fuss" structure to debt advisors.
- **Growth in the syndicated ABL market** – the new players in this space from 2022/2023 are expected to deploy more capital in syndicated ABL this year, and as ex-bank hires boost the syndication skillset of those new entrants, more will look to lead (rather than participate in) multi-bank ABL deals to keep a larger share of the fee income.

Joe Frew
Partner
UK

"Are you missing an opportunity? The ABL market has grown more sophisticated and is comfortable with off balance sheet structures. Traditional securitisation funders continue to be at the forefront of securitisation lite structures for corporates however: deals which the more innovative ABLs could and, in my view should, be doing."

Sarah Day
Partner
UK

Stress-testing ABL structures

In 2024 we also expect to see some more stress-testing of ABL deals written in previous years in those sectors that are struggling, including retail and (non-EV) automotive. In the case of retail, inventory-led ABL facilities always carry a higher degree of risk, and ABL providers will be focussed on control of cash, as well as having the requisite access and licensing rights to effect an exit. Fragility in automotive supply chains may affect ABL providers at both ends of the chain. ABLs funding lower-tier suppliers will often have a concentration of funded debt owed by a small number of higher tier suppliers or OEMs, and sometimes assurances about timely payment of invoices (without set-off) are sought from OEMs upfront. Those funding tier one suppliers or OEMs may see production runs halted or scaled back due to supply chain issues, potentially shrinking the borrowing base, or requiring new cash injections to near-shore supply.

Cross-border structures

Cross-border ABL structures remain in demand from large corporates, and recent changes to securities laws in some European jurisdictions have helped to make it easier to establish these facilities. But it's still a reality for corporate treasurers that funding assets across multiple different legal jurisdictions can be a complex, expensive and sometimes difficult process. Our recently updated guide to cross-border ABL highlights the possibilities and the pitfalls across 18 territories.

Legislative change

Changes to the law in Scotland under legislation passed in 2023 should come into force in 2024 and make it easier to take pledges over physical assets, rather than having to rely on floating charges. For ABL providers and borrowers, the availability of fixed (rather than floating) security may mean that lower reserves will be held by their lenders for floating charge dilutions, increasing funding availability. The assignment (assignation) of future receivables should also become easier, with a corresponding simplification of the documentation for Scots ID facilities.

"We continue to expect the move towards hybrid structures, rather than single financing products. Maturing intercreditor positions in the market reflect the flexibility of the product and a willingness from financiers to consider alternative structures".

Alastair Carruthers
Legal Director
UK