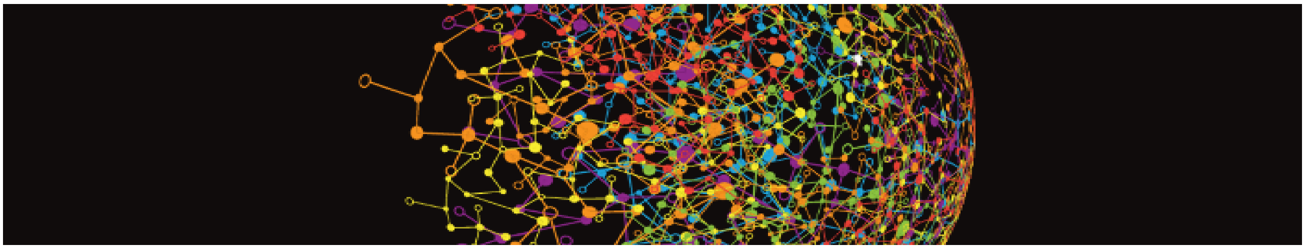


Addressing the liquidity impact of Covid-19

Credit management 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/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.

Many companies may now face weeks, if not months, of exceptionally poor trading conditions. For many, if revenue is lost in this period it may represent a permanent loss rather than a timing difference and may put sudden, unanticipated pressure on working capital lines and liquidity.

Some clients are able to maintain adequate liquidity by making unseasonal drawdowns on their Revolving Credit Facilities (RCFs). 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 be having issues

This is affecting well capitalized companies who – absent Covid-19 – would be expected to be trading profitably. However, not all companies will be able to negotiate the facilities they may 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 handcuffed 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 customized, rolling short-term facility on terms which do not naturally fit into a bank's standard product suite.

Suggested approach

What is needed: Experience in negotiating secured and unsecured loans, and focused teams experienced in driving liquidity/cost-out initiatives and working capital improvements

Bespoke solutions: Covid-19 may require short-term financing solutions; the financings and the providers may not be standard and require guidance and knowledge of the special situations market

Lean on trusted advisors: Boards and lenders want independent support in understanding and challenging the financial requirements/downsides

Questions you should ask yourselves

How much money do we need? For how long?

- **Reforecast operating cash flows.** Revised assumptions, forecasts and scenario planning may be required to help your prospective funders understand actual/potential financing needs.
- **Take rapid action around working capital.** Prospective funders expect you to improve cash flow by improving working capital and identifying 'quick win' self-help measures to deliver rapid, tangible cash flow benefits.
- **Cost-out measures.** Similarly, prospective funders may expect you to generate short term cost reductions to preserve cash.

Where does new funding slot into your existing capital structure?

- **Review existing facility/intercreditor documentation** (analyse borrowing capacity within existing baskets, etc).
- **Identify potential sources of collateral for additional borrowing** (property; inventory; receivables; other unencumbered assets; unrestricted subsidiaries).
- **Value transfer.** Explore ways of carving out collateral to support new financing.
- **Seek consents ASAP if needed.** Prepare consent requests if required by your current financing arrangements or if new capital will include pledges of collateral.

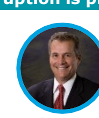
Who could we borrow from? What terms can we expect?

- **Incumbent lenders.** For most, this will be the best starting point. Quickly formulate a request for support from existing stakeholders, using our experience to accelerate the process and improve the chances of success.
- **Special situations funds.** With our assistance, match your needs to one or more specialist funds, who can deploy capital on short notice. Deloitte Corporate Finance[1] has access to over 200+ banks, private credit funds, family offices and institutional lenders. This effort will require a targeted approach to produce credit solution term sheets with appropriate terms, conditions and costs to support rapid capital raising.

Even for clients who have not yet been adversely affected, management teams with concerns about Covid-19 should consider pre-emptively seeking new committed facilities (even if not drawn) as a fallback plan in case the period of disruption is prolonged







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