

Institutional Debt Financing

In this report, we explain the reasons why debt financing difficulties exist and how Reedland Capital Partners can add great value in assisting a company to eliminate or substantially mitigate those problems.

As most management executives of publicly held companies are now aware, credit markets around the country and in Europe are extremely constrained, especially for micro-cap and middle market companies. With such constraint on credit and other reasons relating to the internal dynamics of financial institutions in today's marketplace, it is very difficult (or in many cases impossible) for CEOs and CFOs to seek out and successfully secure new senior credit facilities or other debt instruments without the assistance of experienced third party intermediaries. This difficulty exists regardless of whether the debt financing is being used to facilitate an acquisition, finance internal growth, take out an existing senior lender or group of lenders, or to consummate another type of leveraged transaction.

Often, senior management is able to obtain on its own one or two financing proposals from lenders either through their own connections or through referrals from attorneys, accountants or other trusted advisors. Unfortunately, few of those loan proposals ever lead to a successful financing since most of the letters of intent or term sheets issued by lenders are merely marketing strategies designed to steer a company into an audit to determine whether the company can meet that lender's underwriting criteria.

Why Companies Fail to Achieve Debt Financing Goals?

Since lenders rely initially on the assessments of their marketing personnel (which are invariably overly optimistic) to determine the viability of a particular credit, it is only after completion of an audit (and possibly one or more asset appraisals) that most financial institutions have any true sense of whether the loan can actually be made. In fact, the vast majority of loan proposals/term sheets that are signed by companies end up with no loan being made and the company out two or three months of its time and tens of thousands of dollars in audit and other due diligence expenses. And, when a loan is actually made, senior management will find that the covenant levels and other terms of such loan are materially different from the terms set forth in the original proposal. Management will often accept inferior terms because it is under pressure to complete a financing within a particular timeframe.

These scenarios are commonplace because many of the marketing or account executives employed by nationally recognized financial institutions are very inexperienced and/or migrate from lender to lender and, therefore, are ill-suited to make an accurate assessment as to whether a prospective company is a good fit for a particular lender and vice versa. Since account executives are employed by one particular financial institution, they are substantially less likely to provide the prospective borrower with an accurate and impartial assessment of the likelihood of the company's achievement of its financing goals than an independent third party intermediary might be.

Another continuing source of frustration for many companies is that the underwriting criteria and the overall paradigm for loan approval for any particular lender, shifts on a regular basis. This can make it extremely difficult for senior management to make intelligent choices with respect to prospective lenders. For example, a financial institution that has a national reputation for being an excellent lender to the software industry may have recently suffered a large loss in its portfolio or has internally determined that it is now overleveraged in that industry and is now only making very infrequent loans to software companies with the highest quality credit.

Other examples include:

- the constantly changing length of time that a company must be cash flow positive for a "turnaround" to be deemed by a lender to be sufficiently in place, or
- the ever-changing amount of cash a lender will require a company to have on its balance sheet to cover its projected future cash burn.

It is virtually impossible for CEOs and CFOs to remain updated on this constantly changing landscape and simultaneously run their companies.

How Reedland Capital Partners Can Help

In summary, though most nationally-recognized financial institutions are reputable, there is currently a very low success rate for senior management of middle market companies to obtain new debt financings on favorable terms without third party assistance. This generally occurs as a result of poor communications between the lender's marketing representatives and senior management of companies as well as senior management's lack of adequate and accurate information in dealing with its prospective lenders.

One of the principal advantages in retaining Reedland Capital Partners to assist you in structuring and placing your company's debt financing is that we can generally eliminate this problem entirely or, at the very least, substantially mitigate the risks of such an occurrence.

We are well connected to the lending community (for example, one of our principals is a former bank regulatory attorney for many years) and we are very familiar with the underwriting criteria of most financial institutions and other nontraditional lenders. Moreover, Reedland Capital Partner's relationships are generally with senior credit officers of financial institutions who are much more likely to be both knowledgeable and forthright with respect to the likelihood of loan approval than lower-level marketing and sales personnel. And, since Reedland Capital Partners deals with, and refers business to, many lenders on a regular basis, such lenders are generally provide faster and more accurate information to us than they would to any individual prospective borrower.

Additionally, the debt professionals at Reedland Capital Partners attend lender conferences around the country regularly and are in daily contact with underwriting personnel at financial institutions. We can keep you abreast of the constant changes in underwriting and loan approval criteria. By coupling our "intelligence" with our long-standing relationships with many financial institutions and non-traditional lenders, Reedland Capital Partners is able to assist companies in making the proper decisions about appropriate lender(s) with whom to work. These invariably save companies both time and money.

Reedland Capital Partners is very familiar with lenders' pricing models and can structure and negotiate financing proposals to create more cash availability and less expensive pricing than a company could negotiate on its own. Reedland Capital Partners can also place additional equity to increase a company's liquidity which, in turn, could lead to better loan pricing and/or more flexible covenants. Bear in mind that we remain involved in every step of the financing process until your loan is funded and that we operate primarily on a success fee that keeps our interests totally aligned with your own.

Involving Reedland Capital Partners in your debt financing will ensure that your company is paired with the appropriate lender for your particular business (the importance of which cannot be overstated) and that you obtain the best possible terms. We specialize in assisting companies in accomplishing that goal in a timely and cost-effective manner.

Contact us before you proceed with any new debt financing (senior or subordinated) so that we can explain how Reedland Capital Partners can be of particular assistance to your company.