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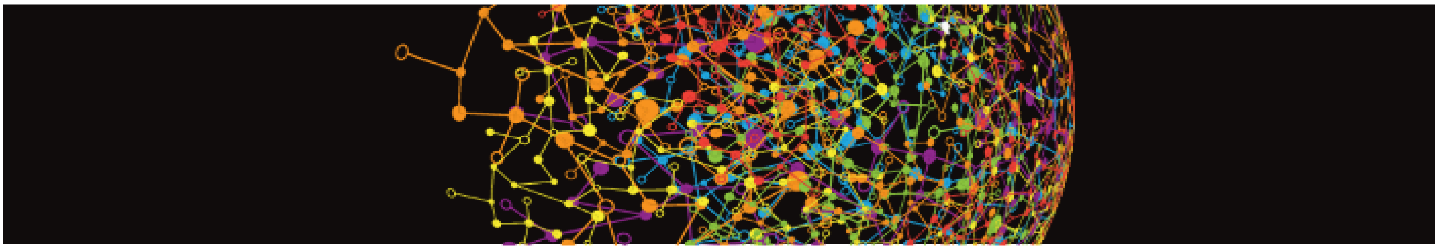

Addressing the financial impact of COVID-19

Liquidity | 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 under quarantine, failing supply chain, orphaned/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.

These days a number of companies face weeks, if not months, of exceptionally poor trading conditions. For many, 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 Revolving Credit Facilities (RCF). Others are finding that they need to approach their banks to arrange temporarily larger facilities or covenant resets/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 have issues

This is affecting well capitalised 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 draw stopped 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 financial restructuring, 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, likely are also some downside scenarios. Given the current number of unknowns, to help your prospective funders to understand actual financing needs, set up cash conservation offices.
- **Take rapid action around working capital:** Prospective funders will expect you to have already done what you can to preserve cash 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** i.e. analyse borrowing capacity within existing baskets, etc.
- **Identify potential sources of collateral for additional borrowing** i.e. 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, this will be the best starting point. Deloitte can help you to quickly formulate a request for support from your existing stakeholders, using our experience to accelerate the process and maximise the chances of success.
- **Special situations funds:** Using our knowledge of your business and the fund community, we can match your particular needs to one or more specialist funds who are well known to us and can deploy capital flexibly and creatively at short notice. We have access to the relevant banks, private credit funds, family offices and institutional lenders, but for this initiative are working with a small number of financing providers on a European scale to 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 fall back plan in case the period of disruption becomes prolonged

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