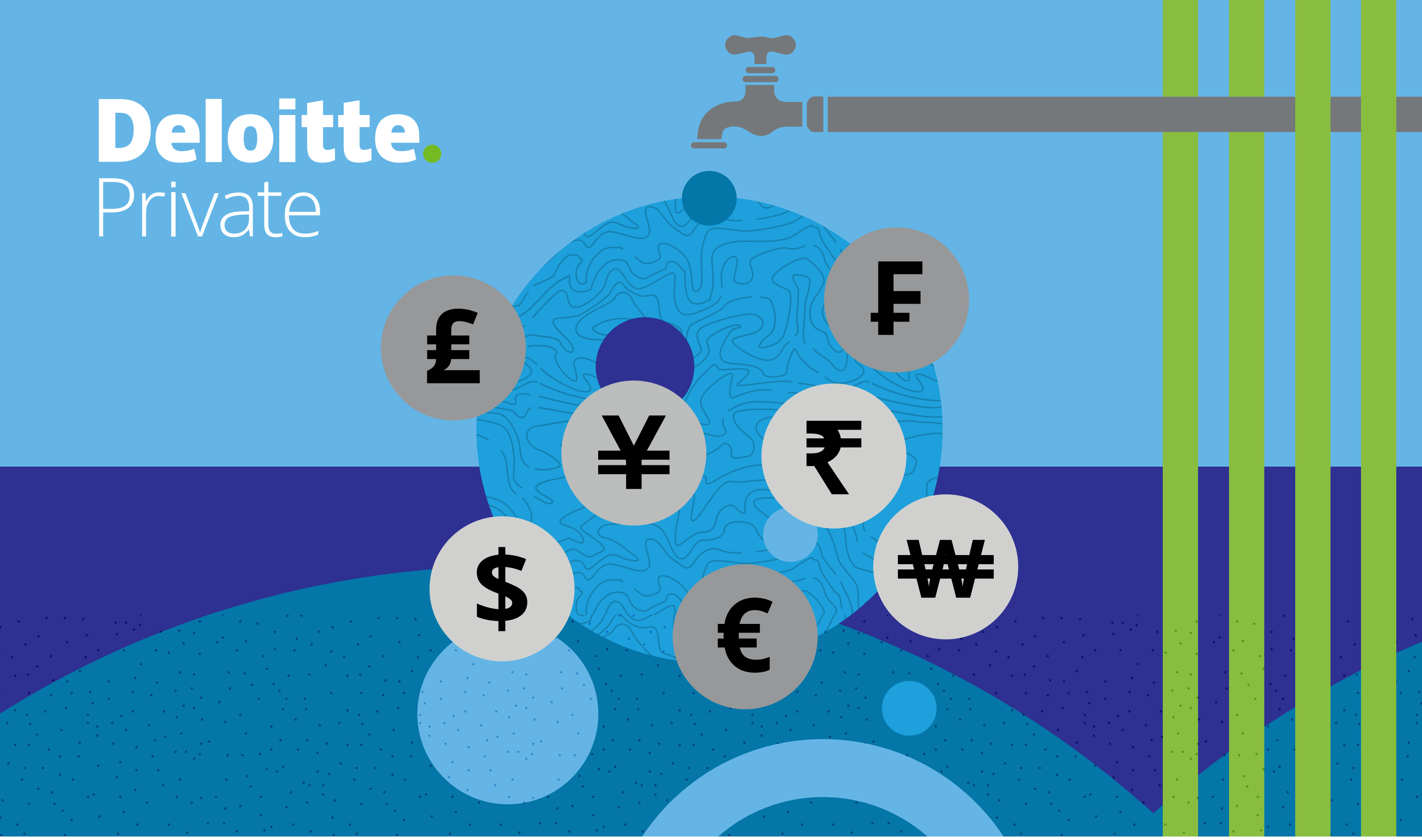

The Resilient Family Enterprise series

Liquidity options can help position family firms to thrive

The business outlook is improving for many businesses around the world after one of the roughest years in recent memory. Perhaps the best news is that their post-COVID aspirations may not be too difficult to fund, given plentiful options for accessing liquidity.

A year ago, it took some substantial efforts by central banks and governments to keep the debt markets functioning after one of the deepest corporate bond sell-offs since the Global Financial Crisis. Some borrowers were shut out completely, forcing them to rely on COVID-19 emergency support programs.

A new day

Fast forward to mid-2021, and we find ourselves in a financing environment that offers many options for private family enterprises that want to stay that way. Start with banks, which have been able to reduce their loan-loss provisions and are hungry to put the money to work.[1] With floating interest rates still near all-time low, private companies' main avenue for accessing cash is back open for business.

Next are the public debt markets, which recovered quickly last year after the Federal Reserve and other central banks moved to support credit. Even during the height of the crisis, borrowers in the most distressed industries were still able to raise significant sums through new bond offerings, and at rates that compared favourably to other alternative sources of funding. This year, it's still a seller's market for bonds, with companies able to raise debt without sending interest rates markedly higher.[2]

Meanwhile, private debt funds continue to make themselves available after filling some of the void left by traditional lenders in 2020. Special situation funds—which look to invest in unusual events and off-market opportunities—grew almost on par with distressed debt and mezzanine funds, and now many direct lending funds are being rebranded as "credit opportunity" funds in order to take advantage of the ongoing recovery in most markets.[3]

Many private equity firms were sitting on record levels of dry powder before the pandemic hit, and became more cautious during the crisis, electing to focus on bolstering the financial positions of companies already in their portfolio.[4] Investors continued to pump fresh capital into private equity funds, and now fund managers are under increasing pressure to deploy it in fresh opportunities. They not only face competition from corporate strategic buyers that are back on their feet, but also from special purpose acquisition companies (SPACs), a red-hot financing vehicle for private companies looking to go public in the very near future.

Strong liquidity affords more options

The attractive backdrop for financing may provide family businesses with a window of opportunity to better capitalise their companies and position themselves to thrive in the post-COVID environment. As we've related in the other articles in this series, we know that the pandemic has prompted family business leaders to reexamine their purpose, strengthen bonds of trust with employees and customers, and take a longer-term view of what it is going to take to compete in their markets.

And now we know that, for many, these plans are already translating into transformative investments. Deloitte Private's latest global survey of private companies, of which family enterprises represented a sizable portion, found that business leaders in every region have used the crisis as a catalyst, accelerating change in virtually all aspects of their business. They stepped up their digital transformation through increased investment in technology, sought new partnerships and alliances, pursued opportunities to strengthen their supply networks and grow markets, among other transformative investments. But many still have a way to go in building greater organisational resilience: the majority report that their firms were midway through their transformation or just starting out.[5]

The current state of the capital markets suggests many family businesses may have access to cash to further their organisation's transformation and fulfill their growth ambitions. But families also should consider using this new era of ample liquidity to have some earnest conversations about where they see themselves in the years ahead, as now may be the time to consider capital alternatives.

For many family business owners, COVID-19 has been a clarifying experience. They have used the crisis to make transformative investments, accelerate change, and rethink their future. Luckily, the current liquidity landscape offers many financing options. There may not be a better time for family enterprises to access the capital they need to realise their biggest ambitions

Notes

1. *Forecasting the performance of the US banking industry*, Deloitte Insights, 2021.
2. *Private companies and COVID-19: Accessing the debt markets during and after the crisis*, Deloitte Insights, 2021.
3. *Ibid.*
4. Charlie McGrath, "What private equity's record dry power haul means for the industry," Prequin blog, April 7, 2021.
5. *Global perspectives for private companies*, Deloitte Private, 2021.

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