

BANK PARTICIPATION CASE STUDY: \$5,000,000 WORKING CAPITAL LINE OF CREDIT TO A PHARMACEUTICAL MANUFACTURER

BUSINESS SUMMARY:

The company is an early stage, fast growing business headquartered in Kentucky. They are a minority owned manufacturer/distributor of generic pharmaceuticals sold primarily to the US Government as well as drug wholesalers. The company has seen rapid sales growth since it was founded in 2006 due to adding new government contract business. Furthermore, they acquired a manufacturing facility which will enable them to control both the manufacturing and logistics cycles to better serve the growing demands of their client base.



Southeastern
Commercial
Finance, LLC

\$5,000,000

Working Capital Line of Credit

Pharmaceutical Manufacturer

SITUATION:

The company approached several banks and lending institutions for working capital financing only to find most were unable to move on the credit request due to the early stage nature of the company and the fact it is undercapitalized by traditional lending standards. However, the company was already generating strong profits and growing its base of government receivables. A Nashville based commercial bank approached Southeastern about the possibility of partnering to make the Loan structurally sound by the Bank's standards. Because this is a heavily Accounts Receivable dependent loan, the solution involved the implementation of a daily collateral monitoring structure and the appropriate documentation and covenants. The Bank has worked with Southeastern before and recognized this as an opportunity to land a profitable relationship early on that could mature into a traditional bank loan and a long-standing relationship for years to come.

PROCESS:

After the Bank and Southeastern assessed the situation, it was determined that a \$5,000,000 line of credit would meet the Company's long term growth goals while starting at a comfortable lending level for the Bank at 60% of the Loan. Southeastern would lead the credit and monitor the collateral with a 40% participation while the Bank would control the relationship and through their loan participation, provide more competitive blended pricing for the Company. The loan structure also gave the bank comfort as it involved daily collateral monitoring as well as proper documentation for government receivables financing. The collateral monitoring involves daily borrowing base monitoring, receivables verifications and periodic field examinations.

RESULT:

This turned out to be a win-win for the Bank and the Company for several reasons.

- The Bank was able to land a lucrative new account with exponential growth potential from both a depository and lending standpoint.
- The Company was able to obtain the financing necessary to pursue its new business and its transition from a distribution company only to a manufacturer and logistics company.
- The Bank won the business from competition because the structure and blended pricing was ultimately more advantageous for the Company.
- The Company was able to procure a Bank relationship with the flexibility of an ABL structure rather than be locked into a nontraditional finance company with multi-year terms.

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