

THE ANATOMY OF A DEAL

Bridging the Gap from Predatory Debt to Legacy Banking

BY KUNAL KOHLI

High-growth brands often face a dangerous financing gap: needing capital faster than traditional lenders are willing to provide it. This article examines how one consumer brand moved away from costly merchant cash advances and toward a structured asset-based lending solution that better supported growth, preserved equity, and created a path to bankability.

For high-growth consumer brands, triple-digit scaling often creates a fundamental mismatch between top-line expansion and available liquidity. As revenue surges, the capital required to fund high-volume inventory production creates large working capital gaps. When legacy financial institutions decline these businesses due to rigid credit box constraints or a lack of multi-year profitability, founders often turn to merchant cash advances (MCAs) as the path of least resistance.

For our client, Bearaby, a leader in the sustainable home wellness sector, reliance on high-frequency alternative debt posed a structural risk to its growth trajectory. Their product, hand-knitted weighted blankets, requires a specialized manufacturing process with high upfront costs and long transit times, further straining their cash position during peak seasons.

The Mechanics of the MCA Trap

While marketed as quick and easy liquidity, the factual structure of an MCA is often mathematically incompatible with a scaling consumer packaged goods brand that operates on long production cycles. MCAs historically weren't required to disclose an APR, though that's now changing in states like California and New York. But disclosure alone doesn't solve the problem: even when an MCA quotes an APR, the number itself can be structured in a way that hides the true cost.

- **True Cost of Capital:** When MCAs quote a monthly fee, for example, 1% per month with a 6-9 month payback, companies often think that their APR is 12% for the year. This is where the less-reputable MCAs succeed in tricking you into thinking that they are competitive; the actual cost of capital is significantly higher. What many brand owners miss is that MCAs charge you their monthly fee on the total amount that you borrow, regardless of the large weekly or monthly principal repayments you are required to make. Traditional asset-based lenders, whether a bank or non-bank, only charge interest on your remaining principal balance. For example, on a \$1,000,000 line of credit at 10% APR, your first month's interest is roughly \$8,333 —

and as you pay the balance down, your interest payments shrink with it. An MCA works the opposite way: a 1% monthly fee on \$1,000,000 over 9 months means you owe \$1,090,000 total, paid back in fixed installments of about \$121,000 every month — whether your sales are up, down, or flat. You don't get credit for paying early, and you don't get relief when business slows down.



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- **Cash Flow Depletion:** MCAs typically require daily, weekly, or monthly automated repayments to be made directly from merchant accounts or the brand's bank account. For a rapidly scaling entity, this constant sweep removes the liquidity necessary for growth, payroll, and other necessary operating expenses.
- **The Stacking Cycle:** Because the effective cost of an MCA is significantly higher than traditional debt, companies often find it difficult to retire the initial borrowings. This unfortunately forces brands to stack multiple MCA facilities to cover existing obligations, creating a tremendous debt-service burden that can consume operational margins and stifle innovation. On top of that, when the brand seems like they have gained steady footing and look to refinance the existing MCA with a more cost-effective solution, they end up not having enough of a borrowing base to refinance and get stuck in a withering cycle.
- **The "Unsecured Myth":** Despite marketing themselves as unsecured financing, MCAs are increasingly filing UCC liens against merchant assets, quietly securing themselves while maintaining the illusion of flexibility. Once a lien is in place, MCAs use it as leverage, renegotiating terms from a position of power or threatening legal action to extract repayment from brands that have little choice but to comply.

The Solution: A Strategic Capital Backbone

The objective for Bearaby was to serve as a bridge to bankability by aligning the brand's financing with its actual operational cycle. We recognized that the business was not unlendable; it was simply mismatched with its current debt structure. We shifted the underwriting focus to prioritize collateral value and unit economics over historical profit-and-loss statements.

Restructuring the Capital Foundation

By implementing a senior secured revolving line of credit backed by

inventory and receivables, we provided a structured alternative to high-frequency debt:

- **Normalization of Cash Flow:** We replaced daily automated sweeps with a facility that mirrors the brand's 90-day production and sales turns. This restored the operational breathing room necessary to focus on strategic growth rather than weekly debt service.
- **Collateral-First Underwriting:** While legacy banks often focus on earnings-based covenants, our diligence focused on the quality of the asset base and customer velocity. Unlike lenders who avoid non-landed goods entirely, we advanced against Bearaby's in-transit inventory, supported by a formal NOLV appraisal with fully loaded costs, including freight and duties, incorporated into the valuation. This enabled us to unlock capital against a unique asset class, a critical move for brands with international supply chains and long oceanic transit times.
- **Preserving Equity Value:** A primary goal was to fund growth without depleting equity dollars. This non-dilutive asset-based structure allowed the founders to finance an eight-figure expansion without the significant equity surrender or loss of control typically required by venture capital or private equity firms.

The Outcome: Establishing the Path to Bankability

The ultimate objective of a structured asset-based facility is to provide high-growth enterprises with the operational runway required to achieve institutional readiness. By replacing volatile, high-frequency, expensive debt with a structured senior facility, we enabled the brand to establish the clean financial track record, reporting discipline, and operational scale necessary to align with future traditional banking criteria.

As the brand expanded from a direct-to-consumer trailblazer into major national retail partnerships, the ABL facility dynamically

expanded to support the resulting increase in accounts receivable.

Today, Bearaby has successfully scaled to eight-figure revenue and secured significant national retail placements. The focus of the ongoing partnership remains on maintaining a stabilized capital foundation, ensuring the brand preserves its equity value while building the long-term track record required to eventually transition into the legacy banking ecosystem from a position of financial strength. 📈

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