KPMG

COVID-19: Liquidity & Financing - Government backed finance schemes and indicative financing options

The Government has announced two funding schemes, CCFF and CBILS, for large investment grade and small companies respectively. Others will need to access any additional funding needs from lenders.

N.B. The Government has announced a series of other financial support packages to help businesses (e.g. Job Retention Scheme, business rate relief, grants etc). See home.kpmg/uk/covid19 or www.gov.uk for further details.

	Scheme	Who is it for	What is it	How do you access it	Key considerations
'Direct' funding schemes	**1. COVID-19 Corporate Finance Funding** **"CCFF"**	Large companies: — Making "a **material contribution** to UK economy". — Able to demonstrate they were in **sound financial health prior to 1 March 2020.** — With an **investment grade credit rating** or able to demonstrate equivalent financial strength. Excludes — Non investment grade issuers. — Financial services and government owned borrowers.	— BoE purchases short term (**<1 year**) commercial paper ('CP') from eligible companies. — Pricing to be similar to that prevailing prior to the Pandemic. Further details: https://www.bankofengland.co.uk/news/2020/march/the-covid-corporate-financing-facility	— Approach banks with CP issuing capability. — Unrated issuers may require a credit rating assessment, from S&P, Moodys, Fitch, DBRS Morningstar. — Banks will support eligible parties in applying to the BoE.	— In practice this would only be available to very large companies able to support an investment grade credit rating. — This presents an opportunity for large investment grade (or equivalent) borrowers to access liquidity that might not otherwise be available. — Investment grade rating methodologies typically require a combination of significant scale, diversified income streams and lower risk financial metrics / policies. This is likely to exclude many even large businesses. — Eligible parties who do not currently issue CP may access the scheme but will require issue of standard form CP instrument. — Careful positioning of credit story with banks and rating agencies required to support eligibility assessment. — Banks are looking at using a combination of their own credit grading and external rating agencies to support rating eligibility.
'Direct' funding schemes	**2. Coronavirus Business Interruption Loan Scheme** **"CBILS"**	SMEs: — With revenue of <£45m. — A UK based business with significant UK presence. — Who would have been viable other than for COVID-19. — Where the finance will enable the business to trade out of short to medium term difficulty.	— Dedicated lending scheme providing up to £5m for SMEs. — 80% guaranteed by the British Business Bank ('BBB'). — Interest covered by HMG for 12 months. — Loans up to 6 years (term and asset finance) and 3 years (overdrafts / invoice finance). Further details https://www.british-business-bank.co.uk	— Approach one of 40 accredited lenders named by the BBB. — Accredited funders include most UK banks and certain building societies and various regional or other lending funds.	— Decision making is fully delegated to accredited institutions. — Lenders will retain 20% of credit risk therefore likely to evaluate loans in line with typical credit process parameters. — Careful positioning of credit story required with accredited lenders to demonstrate viability requirements. — Security (to the extent available) likely to be required by lenders. — Lenders approaching this differently applying different structures, eligibility and security requirements.

Under current arrangements, all other borrowers (the majority of mid to large scale businesses) will need to approach lenders directly for incremental funding:

	Scheme	Who is it for	What is it	How do you access it	Key considerations
'Indirect' support	**Commercial Lending from financial institutions**	— All UK businesses (including SMEs and large businesses), requiring incremental funding/liquidity.	— Ordinary course lending noting a suite of government guarantees to banks (e.g. Term Funding Scheme to provide incentives to lend to SMEs) and softening of capital rules, to free up capital to financial institutions to on-lend to borrowers. **N.B. HMG is not lending directly to borrowers and the relationship will remain with financial institutions.**	— Approach banks with well structured funding requests.	— Lenders focusing on existing customers therefore companies recommended to approach current lenders in first instance. — Applications to banks will progress through typical credit processes, noting lender efforts to accelerate these. — Decisions therefore expected to be 'economically rational'. — See following page for comments on considerations for approaching lenders.

COVID-19 – Key considerations and market observations

In practice, most additional funding (over and above self-help) will need to be pursued through lenders. Both the outcome and speed of any request is likely to be heavily influenced by the nature of requirement, strength of existing relationships and quality of the request.

How is the market reacting?

The market remains very fluid. We would note the following common themes across the market:

— Most lenders are prioritising short term liquidity requests for existing customers over new transactions.

— Both banks and funds are looking to be supportive of existing customers where possible:

  – Requests are being evaluated on a case by case basis and lending criteria have not been relaxed.

  – Processes for lenders are evolving with different approaches currently being applied to schemes and situations.

— Lenders are working to increase the depth of their credit and relationship teams to manage volume.

  – The additional processes attached to new government-backed funding schemes may impact execution timescales.

— Some challenger banks and funds continue to pursue new opportunities, but the bar is likely to be set higher.

How are KPMG reacting?

Our Debt Advisory and Restructuring practices provide clients with strategic and independent advice:

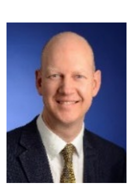
— To evaluate the different financing strategies and options available in the current market.

— To present their businesses and underlying lending rationale in the best possible light to their key funding stakeholders, including credit rating agencies:

  – Prepare forecasts and position key messaging with all key stakeholders.

  – Advise on the strategies and approaches to execute financing processes

  – Structure financing requests and negotiate terms.



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How are lenders reacting?

1. **Understand your liquidity requirements to get through this period ASAP in order to define your additional funding requirements:**
   – Likely to require multiple scenarios to reflect different risks and time variables.
   – Need to be realistic about potential impacts to inform decision making, actions and any requests.
2. **Approach lenders fast with your request**
   – We anticipate a significant volume of lender requests which will impact decision-making / speed.
3. **A well-articulated request will be hugely important to securing support at the first time of asking:**

Core underlying strength:	Demonstrate financial strength / performance prior to COVID-19.
Contextualise your request:	Articulate the nature of disruption and outline your proactive business response.
Self-help:	Demonstrate the Board's commitment to comprehensive self-help action. Important to minimising the financing ask, credibility and speed.
Outline financial projections:	Evidenced by a robust short term cashflow (13-17 week) and medium term forecast to that trends back to 'normal' trading. Grounded assumptions and realistic sensitivity scenarios required to inform ask / risk profile.
Well-structured request:	Clear request covering funding, required amendments and any available security provisions.

4. **Understand your alternative options:**
   – Given available timescales, Plan B / C should be pursued to provide potential fall backs.