



spotlight

Asset-based lender sees no rich pessimists

Downturn has caused folks to be more cautious, less optimistic — and ultimately better businesspeople

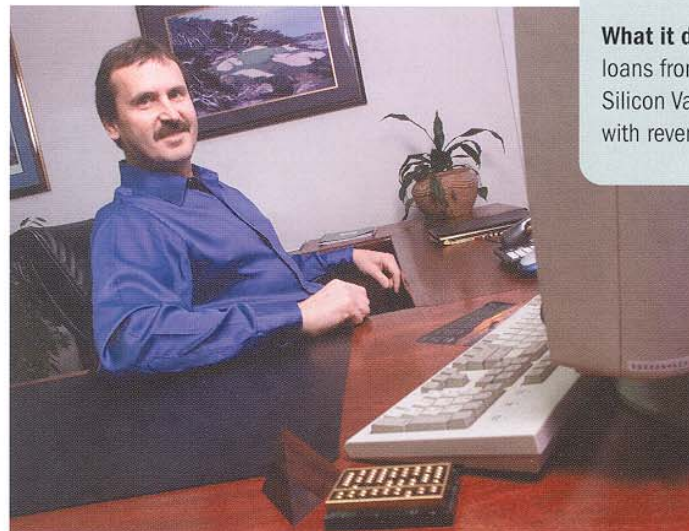
The view of Silicon Valley's economy is 360 degrees from the CEO's office of asset-based lender BFI Business Finance of San Jose.

Business is booming for BFI, which has been in the valley since 1957. It ran more than \$650 million in asset-based loans through its books last year from companies in various industries looking to get a jump-start, grow a business or get through a short-term cash-flow problem.

Asset-based lending uses assets such as accounts receivables as collateral for loans. Factoring, one component of asset lending, purchases accounts receivables from companies at a discount to their face value.

President and CEO David Drogos has seen many changes in business in the valley during the 20 years he's been with the company.

Drogos talks business, booms and busts with Biz Ink reporter Rhonda Ascierio.



How has the technology downturn affected BFI?

We're seeing more applications [for asset-based loans]. Our deal flow and applications are probably up about 40 percent from year 2000.

Instead of opportunity-cost financing, many in the high-tech sector are looking to rebound, which means they have to reduce their costs and restructure their business to allow for the lower levels of revenues. So we're doing turnarounds rather than rapidly growing companies in high-tech.

UNIQUE PERSPECTIVE

David Drogos, president and CEO of BFI Business Finance, says rebounding, not growing, is the prevalent trend.

Has there been a slowdown at all since 2000?

It's started to slow down over the past two quarters. In my mind there have been two separate times when we were really busy: The accounts that got into trouble in late 2000 to mid-2001, which have already downsized and restructured, and either paid us off or gone back to banks for loans; and the second

BFI BUSINESS FINANCE

HQ: 1655 The Alameda, San Jose 95126

Phone: (800) 858-7144

E-mail: info@bfinance.com

Web: www.bfinance.com

What it does: BFI provides asset-based loans from \$100,000 to \$3.5 million to Silicon Valley companies in various industries with revenues of \$1 million to \$40 million.

influx of accounts that got into trouble the fourth quarter of 2001 to early 2002 that are working through it right now.

What notable trends have you seen with technology customers?

Because many firms are seeing revenue contraction, with sales going from \$50 million to \$15 million, plus extreme pressure to reduce costs primarily due to foreign competition, we're seeing high-tech manufacturing business really moving out of this valley. [Technology] buyers are looking for lower-cost alternatives and many have outsourced to contract manufacturers who primarily run most of their volume in China.

High-tech manufacturing companies now have downward pressure on their pricing as well as reduced volume. Also they now have a lot of pressure from insurance-cost increases, including unemployment insurance, health care and workers' compensation

SCOTT LEWIS PHOTO

costs, which is putting a real squeeze on these companies.

Additionally, [information technology] staffing companies, which were huge in the valley in 2000, have either set up shop in or outsourced to India or Vietnam.

What industries have had the greatest uptick in loan applications?

Printers, packagers, semiconductor and IT staffing industries are the major ones. But we have clients from semiconductor robotics to equestrian helmet manufacturers and dog food distributors.

Who's gone away and who's under pressure?

The dot-com [boom] is distant memory at this point. The concern now is for the semiconductor capital-equipment machine and sheet metal shops, as final assembly used to be done in the

States and now it's all offshore.

The printing industry has been hurt and is going through serious consolidation. Partly because the Internet has replaced a lot of sales and marketing, so people don't need hard copies anymore. Additionally, I believe the [printing] equipment manufacturers pushed a little bit too much equipment based on a model of continued growth in advertising and marketing materials.

Have your rates changed in the downturn?

We're a prime-based lender, meaning our rates are based on an amount over and above the prime rate. So, after the past two years, our prime rates have gone down from 9 to 4.25. Our rates have actually reduced as prime has come down.

What about government and foreign account receivables?

We've seen an uptick in that kind of business, definitely. Many suppliers to the semiconductor and computer makers are now selling directly to the contract manufacturers, primarily in China. Whereas a customer base three years ago would have been IBM, Dell and Compaq, they're now all contract manufacturers, like Solectron, Hon Hai and Celestica. It's been quite a change over the past few years.

Having been hammered by one of the longest tech recessions in recent memory, how has the psyche of Silicon Valley fared?

There doesn't seem to be the same confidence there was through the end of the '90s and in 2000, where the entrepreneur was invincible. People are much more cautious and not quite as optimistic over the past few years.

I've never met a rich pessimist. So I would like to see people dig into technology in the short run and R&D [research and development] in the long run. Leaders are now looking closely at shipping to foreign companies, to establishing more partnerships in order to drive down costs, and have more of a global, rather than domestic, strategy.

Has it made them better businesspeople?

Absolutely. The amount of excess spending that has been cut across the board and the management of individual expenses I think has made most companies far stronger. So when the rebound occurs their profitability will be much larger than it would have been had we not suffered the sharp downturn.

You can reach David Drogos at ddrogos@bffinance.com and Rhonda Asciero at rasciero@svbizink.com.



David Drogos
President
1655 The Alameda
San Jose, California 95126
www.bffinance.com
800-858-7144