WHITE OAK

PERSPECTIVES ON **ASSET BASED LENDING** IN 2023 AND BEYOND

STRICTLY CONFIDENTIAL

KEY TAKEAWAYS

Investors view Asset Based Lending ("ABL") as a defensive play in a market challenged by tight monetary policy, persistent inflation and significant volatility

Banks, the behemoths of ABL, are retrenching and leaving an unprecedented void for non-bank lenders to fill, securing favorable terms and higher spreads

Demand by corporates is strong, driven by rising inventory levels, tighter margins and robust consumer demand

CREDIT SUPERIORITY

Inventory and receivables lending is primarily a bank product and one of the oldest forms of financing

Asset Based Loans are collateralized by short duration assets, including cash. The Leverage ratio in ABL is typically inside 1x on cash

Underwriting in ABL is predicated on a business' top-line, not bottom-line performance

THE ASSET BASED LENDING LANDSCAPE

The global Asset Based Lending market is vast, and inclusive of various sub-strategies like Trade Finance, Supply Chain Finance and others, over $25 trillion in size.[1] The "core" global ABL market is estimated to be $260 billion in size.[2] In context, the estimated AUM targeting direct lending opportunities in North America is over $800 billion in size.[3] The ABL market has grown considerably as borrowers look to maximize flexibility and liquidity during uncertain times. The combination of longer working capital cycles, the rising cost of goods and services and declining EBITDA has put pressure on borrowers' ability to obtain sufficient borrowing capacity to support working capital needs. Asset Based Lending steps in to provide flexibility as availability of financing grows and contracts with the value of the company's assets, rather than being tied to (often declining) EBITDA multiples.

Banks have been the uncontested rulers of the ABL market… but that is changing. Banks own an estimated 87%[4] of the Asset Based Lending market in the U.S. and typically focus on more liquid ABL credits. Commercial banks tend to be bound by strict lending requirements in regards to both the profile of companies they can lend to as well as the transaction terms that they are able to provide.

For example, many commercial banks in the U.S. will not provide an advance against receivables from non-U.S. counterparties, irrespective of the risk profile of the foreign entity. Often banks have to reduce advance rates to meet strict counterparty concentration limits.

Given regulatory requirements, structural complexities within banks and insufficient technology infrastructure, banks tend to be fairly slow to execute compared to non-bank ABL lenders. Banks can take 60-90 days - or longer - to close a transaction while non-bank lenders often execute investments in half that time frame.

IF YOU WOULD LIKE **TO READ THE FULL REPORT**, PLEASE REACH OUT TO

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NOTES AND DISCLOSURES

Statements contained in this section are based on current expectations, estimates, projections, opinions and beliefs of White Oak as of the date hereof. Such statements involve known and unknown risks and uncertainties, and undue reliance should not be placed thereon. Accordingly, there can be no assurance that the results described by any such forward-looking statement will be attained, and actual results may be significantly different from such forward-looking statement.

1. Commercial Finance Association 2Q 2017, EU Federation for the Factoring and Commercial Finance Industry 2017, Centers for Medicare & Medicaid Services, National Health Expenditure Projections 2016-2025, and 2017 Rethinking Trade & Finance ICC Banking Commission.

2. Secured Finance Network Industry Report 2021.

3 Preqin, January 2023.

4. White Oak estimate.

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Any questions or feedback?

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