CASE STUDY

Technical Expertise and Equipment for Live Event Production

A leading provider of technical expertise and equipment for live event production continues explosive growth with the right lending partner.

Releasing current assets for a future line of credit

Substantial decline in sub-rental expenses

Elimination of financial covenants

Situation:

A leading nationwide provider of technical expertise and equipment for live production with multiple locations in the US, was determined to take advantage of a significant growth opportunities.

To convert these opportunities into revenues while maintaining strong margins, the company needed to materially increase its inventory of equipment. An alternative, and more costly options would be to continue to sub-rent equipment, at the expense of satisfactory margins. Acquiring equipment ahead of future contract revenues can be a challenge, especially when current cash flow may not support future maturing debt associated with new loans. Many lenders are not interested in spending time to look at the whole picture or work with their clients to learn and develop creative solutions.

Complicating matters, contract opportunities are often relatively short in comparison to loan terms that are necessary to spread the cost of investing in inventory over longer periods. Relying on the ability of the company to continually renew contracts or re-deploy equipment into new productions can cause apprehension by lenders. Additionally, many lenders are accustomed to financing assets that remain in one location and prohibit them from being removed without their prior consent. Equipment intended to be in transit around the US, creates a security interest concern.

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Task at hand:

The company needed to find an experienced lending partner that thoroughly understood the specifics of their business and the industry they compete in.

It was paramount that this lending partner respond quickly by providing the initial loan to address pending opportunities but equally important, to keep pace with their commitment to growth going forward. A single bank or financial institution would certainly run into exposure or legal lending limitations given the volume of capital expenditures the company had planned over time.

Action taken:

The company reached out to McKinley Capital Finance, a direct lender as well as having access to capital through a variety of financial resources.

The first step McKinley Capital Finance took was to overcome the obstacles that would otherwise prevent the company from securing bank credit. Analyzing historic renewal rates and utilization rates proved to mitigate risks associated with the term differences between contracts and loan repayment. Understanding the specific details of upcoming contract opportunities, customer profiles, the impact of key hires and geographic expansion plans, provided the necessary support for their financial projections. Concerns about the mobile nature of the assets were offset by learning about the company's sophisticated inventory tracking software that includes bar coding every item of equipment right down to wiring and cables. During this process, we gained a high degree of respect for the company's management.

Results:

At the onset of our relationship, the company would have been described as a successful but a relatively limited regional business within their industry.

During our initial review of the company's financial picture, we discovered that the company's then primary lender was secured by a blanket lien on all assets and lending only a fraction of actual collateral value. The initial recommendation was to provide a refinancing in the form of a term loan, secured by specific items of equipment. The equipment appraised at a value more than three times their existing bank credit limit. After full repayment of the line, the company netted an additional $3 million to acquire new equipment.

Other benefits of this refinancing included:

- releasing current assets for a future line of credit
- a substantial decline in sub-rental expenses
- the elimination of financial covenants.

During the following two years, we provided eighteen new equipment loan and lease schedules. Management's capabilities, strategies and dedication to profitable growth, combined with McKinley's lending resources have had extraordinary result so far. **With revenues up more than 450% over the past years, six new locations, and over 140 employees, the company is now considered among the national leaders in their market space.**

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