

Nuances of Retail Asset-Based Finance

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In today's tough economy, retail consumer spending is down significantly. You can see from this slide **(figure 1)** that there has been a retreat in consumer spending with year-over-year growth declining since the financial crisis began in the third quarter of 2007. As the number of retail liquidations increases, it has never been more important to find a lender who thoroughly understands retail finance.

spending patterns impacted by changing seasons, holidays and back to school shopping.

There are distinct segments **(figure 2)** within the retail sector-- from home furnishing to drugstores-- each with unique buying seasons. This creates spikes in cash flow and capital needs, and retail lenders need to closely and more frequently monitor inventory fluctuation and collateral values.

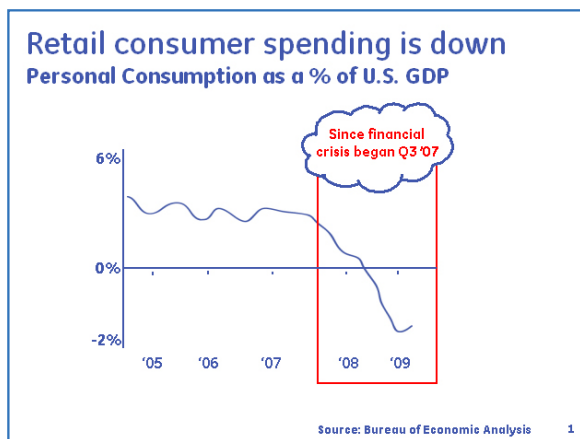


figure 1

There are several nuances of retail asset-based finance that are important to know when searching for smarter liquidity.

The retail market is unique. Unlike a manufacturer or service company, retailers need to open new stores to grow. Experienced lenders know this may increase the risk of overextension and decrease a retailer's operating leverage. Most retailers are also faced with consumer



figure 2

All this makes loan underwriting and inventory monitoring highly specialized. The retail appraisal is an important aspect where the type of collateral and buying season must be understood. This toy store example **(figure 3)** shows the difference in Net Orderly Liquidation Value during the Holiday months of November and December versus the off-season. Producing reliable appraisals requires specialists who are steeped in the retail sector and kept current with changing seasons and consumer sentiment.

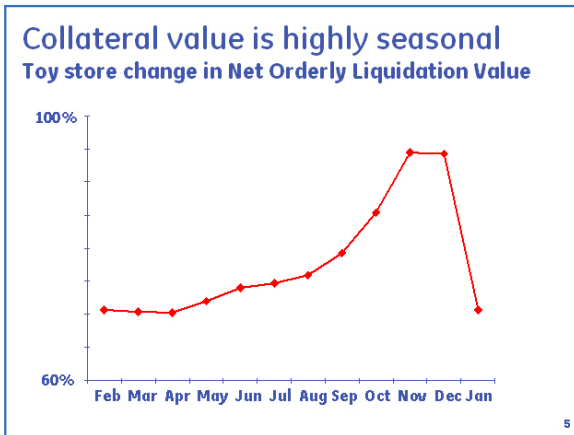


figure 3

Another nuance to retail asset-based lending is an exit strategy that is more predictable. Should a retailer file for Chapter 11, bankruptcy is a well-precedented process (figure 4) for requesting and approving either liquidation bids or going concern bids. The liquidation bid is followed by a court approved “going out of business” sale where the liquidator will promote the closing and offer products at increasing discounts until the inventory has been sold and the proceeds have been distributed to the various creditors.

Clearly, retail is a unique market (figure 5). A specialty lender who understands these nuances may offer increased flexibility, greater liquidity and patience.

Nuances of retail asset-based finance

- Retail market is unique
- Loan underwriting & inventory monitoring highly specialized
- Exit strategy is more predictable
- A specialty lender who understands these nuances may offer increased flexibility, greater liquidity, patience

figure 5

Exit strategy is more predictable

- Retail bankruptcy is a well-precedented process
- Court approved “going out of business” sale
- The liquidator discounts inventory until everything is sold



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figure 4