

# THE FULL SPECTRUM

A Publication of SPECTRUM Commercial Services

## **SPECTRUM – Partnering with Banks and Others**

Generally, the businesses that SPECTRUM lend to fall into two categories. First is the “traditional” asset based borrower, a company that has been struggling and showing weak (or negative) profitability. We have seen a lot of these companies the last few years since 9-11. Lately, as the economy has recovered, we have been working with more businesses that would fall into the second category, fast growing companies.

Banks sometimes struggle with fast growth because the working capital required to finance the growth exceeds the banks ability to lend based upon typical cash flow, profitability and equity requirements. These companies can be ideal for SPECTRUM since we are looking strictly at the assets of the business.

SPECTRUM lends from \$50,000 to \$4,000,000 to companies that don't fit within the conventional bank. Ideally, once the performance of the company improves, the relationship moves back to the referring bank.

## **Recent SPECTRUM Solutions**

2005 has been a busy year for SPECTRUM's offices in Denver, Detroit and Minneapolis. Two examples illustrate our cooperation with banks and other financing sources for a win-win solution.

A *window manufacturing company* was in the special assets group of a bank due to a couple of years of underperformance. The company had focused on developing some new product lines and establishing a related company. SPECTRUM and the bank worked together to reduce the bank's exposure to the credit, with SPECTRUM financing the

accounts receivable and the bank retaining the inventory with an amortization schedule that allowed the bank to be paid down as the company reduced its excess inventory.

A *low production gear producer* also had one of its customers declare bankruptcy causing negative equity. A large equipment & machinery lender and SPECTRUM worked together to provide the company with new equipment loans and accounts receivable financing to improve its working capital position.

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### **SPECTRUM**

- *Serving the financing needs of local businesses since 1995.*
- *Creative financing solutions for companies and the professionals that serve them.*

## **Inventory Ineligibles from an Asset Based Lender's Perspective**

It's not unusual for one of our prospect companies (or referral sources) to expect more availability from their inventory than we are allowing. Some of this is expected as many times, the value of the inventory *is* worth more to the business as a going concern than it is to an asset based lender, who generally looks at all assets on a liquidation value basis.

So how do we determine the inventory advance? The first and probably most important step is to look at the ineligibles. Some ineligibles are pretty standard, work in process, packaging supplies and custom inventory. From there, our analysis goes a little deeper.

We ask the company to provide a SKU by SKU inventory usage report. Looking at an overall inventory turn

number can mask SKU's that don't move at all. We will, of course, look for obsolete inventory, generally defined as anything that hasn't sold at all for a year. Beyond that, we look for slow moving inventory. In some cases, a company will be selling a particular item, but has a two or three year supply based on current usage. There may be good reasons for this, the vendor requires certain minimum purchase lots, or the company was able to purchase a large amount at a discounted price. For our purposes, we are hesitant to finance inventory that is above one year of typical usage.

Another ineligible we sometimes run into is off site inventory. The company may have inventory kept on supply trucks, inventory in remote warehouses, or even inventory that is stocked at their customer locations and restocked periodically. Since SPECTRUM performs quarterly collateral exams, including inventory test counts, it is necessary for all inventories to be accessible for our counts. If inventories are unavailable, we simply cannot lend on it.

These are some differences we occasionally find between our inventory analysis and that of a bank.

## **Thank You!**

Our business comes from your referrals. All of us at SPECTRUM would like to thank you for the referrals you send us.

**Give us a call and allow SPECTRUM to be a part of your portfolio solution!**



Phone: 952-876-8225