

# TM Capital Debt Capital Markets Update Report

## COVID-19 Financing Considerations

APRIL 2020

### PATHS TO LIQUIDITY IN TODAY'S CREDIT ENVIRONMENT

COVID-19's profound impact on the global economy is leaving businesses shuttered and driving unemployment to unprecedented levels. Few sectors are exempt from the impact, and the timing for the "reopening" of the US economy remains uncertain. Businesses across industries are scrambling to enhance liquidity to sustain operations until conditions normalize. Fortunately, many lenders, financing sources and supply chain partners remain constructive and flexible, exhibiting an openness to providing one-time concessions in order to address the current circumstances. Additionally, recently renewed funds available through the Payroll Protection Program ("PPP") provide new sources of relief for small businesses in exchange for maintaining headcount.

Any comprehensive liquidity plan should utilize every lever at a firm's disposal. Specifically, four options that can improve a company's liquidity position include: (1) revolver draws and proactive lender management; (2) utilization of government stimulus programs such as PPP; (3) enhanced customer credit management and (4) seeking alternative sources of capital

### REVOLVER DRAWS AND PROACTIVE LENDER MANAGEMENT

The current economic environment leaves an unprecedented number of borrowers at risk of violating their financial covenants. As a result, we recommend that borrowers proactively reach out to their lenders to discuss these issues and closely monitor the following categories:

#### Liquidity:

- Proactive 13-week cash flow forecasting to determine near-term liquidity needs
- Managing revolver draws
- Principal and interest holidays
- Maturity extensions

#### Lender Relationships / Covenants:

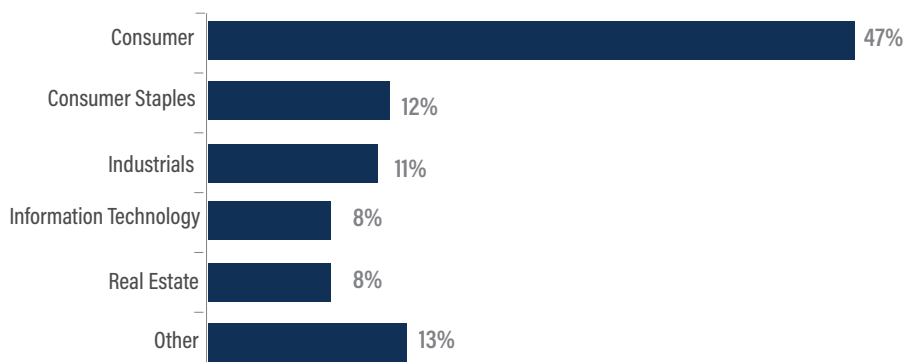
- Proactive lender group management
- Initiate dialogue regarding financial covenant resets or holidays without delay

#### Be Informed About the Environment

- Talk to financial, legal and accounting advisors

### CHANGE IN REVOLVER DRAWDOWNS SINCE MARCH 5, 2020

Total New Revolver Borrowings: \$240 Billion



## PATHS TO LIQUIDITY IN TODAY'S CREDIT ENVIRONMENT

### GOVERNMENT PROGRAMS

The CARES Act is just one part of a clear government initiative to “do whatever it takes” to stimulate the economy. The rapidity with which Congress and the Fed acted to provide economic and fiscal support is unlike that seen in prior crises; we've learned that strong, swift and multi-faceted action is an effective mitigation strategy that garners bipartisan support. There are several complications to obtaining funding, but pursuing funding is still “worth it”.

- Quickly depleted Payroll Protection Program funds have been replenished with an additional \$310 billion in forgivable small business loans
- PPP relief is intended to give companies a temporary funding bridge to economic normalcy
- Tests for loan forgiveness include headcount and salary at June 30, 2020
- After applying for PPP loans keep all documents organized, create an internal memo as to application rationale and document all go-forward actions as it relates to employees, which will serve as the basis for loan forgiveness in full or in part

### CUSTOMER CREDIT MANAGEMENT

In addition to managing their own operations, companies should be conscious of the impact of COVID-19 on their customers. Companies should identify “at risk” customers and work to maximize A/R collections. Potential action steps include:

#### Collection Tactics:

- Become the “squeaky wheel”; increase level of customer communications through active salesforce participation
- Offer price discounts for shorter payment terms; negotiate price increases for longer terms
- Negotiate pay-in-full settlements with distressed customers
- Enforce service charges on past-due amounts
- Seek financial statements and parent company guarantees where possible

