

CASH IS KING: THE KEYS TO SURVIVING A COVID-19 BUSINESS ENVIRONMENT

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LIQUIDITY & FINANCING ISSUES

➤ New capital raises

- Type of capital
- Transaction structure
- Access to capital generally has remained strong, at least for high quality issuers

➤ Revolver draw-downs

- Lenders generally have not been denying draw-down requests

LIQUIDITY & FINANCING ISSUES (CONT'D)

- Lenders have focused on evaluating a borrower's efforts to self-help
 - For example, PPP, other government programs, cost reductions, alignment tools, payment programs, etc.
- We are starting to see certain aspects of the market return to pre-Covid levels
 - However, possible “double dip” given recent spikes in cases and paused or reversed lock-down orders

DEBT DOCUMENT COVENANTS

- Going hand in hand with issues around liquidity, companies have had to grapple with the covenants in their debt documents
- Covenants that were not problematic back in January or February all of a sudden became major issues in March and April
- What have lenders focused on in negotiating covenant amendments?
 - Relative health of borrower pre-Covid
 - Other alternatives available to borrower
 - Value of collateral or potential new collateral

DEBT DOCUMENT COVENANTS (CONT'D)

➤ Additional considerations include:

- Reporting requirements, extension requests, covenants impacted due to significantly decreased EBITDA
- Question of whether EBITDA add-backs should pick up Covid-related reductions
- Lenders have sought to include new loan parties
- Given the fluid and highly unpredictable environment, lenders generally are providing short extensions in order to preserve lenders' ability to react (though there are examples of longer or permanent relief)

DEBT DOCUMENT COVENANTS (CONT'D)

- Each company and each situation is different
 - Key consideration is the magnitude of any particular covenant breach – e.g., some companies' revenue has completely evaporated, while others may have positive EBITDA but at a fraction of what it used to be
- Lender group for each borrower will determine what the appropriate go-forward covenants are; e.g., an outright waiver, no covenant at all, replacement with minimum liquidity or other covenant, resetting levels, deemed EBITDA or other relief
- Important to consider the duration of any relief
- In addition, the fees, coupon, incremental collateral, or other consideration required by lenders can vary significantly depending on the circumstances and the quality of the issuer

MARKET PARTICIPANTS

- Are lenders playing ball with borrowers?
 - Traditional lenders
 - Funds
- Quality of borrower
 - Investment v. non-investment grade
 - In distress prior to Covid?
- Sponsor considerations

MARKET PARTICIPANTS (CONT'D)

- Markets are surprisingly robust
 - However, access is highly dependent on the particular borrower and circumstances
 - Particular prevalence of convertible issuances and PIPEs
- Depends on what type of liquidity a borrower is seeking
 - E.g., if cash flow loan, look at intrinsic value
- Traditional lenders are typically more cautious than funds
 - Funds may try to exploit risk
 - Commercial banks are extending money, but they are increasing rates to increase yields to achieve adequate return on enhanced risk

COMPARISON TO 2008 / COVID-SPECIFIC ISSUES

- Differences between today and 2008
 - The big thematic difference between the two crises is banks v. businesses
- 2008 was less damaging to businesses (e.g., 20-30% EBITDA drop), whereas here, the industries most affected are experiencing an 80-100% EBITDA drop
- In 2008, there was no liquidity in the market
 - Financial institutions themselves were hurting because of the sub-prime mortgage crisis
- Here, companies are more damaged, but financials and banks are strong

COMPARISON TO 2008 / COVID-SPECIFIC ISSUES (CONT'D)

- Focus on survival to get to the other side of Covid
- Key question today is how to manage liquidity
 - Certain sponsors are less willing to reinvest
 - So far, less focus on operational fix and more about identifying parties willing to bring capital to table
- Expectations have shifted since the beginning of the Covid crisis
 - Return to service plans postponed or revised for many businesses
 - Potential for prolonged social distancing and lock-downs

LIABILITY MANAGEMENT – GENERAL STRATEGIES

- Active environment for liability management transactions
- Depending on quality of issuer, the full gamut of opportunities may be available
- More limited options for lower quality issuers in distressed industries
- Strategies include
 - Exchange for maturity extension
 - Exchange to capture discounts
- Debt-for-debt exchanges
 - Exchange unsecured debt for secured debt (up-tier exchange)
- Traditional loan workouts and debt-for-equity exchanges more prevalent in middle market



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