COVID-19 – Debt Advisory Update

Public policy measures put in place to contain the spread of COVID-19 are resulting in significant operational disruption for many companies. Some now face weeks, if not months, of exceptionally challenging 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.

However, debt providers (both banks and direct lenders) that we are in constant contact with understand that this is an exceptional event and that even strong businesses will require some additional funding and/or covenant waivers/amendments during this period. Banks and direct lenders are likely to receive a significant number of these requests at this time, for this reason we would encourage businesses to contact their funders as soon as possible in order to ensure their request is prioritised.

Based on our interaction with banks and direct lenders, businesses should consider the following:

- **Reforecast trading and cash flows** – many businesses will have already experienced a reduction in trade and cashflow and should review, in detail, projections for the next number of months and identify what mitigating actions can be taken to preserve cash in the short/medium term;

- **Complete scenario analysis** – test and challenge all assumptions and run downside scenarios given the current number of unknowns, to help understand actual/potential financing needs;

- **Review lending documents** – ensure a clear understanding of the key terms, covenants, headroom and any flexibility in existing banking and financing documents;

- **Proactively engage with funders** – forecasts may indicate a potential breach of financial covenants. By proactively engaging with funders, businesses can look to negotiate covenant waivers or covenant resets, helping to prevent any breach and thus mitigating further risks associated with such a breach;

- **Identify additional sources of capital** – should cashflow forecasts suggest that liquidity is or will become an issue, businesses should assess options for raising new funds including making unseasonal drawdowns on their RCF, arranging temporarily larger facilities, arranging super-senior facilities and considering asset based financing;

- **Keep plans & options actively under review** – the above is a reiterative process as the situation continues to evolve;

- **Demonstrate ability to recover** – it is important to demonstrate to funders the ability of the business to return to something approaching its original underwrite within a reasonable period of time.

The Deloitte Debt & Capital advisory team can help borrowers navigate through these unprecedented times, formulate funding solutions, prepare an appropriate approach and assist in dialogues with lenders.

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