QUOTED COMPANIES ALLIANCE

Navigating the Coronavirus Debt Finance Support Schemes

Webinar

In partnership with

Grant Thornton

Tim Ward

Chief Executive, **Quoted Companies Alliance**

- Tim is the Chief Executive of the Quoted Companies Alliance and has been in this role since 2009.
- Tim is a non-executive director of EuropeanIssuers and co-chair of the Smaller Issuers Committee.
- He is a member of the Takeover Panel, which supervises and regulates takeovers in the UK.
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Samantha Harrison

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- Samantha has over 15 years' experience in corporate finance.
- She has worked as both an independent corporate finance adviser and in a London stockbroking firm.
- Samantha's expertise in capital markets covers both the Main Market and AIM, having provided advice for public companies as an authorised Nominated Adviser, Sponsor and NEX Corporate Finance Adviser. She has managed IPOs, secondary fund raising and public company takeovers.
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- Craig previously spent 15 years at HSBC, RBS and Clydesdale and Yorkshire Bank.
- Craig has significant experience in lending across a range of sectors and leads day-to-day running of each project including debt marketing process and negotiations with lenders. Examples of the types of transactions Craig is involved in include management buyouts, acquisition and capex facilities, super senior RCFs in conjunction with debt funds, private equity transactions and working capital facilities.
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CBILS: Coronavirus Business Interruption Loan Scheme

Lending

1 Coronavirus Business Interruption Loan Scheme

2 Coronavirus Large Business Interruption Loan Scheme

3 Covid-19 Corporate Financing Facility

What is it?

The government, via the British Business Bank (BBB), will provide accredited lenders with a 80% guarantee on debt facilities of up to £5m. It includes overdrafts, invoice finance, term loans and asset finance

Who is eligible?

1. Be UK-based in its business activity and proceeds used to support primarily trading in the UK
2. A private equity backed business, even where that investor holds a majority or controlling stake
3. Annual revenue of no more than £45m
4. Have a borrowing proposal which the lender:

- would consider viable, were it not for the COVID-19 pandemic
- believes will enable you to trade out of any short-term to medium-term difficulty

Who is not eligible?

1. Most financial services companies

Insights:

1. The Government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied charges – some lenders will provide a 6 month capital repayment holiday
2. The borrower remains 100% liable for the debt – business security will be enforced before Government security
3. The scheme has been amended such that no personal guarantees may be taken for facilities less than £250,000. For those above we are seeing many lenders relaxing their stance, but they cannot take more than a 20% PG.
4. The £45m revenue cap will apply to the group of companies rather than entity-by-entity
5. Borrowing will be limited by no more than 2x the company's salary and / or <25% of turnover
6. CBILS is now available to businesses that already have sufficient security, making the business interruption payment accessible.

CBILS: key changes effective from 6 April onwards

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As at 23 March	Effective from 6 April
Use of personal guarantees permissible for all facility sizes, at a lender's discretion and in line with their normal policies. Guarantee would be called upon to the fullest extent prior to CBILS guarantee being applied.	For facilities under £250,000, use of personal guarantees not permitted under the scheme. For facilities above £250,000, use of personal guarantees still permissible in line with their normal policies, but recoveries under these will be capped at a maximum of 20% of the outstanding CBILS facility amount (after other recovery proceeds of business assets applied).
Lenders required to demonstrate lending additionality (i.e. lending that without the scheme, wouldn't have otherwise taken place).	Scheme expanded to open-up access to those smaller businesses who would have previously met requirements for a commercial facility and would not have been eligible for CBILS.
For facilities above £250,000, the lender must establish a lack or absence of security prior to businesses using CBILS.	Insufficient collateral requirement removed, allowing those SMEs who are considered to have sufficient collateral to access CBILS facilities.
For borrowing proposals which, were it not for the current pandemic, would be considered viable by the lender.	Viability assessment unchanged but for small loans this determination could be based on the lenders' internal credit models.

CLBILS: Coronavirus Large Business Interruption Loan Scheme

Lending

1 Coronavirus Business Interruption Loan Scheme

2 Coronavirus Large Business Interruption Loan Scheme

3 Covid-19 Corporate Financing Facility

What is it?

The scheme provides a government guarantee of 80% to enable banks to provide facilities of up to £25m to companies with annual revenue between £45m and £250m and £50m to companies with annual revenue of over £250m.
The government says that facilities backed by a guarantee under CLBILS will be offered at commercial rates of interest.
The purpose is to encourage lenders to support business that were viable before the COVID-19 outbreak but are facing significant cash flow difficulties, that would otherwise make their business unviable in the short term.

Who is eligible?

1. Firms must be UK-based in its business activity
2. Has an annual turnover of more than £45m
3. Private equity backed businesses on an individual basis (i.e. not one facility across the whole fund)
4. Be unable to secure regular commercial financing
5. Self-certify that it has been adversely impacted by the coronavirus (COVID-19)
6. Not have received a facility under the Bank of England's Covid Corporate Financing Facility (CCFF).
7. Have a borrowing proposal which the lender:

- would consider viable, were it not for the COVID-19 pandemic
- believes will enable the business to trade out of any short-term to medium-term difficulty

Who is not eligible?

