

ABL Market Commentary



Bottom line up front

- Asset-based lending (ABL) is increasingly being used as a strategic capital structuring tool rather than purely a working capital solution.
- Multi-asset and hybrid ABL facilities are becoming more common, incorporating receivables, inventory, plant & machinery (P&M), property and selective cash flow components.
- Businesses and sponsors are using ABL to improve liquidity efficiency, increase leverage flexibility and optimise wider capital structures.
- Higher interest rates, inflation, working capital volatility and geopolitical disruption are driving lenders to apply greater scrutiny to collateral quality and structural protections.
- Receivables and inventory lending assessments have become more detailed, with increased focus on concentration risk, supply chain resilience and downside recovery assumptions.
- Hybrid structures such as stretch ABL, FILO tranches and accordion facilities are increasingly being used to support acquisitions, refinancings and shareholder events.
- The market focus has shifted from simply obtaining ABL financing to ensuring facilities are structured efficiently for the current risk environment and long-term business objectives.

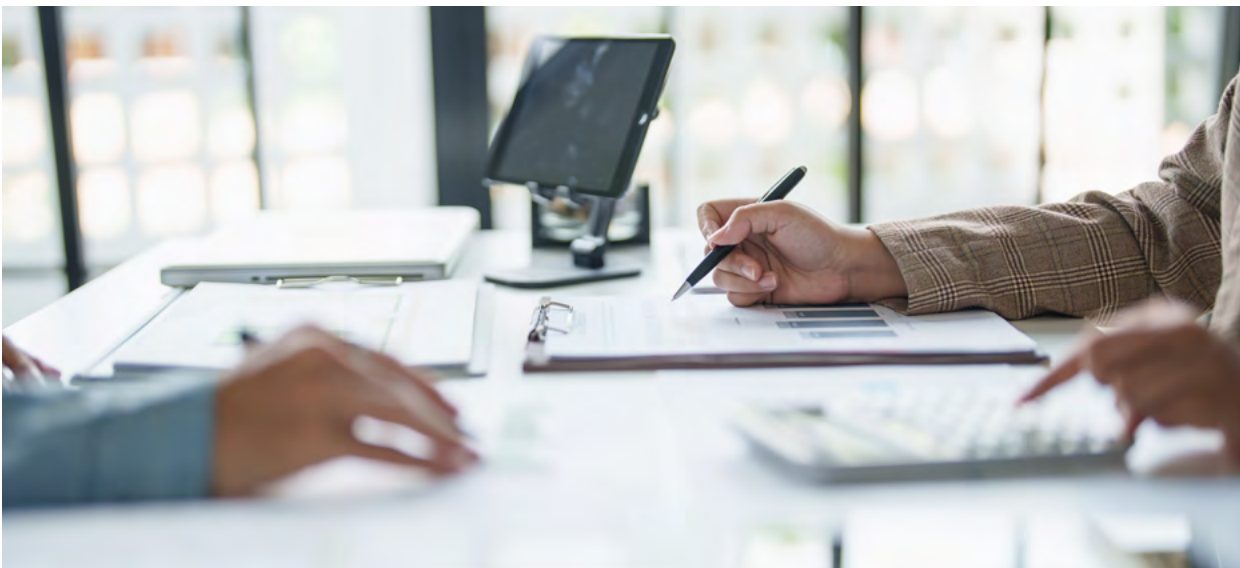
Evolution of ABL structures

ABL has evolved beyond its traditional role as a liquidity product and is now widely used as a broader financing and capital structuring solution. While receivables finance remains the foundation of most mid-market facilities due to the liquidity and responsiveness of the asset class, structures are becoming increasingly sophisticated.

Multi-asset facilities incorporating inventory, P&M, property and selective EBITDA or cash flow components are now more prevalent.

These facilities are often designed to support incremental leverage, improve covenant flexibility and create greater liquidity efficiency for borrowers and sponsors.

Hybrid structures, including stretch ABL, FILO tranches and accordion facilities, are also becoming more common as businesses seek alternative financing solutions in constrained leverage markets.



Impact of the current market environment

The current macroeconomic environment has materially changed lender behaviour and underwriting standards. Higher interest rates, inflationary pressures, sector divergence and working capital volatility have all led lenders to reassess collateral assumptions and structural protections more frequently.

Advance rates, eligibility criteria and collateral performance expectations that were previously acceptable are now subject to greater scrutiny, particularly in sectors experiencing margin compression, extended cash conversion cycles or customer concentration pressures.

Geopolitical disruption linked to the Middle East conflict has also created ongoing operational challenges. Freight disruption, longer lead times, commodity volatility and rising insurance costs continue to affect collateral performance, especially for inventory-heavy and import-dependent businesses.

Increased focus on collateral quality

Receivables quality remains central to lender appetite, but the analysis has become significantly more granular. Lenders are increasingly focused on dilution trends, cross-ageing, concentration limits, foreign debtor exposure and jurisdictional enforceability, particularly for businesses operating across international supply chains.

Inventory lending structures are also being underwritten more selectively. Greater emphasis is now being placed on:

- Inventory turn and obsolescence risk
- Supply chain resilience
- Downside realisation and recovery assumptions

Businesses with diversified debtor books, strong reporting disciplines and resilient operational models are generally viewed more favourably by lenders.

Key areas being reassessed

Several structural and operational areas are currently being revisited across the ABL market, including debtor eligibility frameworks, concentration thresholds, reserve methodologies and collateral valuation assumptions.

Lenders are also placing greater importance on reporting quality, forecasting accuracy and collateral transparency, as these factors increasingly influence overall lender appetite and structural flexibility.

Additional focus areas include:

- Flexibility around over-advances and seasonal peaks
- The interaction between ABL facilities and wider debt stack considerations
- Intercreditor dynamics and incremental debt capacity





Strategic implications for businesses

For boards, sponsors and advisers, the discussion is increasingly less about whether ABL is available and more about how effectively the structure aligns with the business's liquidity profile, operational risks and broader capital objectives.

ABL is now viewed as a flexible strategic financing tool capable of supporting both working capital requirements and wider balance sheet optimisation initiatives in a more volatile market environment.



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