Addressing the financial impact of COVID-19

Credit solutions for companies with urgent cash needs

Public policy measures put in place to contain the spread of COVID-19 are resulting in significant operational disruption for many companies. Staff quarantine, supply chain failures, orphaned and/or unavailable inventories, and sudden reductions in demand from customers are creating serious issues for companies across a far wider range of sectors than initially anticipated.

A number of companies now face weeks, if not months, of exceptionally poor trading conditions. For most, the revenue lost in this period represents a permanent loss rather than a timing difference and is putting sudden, unanticipated pressure on working capital lines and liquidity.

Some companies are able to maintain adequate headroom by making unseasonal drawdowns on their RCFs. Others are finding that they need to approach their banks to arrange temporarily larger facilities or covenant resets and/or waivers. In certain cases, the scale and urgency of the funding requirement has taken the company's management team and its bankers aback.

Reasons why companies may be having issues

Unusually, this is affecting well capitalized companies who—absent COVID-19—would be trading profitably. However, not all these companies will be able to negotiate the facilities they need from their existing banks:

- Banks' credit approval timescales may be too slow to deliver the necessary funding in time.
- Banks may be at the limits of their risk tolerance for a single credit.
- RCFs may be drawstopped due to facility/covenant limits/cross defaults.
- Hastily-assembled security packages to support new funding may be "messy" due to limited collateral availability.
- Companies may be looking for a highly bespoke, rolling short-term facility on terms which do not naturally fit into a bank's standard product suite.

Suggested approach:

- ***What is needed:*** Expertise in structuring collateralised and unsecured loans, and focused teams experienced in driving liquidity/cost-out initiatives and working capital improvements
- ***Bespoke solutions:*** COVID-related financing solutions are urgent; the financings may not be standard and require expert guidance and knowledge of the special situations market
- ***Lean on trusted advisors:*** Boards and lenders need assurance that the financing requirements/downsides have been independently tested, challenged and are well understood

Questions you should ask yourselves

How much money do we need? For how long?

- **Reforecast trading and cash flows.** Revised assumptions, forecasts and cash flows will be required, and likely also some downside scenarios, given the current number of unknowns, to help your prospective funders understand actual/potential financing needs.
- **Take rapid action around working capital.** Prospective funders will expect you to have already done what you can to improve cash flow by optimizing working capital and identifying "quick win" self-help measures to deliver rapid, tangible cash flow benefits.
- **Cost-out measures.** Similarly, prospective funders will expect you to have identified and be implementing urgent actions to preserve cash in the short and medium term.

How do we slot this new money into our existing capital structure?

- **Review existing facility/intercreditor documentation.** Analyze borrowing capacity within existing baskets, etc.
- **Identify potential sources of collateral for additional borrowing.** Property, inventory, receivables, other unencumbered assets, and unrestricted subsidiaries.
- **Value transfer.** Explore innovative ways of carving out collateral to support new financing.
- **Seek consents ASAP if needed.** If your current financing arrangements prohibit super-senior financing or the offering of collateral or second liens on pledged assets, you may need to prepare a consent request.

Who could we borrow from? What terms can we expect?

- **Incumbent lenders.** For most companies, incumbent lenders will be the best starting point and a request for support from your existing stakeholders should be quickly formulated.
- **Special situations funds.** Special situations funds can deploy capital flexibly, creatively, and at short notice. This includes banks, private credit funds, family offices, and institutional lenders who can produce credit solution term sheets with appropriate terms, conditions, and costs to support rapid capital raising.

Even for companies who have not yet been adversely affected, management teams with concerns about COVID-19 should pre-emptively seek new committed facilities (even if not drawn) as a fallback plan in case the period of disruption becomes prolonged.

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