#### Internal Strategies:

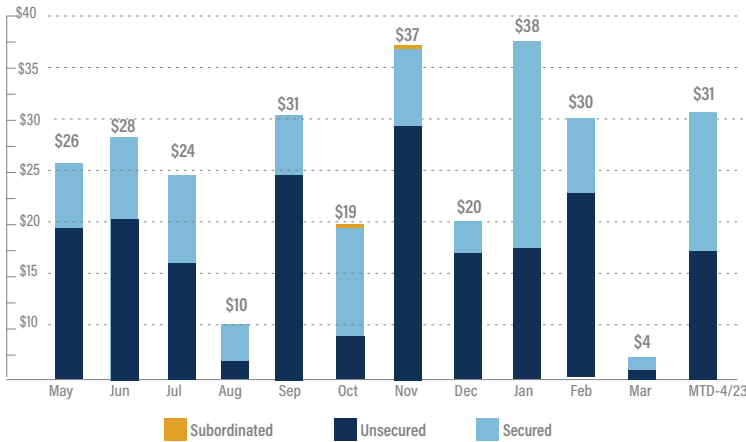
- Track signs of financial distress, including:
  - Payment delays or A/R balances above limits
  - Requests for discounts or longer payment terms
  - Sudden increase in returns
- Consider acquiring credit insurance
- Consider commission takebacks on 60 – 90 day aged receivables
- Conservatively estimate A/R write-offs
- Manage customer concentration, if possible
- Seek assistance from your suppliers, such as longer terms, cash discounts and lower prices

### ADDITIONAL CAPITAL SOURCES

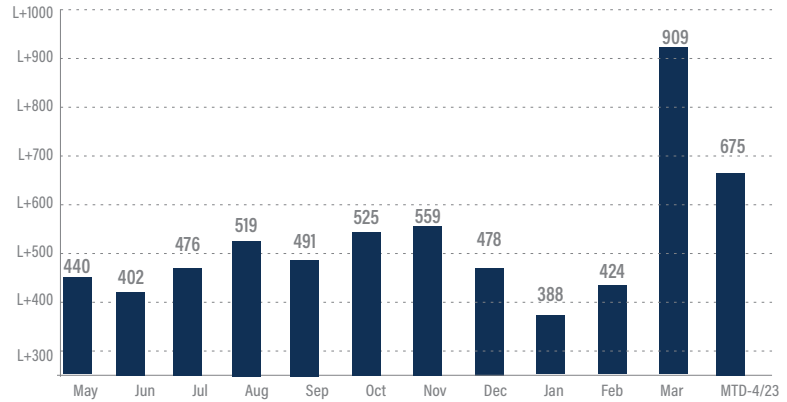
If other liquidity paths are unavailable, there is a limited market for additional liquidity through structured debt and equity capital. Direct lenders still maintain significant dry powder and remain open to selective new deals, albeit at higher spreads and all-in pricing and more lender friendly terms (e.g. lower leverage, tighter covenants and more lender protections)

# OVERVIEW OF MARKET DYNAMICS

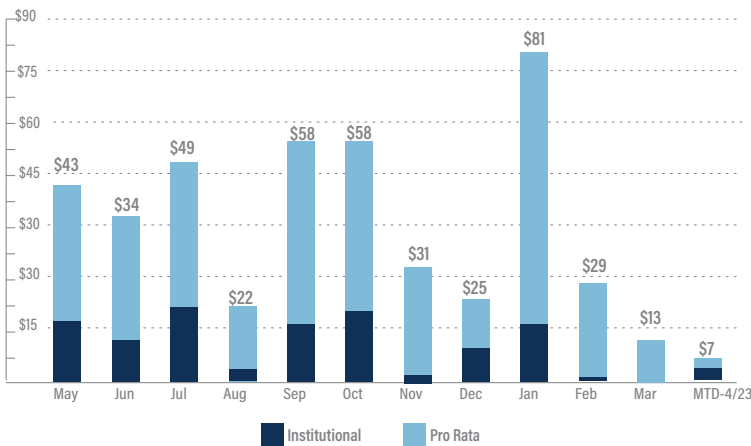
High Yield - New Issuances (\$ in billions)



