

Business Acquisition Financing

Acquisition finance for business growth, MBOs, buy & build and shareholder exits

Private fund lenders can arrange [business acquisition financing](#) lend from £3m to £500m up to 5 years available for UK and European companies involved in strategic business acquisitions. Debt financing is either secured via property or other unencumbered assets or cash flow-based on an EBITDA multiple. Business acquisition financing, management buyout funding (MBO finance) or company recapitalization is usually via senior debt finance with a first charge over property, financial assets and the business itself. The acquiring party or management buyout team will need to contribute financially to the deal.

What is Acquisition Finance?

[Acquisition finance](#) refers to the different sources of capital that are used to fund a merger or acquisition. This is usually a complex mission requiring thorough planning, since acquisition finance structures often require a lot of variations and combinations, unlike most other purchases. Moreover, acquisition financing is seldom procured from one source. With various alternatives available to finance an acquisition, the challenging part is getting the appropriate mix of financing that offers the lowest cost of capital.

Companies can grow in various ways, such as by increasing their workforce, launching new services or products, expanding marketing, [mergers and acquisitions](#) or reaching new customers. However, the above mentioned growth methods are often less exciting to investors. Apart from rapid growth, synergistic acquisitions can offer other significant benefits such as economies of scale and increased market share. However, the acquisition of another company is a major decision that needs sound financial resources.

Types of Acquisition Finance

Let's look at some of the popular acquisition financing structures that are available:

1. Stock Swap Transaction

When companies own stock that is traded publicly, the acquirer can exchange its stock with the target company. Stock swaps are common for private companies, whereby the owner of the target company wants to retain a portion of the stake in the combined company since they will likely remain actively involved in the operation of the business. The acquiring company often relies on the proficiency of the owner of the target firm to operate effectively.

Careful stock valuation is important when considering a stock swap for private companies. There are various stock valuation methodologies used by proficient merchant bankers, such as Comparative Company Analysis, DCF Valuation Analysis, and Comparative Transaction Valuation Analysis.

2. Acquisition through Equity

In [acquisition financing](#), equity is the most expensive form of capital. Equity financing is often desirable by acquiring companies that target companies that operate in unstable industries and with unsteady free cash flows. Acquisition financing is also more flexible, due to the absence of commitment for periodic payments.

3. Cash Acquisition

In an all-cash acquisition deal, shares are usually swapped for cash. The equity portion of the balance sheet of the parent company remains the same. Cash transactions during an acquisition often happen in situations where the company being acquired is smaller and with lower cash reserves than the acquirer.

4. Acquisition through Debt

Debt financing is one of the favorite ways of [business acquisition finance](#). Most companies either lack the capacity to pay out of cash or their balance sheets won't allow it. Debt is also considered the most inexpensive method of financing an acquisition and comes in numerous forms. When providing funds for an acquisition, the bank usually analyzes the target company's projected cash flow, profit margins, and liabilities. Analysis of the financial health of both the acquiring company and the target company is a prep course.

Asset-backed financing is a method of debt financing where banks can lend funds based on the collateral offered by the target company. Collateral may include fixed assets, receivables, intellectual property, and inventory. Debt financing also commonly offers tax advantages.

5. Acquisition through Mezzanine or Quasi Debt

Mezzanine or quasi-debt is an integrated form of financing that includes both equity and debt features. It usually comes with an option of being converted to equity. Mezzanine financing is suitable for target companies with a strong balance sheet and steady profitability. Flexibility makes mezzanine financing appealing with [acquisition funding](#).

6. Leveraged Buyout

A leveraged buyout is a unique mix of both equity and debt that is used to finance an acquisition. It is one of the most popular acquisition finance structures. In an LBO, the assets of both the acquiring company and target company are considered as secured collateral.

Companies that involve themselves in LBO transactions are usually mature, possess a strong asset base, generate consistent and strong operating cash flows, and have few capital requirements. The principal idea behind a leveraged buyout is to compel companies to yield steady free cash flows capable of financing the debt taken on to acquire them.

7. Seller's Financing / Vendor Take-Back Loan (VTB)

Seller's financing is where the acquiring company's source of [acquisition loans](#) is internal, within the deal, coming from the target company. Buyers usually resort to the seller's financing method when obtaining capital from outside is difficult. The financing may be through delayed payments, seller note, earn-outs, etc.

Acquisition and deposit funding

This a type of business finance or loan used to purchase a business, which can enable an existing company to expand, take on new capabilities and increase potential growth by [company acquisition](#).

We are able to provide loans via our lenders for the acquisition of businesses in all areas and professional sectors. We can also provide loans for highly unusual business purchases not financed by mainstream bank lenders. These funds can be used towards deposits to run alongside conventional bank funding.

Many organizations seek additional funding to assist with a purchase, due to the speed of acquiring the finance as opposed to using any existing cash flow within the business, which may already be allocated for other purposes such as day to day running costs.

[International mergers and acquisitions](#) can be long and complex undertakings, with a larger number of factors and variables in play. Funding such endeavors can be a daunting task without expert advice regarding funding options, payment structure, and length of term and the best course of action in sourcing finance.