

Financing Round Table

View of the Banking / Financing Industry
Effect on Valuations

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Today's Bank and Equipment Financing Situation

- How are the banks doing? How healthy is our bank?
- How did they get here?
 - Do they have too much exposure to our industry?
 - How much new business are they doing...and what kind?
 - Ask questions early; it's easy to waste time
- Opportunities – will a bank sell a loan or equipment at a discount / haircut?
- Have we reached the bottom yet? When will growth return and how much?
 - Country by Country answer
- Manufacturer's leasing companies & Vendor Finance
 - Priorities have changed from “get that sale” to relatively low risk financing
 - Some of them are still cleaning up boom and bust situations



Financing for Rental Companies

Expectations vs. Reality

- Financing for Expansion – rental fleet
- Re-finance
- Acquisition Finance

- Rental company healthcheck
 - Debt Levels
 - Recapitalizations
 - Is the rental company meeting its forecasts? Covenants? Are the bank's expectations realistic?
 - Will the bank re-value OUR balance sheet?
 - 18 year depreciation of rental equipment (?)

- Opportunistic acquisitions
 - Are we the only buyer?
 - Synergies due to geography / critical mass / overheads



MBOs and MBIs

- The Formula Approach – from the good times – **is gone.**
 - Asset Finance – 80% of unencumbered rental fleet (value?)
 - Customer Receivables – 80% of current (credit insurance?)
 - Plus a cash flow loan; maybe 4x EBITDA
 - Plus Director's stake +/-100k per shareholding Director
 - Plus some capital to fill the gap and reach current market valuations
- Deals are getting done, but carefully and with higher pricing
- Banks showing particular appetite for:
 - Re-financing
 - Turnarounds
 - Distressed sales - haircuts
 - Hard Assets with quick sale values rather than cash flow
 - Startups? Rare.



Valuations and Bank Finance Situation Today

- How did the 6 x EBITDA guideline originate anyway?
 - Growth can justify ANYTHING
 - How do the banks feel about growth and cash flow vs. Assets?
 - High valuations, extra debt, “don’t worry the ratios will be fine next year”.
- Comparing EBITDA valuations
 - target companies
 - stock market listed companies
 - Recent acquisitions (justifies market prices)
 - Is that acquisition “earnings enhancing” in the short term?
- Valuations are often comparable to “how much money can we raise for that company”?
 - Is a bank a “cash flow lender” or an “asset lender”?



Wisdom from Baron Walter Rothschild

I made my money
by selling too early.