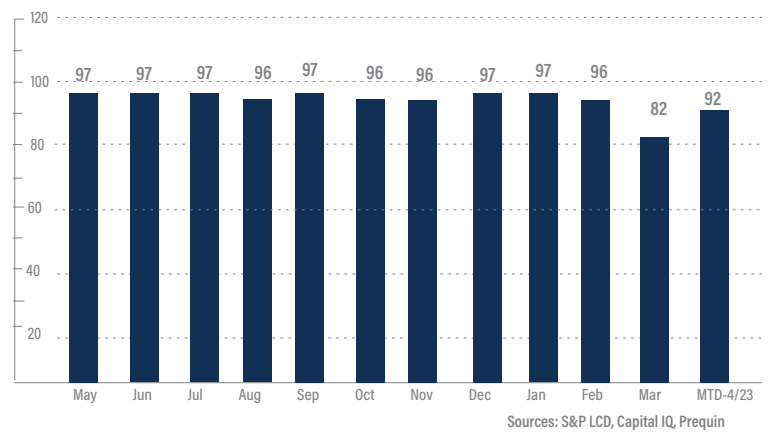
High Yield - Average Spread (\$ in billions)



Leveraged Loans - New Issuances (\$ in billions)



Leveraged Loans - Average Bid (\$ in billions)



Sources: S&P LCD, Capital IQ, Prequin

- More mitigation actions by lenders are expected towards the end of calendar Q2, as the depth and breath of the impact to individual credits will be fully known
- April financial results will reflect the first full month of COVID-19 impact and more information is available daily regarding the duration of shut-downs, which will impact borrower and lender behavior
- Much like it has in previous market disruptions, high-yield is taking leadership in restarting the leveraged finance markets
- Issuers will likely favor shorter-term financing, with the ultimate goal of refinancing at a more opportune time when capital markets improve
- Equity markets are signaling a rapid recovery once the economy reopens

# OVERVIEW OF MARKET DYNAMICS

(CONTINUED...)

	4/23/2020	MARCH '20	FEBRUARY '20	JANUARY '20	DECEMBER '19	MARCH '19
<b>Indices</b>						
10-Year Treasury	0.63%	0.70%	1.13%	1.51%	1.92%	2.41%
10-Year vs. 2-Year Spread	0.43	0.47	0.27	0.18	0.34	0.15
3-Month LIBOR	1.10%	1.45%	1.46%	1.75%	1.91%	2.60%
DJIA	23,650	21,917	25,409	28,256	28,538	25,929
S&P 500	2,823	2,585	2,954	3,226	3,231	2,834
NASDAQ	8,561	7,700	8,567	9,151	8,973	7,729
iShares HY Corporate Bond Fund	79.94	76.83	85.65	87.54	87.77	86.11
iShares Barclays Aggregate	117.03	115.57	116.03	114.62	112.29	108.90
<b>Commodities</b>						
Crude Oil	\$20.43	\$20.48	\$44.76	\$51.56	\$61.06	\$60.14
Natural Gas	\$2.05	\$1.64	\$1.68	\$1.84	\$2.19	\$2.66
Gold	\$1,711.20	\$1,597.00	\$1,567.00	\$1,588.00	\$1,523.00	\$1,311
<b>Currencies</b>						
GBP in USD	\$1.25	\$1.25	\$1.28	\$1.32	\$1.32	\$1.30
EUR in USD	\$1.09	\$1.10	\$1.10	\$1.11	\$1.12	\$1.12
USD in JPY	¥107.70	¥107.60	¥6.99	¥108.37	¥108.68	¥110.81
USD in CNY	¥7.07	¥7.08	\$6.94	¥6.94	¥6.96	¥6.71
<b>Average New-Issue Loan Pricing - B+/B</b>						
Total Spread	N/A	452.0	391.0	342.0	378.0	438.0
YTM	N/A	6.24%	5.74%	5.34%	5.76%	7.06%

Sources: S&P LCD, Capital IQ, Prequin

*The scale of borrowers who will have liquidity, covenant and other problems will reach unprecedented levels, and we are only at the beginning. Lenders have limited bandwidth given the large volume of situations that will need to be addressed. A proactive approach with lenders will help mitigate the resources the lenders need to spend on managing an individual situation and buy the borrowers time to focus on operations and potential strategic acquisition opportunities.*

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