

THE HERMES CAPITAL "COMMERCIAL" M & A SOLUTION



BACKGROUND

2024 is seeing the convergence of a number of post-COVID narratives:

- Many companies paid down debt during COVID, creating firepower in terms of hard equity on their balance sheets.
- Having weathered COVID or missed past sale opportunities, some business owners now seek to exit, creating buying opportunities for others.
- As economic uncertainty and rising interest rates prevail, achieving organic growth becomes increasingly challenging, and borrowing conditions are tightening.
- Banks are growing more risk-averse, especially in areas like commercial/sub-corporate funding and "special situations," including M&As.



WHAT IS THE HERMES CAPITAL M & A SOLUTION?

Hermes offers Asset Based Term Loans that allow companies to use their balance sheets to acquire other companies. Where required, or where credit dictates, adjunct invoice finance can be provided to support ongoing liquidity as the transaction beds down.

Term Loan Facility repayments are structured to fit the forward cashflows. The Invoice Finance Facility (where required) is a revolving facility providing regular cashflow against invoices raised.

Corporate finance markets offer "EBITDA multiple" based lending. Typically, these loans are not available to commercial or sub-corporate enterprises.

Hermes, however, offers Asset Based Lending solutions that can be used for outright purchase, if not as adjuncts to vendor finance should that be available.



DOES MY CLIENT QUALIFY?

The main criteria for Hermes in M & A scenarios include:

- Sufficient assets to support the level of funding required. Eligible assets might include accounts receivable, plant and equipment and property. The assets might reside on the acquirer's balance sheet and/or the target's - subject to the structure of the sale and Section 260A(1) of the Corporations Act pertaining to 'financial assistance' adequately addressed.
- Financial information, including forecasts, supports the serviceability of the Hermes facility.

WHY HERMES?

Hermes has over 10 years' experience in Asset Based Lending in special situations – including mergers and acquisitions. Hermes' experience extends across Australia and across all major industries, including mining services, transport, construction and manufacturing.

Hermes is a managed wholesale investment fund. As such, it can make commercial decisions and act with the speed and commerciality that is vital in special situations such as mergers and acquisitions.



FIND OUT MORE:

hermescapital.com.au
(02) 9690 0611

THE HERMES CAPITAL "COMMERCIAL" M & A SOLUTION

CASE STUDY

A civil engineering yellow goods (dry hirer) business is seeking to acquire a competitor. The competitor has recently secured three lucrative contracts and is able to command a premium for these contracts over and above the value of operating assets. The acquisition price of the business is \$8M. The sale has been structured as an asset sale as opposed to the sale of shares. The buyer has \$4M in unencumbered assets (auction value) and the vendor has another \$4M.

The buyer has \$3M in receivables. The vendor has \$2M however the vendor will be retaining debtors and creditors at settlement. Going forward, new invoices raised in the acquired business will be available for funding.

The buyer owns two properties. Commercial premises are held in the corporate entity. These are valued at \$4M against which the bank is owed \$2.8M. The director also owns a home valued at \$5M against which they owe \$3.2M.

The buyer's 'skin in the game' is by way of second mortgages offered to support the funding of a further \$400K in cash. At settlement, Hermes is providing a debtor finance facility of \$4M - drawn initially to \$2.4M. Hermes also provides a Term Loan Facility for \$7.6M secured by P&E and second mortgages over the properties.

The worksheet below demonstrates how the acquisition price of the business was met using Hermes facilities. After transaction costs are met, the combined business has a working capital available of \$2M.

SOURCES & USES OF FUNDS

Source of Funds	Details/Comments						
Hermes Debtor Finance	Debtors			Scale Factor	Available at Settlement?		
	Acquirer	3,000		80%	Y	2,400	
	Target	2,000		80%	N	---	
	Total	5,000				2,400	
Hermes Term Loan	Assets	Acquirer (Client)	Target	Third Party	Total	Scale Factor	First Mortgage
	Unencumbered P & E	4,000	4,000		8,000	80%	6,400
	Real Property	4,000		5,000	9,000		
	1st Mortgage	2,800		3,200	6,000		1,200
	Security Value	400	---	800	1,200		
Buyer Equity	Notes						400
Vendor Finance	Notes						
						Total Funds Available	10,400
Initial Use of Funds	Details/Comments						
Business Purchase							8,000
Transaction Cost							400
						Funds Used Upon Settlement	8,400
						Remaining Funds Available for Working Capital	2,000

Figures are displayed in (000's)



FIND OUT MORE:

hermescapital.com.au

(02) 9690 0611