Three Things Borrowers Can Do Now to Mitigate the Effects of Coronavirus

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Preserving Liquidity As Soon As Possible

We are seeing many private equity sponsors and their portfolio companies reassess annual budgets and slow their plans for significant capex spending. As companies evaluate their short-term and long-term liquidity needs, many are preemptively drawing down on their revolving credit and delayed draw credit facilities to reserve cash in anticipation of future needs. For borrowers whose financing sources include direct lenders or other non-bank lenders, we recommend **having these conversations about liquidity needs of the business (and delivering any applicable draw-down requests) as early as possible**. Although lenders at this time do not seem to be refusing to fund these requests solely due to macro market conditions, there are early indications that the influx of borrowing requests may be causing some strain on direct lenders – particularly those that are contractually obligated to fund such requests on a timely basis, but need time to call capital from their respective investors.

Navigating Financial Covenants

For many borrowers (apart from those in acutely impacted industries including airlines, hospitality and retail, among others), the full impact of COVID-19 on EBITDA performance and financial covenant compliance may not crystallize until the end of the second fiscal quarter. Borrowers should **proactively review their financial covenants and conduct a detailed analysis of their add-backs** and **engage in constructive dialogues with their lenders as early as possible, seeking** to reset financial covenants, or to obtain "holidays" on covenants or other accommodations -- prior to the occurrence of an actual default or event of default under the borrower's definitive documents.

Extensions on Audited Financial Statements

With federal travel bans and state-by-state measures to slow the spread and infection rate of the virus (including working remotely, orders to "shelter in place", etc.), we anticipate disruptions and delays in the completion of audited financial statements, which under many senior secured credit agreements will likely be due as early as the end of April. In light of these anticipated delays, we recommend that borrowers **proactively reach out to their lenders as soon as possible to obtain extensions or other accommodations**.

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FOR MORE INFORMATION

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