

When times are tough

Funding as a survival strategy



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Before the financial crisis hit last year, when companies were making good profits, it was not uncommon to hear business owners discussing strategies to springboard them into their next growth phase.

These days, however, business sustainability has become the new catch phrase and, in boardrooms everywhere, strategies for staying in business are often the top item on the agenda to be discussed at management meetings.

Mark Joffe and Michael Sack from Growth and Acquisition Finance discuss this transformation, and look at the keys to survival for businesses.



There are widespread reports of profits slumping, retrenchments and businesses failing. It's only natural that when times get tough, businesses look at tightening the purse strings by cutting costs and staff.

The boom years leading up to 2007 are over, replaced by the go-slow years. Who knows how many years this will go on? One thing is certain, this year may be much tougher for businesses than 2008.



The investment banks were amongst the first to feel the pinch. The easy credit of the previous decade had disappeared almost overnight, and the smaller bag of money was nowhere near enough to meet the capital needs of the highly leveraged companies they were funding.

As the availability of credit became scarce, non-financial businesses were being affected.

They couldn't meet their debt obligations and they couldn't borrow any more because, in short, there was very little money left to borrow. The trickle-down effect meant that non-financial businesses were the next to bear the weight of these problems.

This environment became unsustainable for these businesses, and something had to give. Money has not become more plentiful, so businesses are beginning to make adjustments. Having wavered on the issue for much of the past year, they are now getting serious about controlling costs – and the non-financial sector is making decisions to cut costs by retrenching staff and eliminating unprofitable business lines. No costs are going unscrutinised.

As growth slows and talk of a recession gathers momentum, bankruptcies could soar. The lay-offs will continue to affect the wider economy, and we are now starting to see the effects on consumer goods companies. This may lead to growth slowing even more as the resulting rise in unemployment will further reduce consumer demand.

Banks could experience a second wave of financial difficulties. Where default rates remained reasonably low for businesses and consumers last year, things could get worse for traditional banks. This time, it's the commercial and retail banking arms that may find the going gets tough. What were previously regarded as good credit risks may no longer be regarded so. Things look like they may be bleak for some time to come.

Funding will remain a key issue for companies through this patch and to the next upswing.

But the funding may look a little different than it did in the past.

The foundations of many businesses are built on funding through both debt and equity. While this is not about to change, the source of debt funding may. It's likely that many traditional banks will be reluctant to lend while their focus is on reducing the risks to their own balance sheets. At the very least, they won't lend as much as they used to, so we may see some new sources of funding emerge.

What's needed is a more flexible approach to finance. It's said that necessity is the mother of invention, so expect to see innovations in the debt funding market and a greater role played by equity. Importantly, businesses will need to broaden their horizons when they seek finance to help them stay afloat.



Some of what's to come is becoming evident already. Businesses burdened by heavy gearing levels are looking for ways to deleverage to ensure sustainability into the future.

This is the perfect opportunity for some of these businesses to see what Investec has to offer. Unlike some other banks right now, we have funds available to lend and we have the expertise to not just refinance, but restructure existing debt facilities.

We don't dictate; instead, we work together with management teams to come up with integrated debt and equity packages that can help struggling businesses to survive - and can give businesses some real horsepower through these challenging times.

Challenging times nearly always present good opportunities along the way. Investec are in a great position to back entrepreneurs and businesses that generate over \$2 million in profit annually.

We provide alternative funding solutions for the growth, expansion and development of businesses, and we even have the expertise to take advantage of opportunities such as helping to acquire competitors experiencing financial strife.

To us, business sustainability is not just about managing the business through tough times - it's an opportunity to set up a business in anticipation of the next growth phase.

And now may be the best time to review existing funding strategies to ensure sustainability into the future.

Flexible funding

Investec's Growth and Acquisition Finance team provide funding to Australian businesses. Each funding solution is specially tailored to the business, and the team engenders a partnership approach with management, business owners and private equity firms.

Funding can be provided for:

- Management buy-outs and buy-ins
- Corporate acquisition
- Implementing growth and expansion strategies
- Shareholder restructuring and equity release
- Succession planning.

Our greater appetite for risk and experience in tailored funding set us apart from traditional banks. We invest passively through debt, and can even play a minority role with equity funding.

We also participate in equity where a further layer of capital is required. We are not exit focused, but rather work with our clients to ensure that business interests are aligned.

Through it all, we partner with our clients to ensure all our interests are aligned with the future success of the business.

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