



Asset-Based Bridge Loan: Managing Difficulty Amid Distress

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The Challenge

A Southern Ontario manufacturer and distributor (“the Company”) of consumer products—that sells to retailers across North America—found itself in a precarious situation with its banker of 20 years. The Company was in breach of various financial and other covenants on its loans, and the relationship had become strained to the extent that the bank wanted to end the relationship.

Management of the Company requested extra time to refinance the business, but since the forbearance period had expired and the bank’s original demands had not been met, the wheels were already in motion to shut down the business. A court date was set to appoint a Receiver and, according to the bank, there was no turning back.

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Desperate, the Company called its lawyer who, in turn, contacted Farber. While the Company's lawyer initially planned to file a *Notice of Intention* to make a Proposal under the [Bankruptcy & Insolvency Act](#), our team advised against this action in order to avoid insolvency. Once all the stakeholders were at the table, and the Company had some additional time to reassess, we were able to present a win-win solution at the eleventh hour.

The Solution

Upon closer review, it became clear that the Company was starting to benefit from its internal restructuring and had additional borrowing capacity in its real estate and other assets. These assets could be used to find a replacement lender to pay off the bank. What was needed was the additional time to do that and, of course, to encourage the parties involved to work together.

Our team then leveraged its existing relationships with the bank and their advisors to buy an extra 30 days for the Company to find an alternative lender to replace the bank.

Mobilizing a team comprised of our insolvency, advisory and corporate finance practices, the sensitive situation with the lender was contained and we ran a short but effective process to source take-out funding on best available terms. Since there wasn't enough time to do a comprehensive refinancing, we pursued asset-based lending solutions as a bridge.

An *Information Memorandum* was produced, and we approached trusted lenders in our network who could respond within the very tight timelines. Within a few weeks, there were three viable letters of intent. This allowed the Company to sign a term sheet before the bank's deadline. Following that, we worked with the new lender to complete its due diligence process, and the deal closed—allowing the Company to pay off the bank and avoid liquidation. Disaster averted.

The Outcome

Throughout the entire 30-day period, it was a priority to communicate openly and frequently with the bank. This allowed us to rebuild confidence—and it incentivized the bank to work with the Company toward a common goal. In the end, the Company was able to avoid liquidation. Not only were approximately 30 jobs preserved, but the Company's relationship with its suppliers and customers continued.

Now that things have stabilized, and with a solid year of financial performance under its belt, the Company is able to go back into the market to replace its bridge loan with financing on more favourable terms. The Company continues to engage B. Riley Farber to source the necessary capital it needs to thrive and achieve its growth plans across North America.



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