1. Banks and building societies
2. Insurers and reinsurers (but not insurance brokers)
3. Public-sector organisations, including state-funded primary, secondary schools and further-education establishments if they are grant funded

CLBILS: Coronavirus Large Business Interruption Loan Scheme (continued)

Insights:

1. Will launch on or around 20 April 2020
2. Our expectation is that the scheme will be delivered through commercial lenders who are already accredited
3. Lenders will still need undertake their usual credit underwriting process
4. The borrower remains 100% liable for the debt
5. We expect demand to be significant
6. Unlike CBILS (the smaller scheme), there will be no business interruption payment – businesses will be liable for interest and fees from the start
7. The Government guarantee has a maximum term of 3 years meaning that capital repayments on loans are likely to be steep
8. As with CBILS, the guarantee covers 80%. Personal guarantees on the remainder remain part of the considerations of the overall credit decision by lenders
9. Borrowing will be limited by no more than 2x the company's salary and / or <25% of turnover

CCFF: Covid-19 Corporate Financing Facility

Lending

1 Coronavirus Business Interruption Loan Scheme

2 Coronavirus Large Business Interruption Loan Scheme

3 Covid-19 Corporate Financing Facility

What is it?
Her Majesty's Treasury and the Bank of England will purchase commercial paper (CP) issued by larger companies.

Who is eligible?

1. Firms that can demonstrate they were in sound financial health prior to the shock; where available, a credit rating of A-3 / P-3 / F-3 / R3 (i.e. investment grade) from at least one of S&P, Moody's, Fitch and DBRS Morningstar as at 1 March 2020
2. Firms would normally be UK incorporated companies, including those with foreign-incorporated parents and with a genuine business in the UK; companies with significant employment in the UK; firms with their headquarters in the UK. Firms that generate significant revenues in the UK, serves a large number of customers in the UK or has a number of operating sites in the UK will be considered.

Who is not eligible?

1. If firms have different ratings from different agencies and one of those is below investment grade
2. CP issued by issued by banks, building societies, insurance companies and other financial sector entities regulated by the BoE or FCA.
3. CP issued by leveraged investment vehicles or from companies within groups which are predominantly active in businesses subject to financial sector regulation

Insights:

1. You do not need to have issued CP before to participate; you need to use a Issuing & Paying Agent (I&PA) bank
2. A firm will need to be rated consistently by its banks as investment grade in order to be deemed equivalent to having a public investment grade rating if it does not currently have a rating
3. Credit rating agencies can be approached to obtain a rating. Companies should note that they are doing so because they wish to use the CCFF

- Special ratings which are for the Bank of England's use only and are 'at a point in time' can be obtained from the agencies and will take 2-3 weeks to obtain

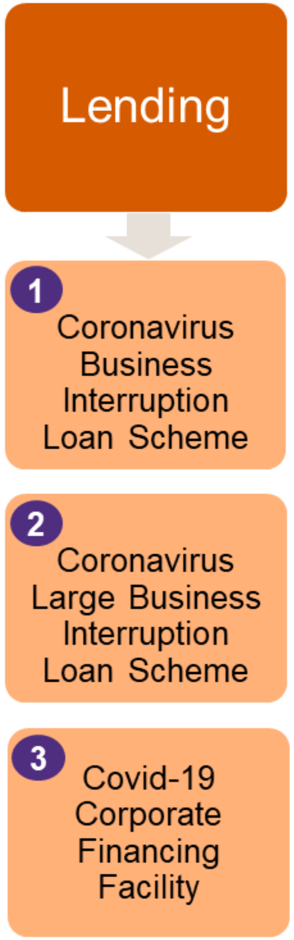
The market and a snapshot of what we are seeing from lenders

Lending

1. Coronavirus Business Interruption Loan Scheme
2. Coronavirus Large Business Interruption Loan Scheme
3. Covid-19 Corporate Financing Facility

Subject	What we are seeing from lenders
Personal guarantees	There are still some inconsistencies across different lenders regarding personal guarantees. For example, most of the large banks do not require PGs under CBILS. However, some lenders such as the majority of asset based lenders review this on a case by case basis for loans above £250k.
Early repayment fees	Most lenders are not charging early repayment fees on the business interruption schemes if the client remains on CBILS past the first 12 months. If the loan is redeemed quickly, then an early repayment fee may apply.
Pricing	When CBILS was first launched, interest rates were being charged as high as 10% to 12%. The BBB later issued a cap where interest rates could only be charged at up to 6%. Now, interest rates are typically between 3% to 3.5%. Arrangement fees also vary lender to lender. These are typically charged at c.1.5%.
Process and timescale	All lenders we have spoken to have reallocated resource to their credit teams and frontline staff wherever possible, to deal with the rise in the volume of interruption scheme enquiries. There is a large variation in timescales of processing applications from 72 hours to 4 weeks. The main reason for this is the inaccurate presentation of information provided to lenders, which then requires additional information and work to obtain approval.
Approvals on CBILS	As at 15 April 2020, 6,000 loan applications have been approved with £1.1bn lent under CBILS.

Supporting your business through CBILS, CLBILS & CCFF applications



Key challenges to the credit process	Supporting applicants through the process
Quality, appropriateness and robustness of management information	Guiding applicants on likely information required for the application and credit process. Assisting applicants with guidance and challenging management information to ensure quality and appropriateness for credit committee.
Ability to demonstrate: • Creditworthiness and serviceability prior to impact of Covid-19 • Impact of coronavirus to the business' cash flow today, future impact and recovery forecast along with quantity of funding required • Other levers the business has available to mitigate the impact	Assist in the preparation of a financial model on behalf of the business, that meets the expectations of lenders in terms of detail, flexibility and robustness (where management does not have an existing model). Challenge the underlying assumptions of the financial model, considering the suitability of inputs and outputs to support the preparation of a lender request document which will accompany any application. Assist in the preparation of the short lender request document including the financial projections for submission alongside the application.
Lender and management bandwidth	Advice on the funding capacity of the business, based on current levels of gearing and available security. Liaise with the business and your bank directly (where further support is required).
Inexperience and misinterpretation of the key legal documentation	Education to borrower about key terms, covenants and commercial aspects of the facilities agreement to support lender discussions. Attend drafting meetings for the legal documentation relating to the provision of funding (if required).

Q&A with the speakers

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Thank you for participating

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