Treasury Talent

To Draw or Not to Draw, That is the Question.

Simon Lynch of Treasury Talent interviewed Robert Imershein, President of EA Markets, on how companies are thinking about managing bank facilities and liquidity during this financial dislocation.

As many regions around the world combat the coronavirus, the global slowdown has resulted in growing liquidity challenges for Treasurers. Cash flow, liquidity, and funding are the top priorities for boards and CFOs as they look to ensure their balance sheets can withstand a liquidity event not seen since the Great Financial Crisis.

Two questions that keep coming up are: should I draw down on my credit facility and will liquidity dry up similar to the way it did during the Great Financial Crisis?

Simon Lynch connected with Robert Imershein, President of EA Markets (www.eamarkets.com), an independent capital markets advisory firm based in NYC, to discuss these issues. Treasurers alike will find the discussion useful as they navigate the pandemic that has already driven over 100 companies across Europe and the Americas to draw on their bank lines.

1. Coronavirus is pushing liquidity management to be front of mind for Treasurers, what are you hearing in the market regarding companies drawing down bank lines or other actions companies are taking around liquidity?

A: Almost all companies are re-evaluating their financing and liquidity needs in this new environment and determining if boosting liquidity is necessary. Some companies that need additional liquidity are boosting liquidity through new debt issuance in the market, while some others have been tapping existing credit lines to fund near-term cash flow needs.

2. How are banks viewing requests to fully draw down bank lines?

A: Banks are amenable to draw requests supporting near-term cash needs for clearly identified purposes such as funding acquisitions, upcoming debt maturities or other financing needs. Banks are looking to lend and naturally prefer lending to stronger credits and would welcome justifiable draw down requests from companies.

However, banks will likely not be happy with companies drawing-down facilities merely to hoard cash on the balance sheet.

3. With the proliferation of "direct lenders" or funds which provide bank lines, what difference in reaction may a Treasurer get from a direct lender vs. a traditional bank when making these requests?

A: Any request to tap out credit facilities from direct lenders without a clearly identifiable and justifiable use of proceeds will raise eyebrows and is unlikely to go well as it signals concerns regarding the health of the company and/or their behavior.

4. What issues should Treasurers take into consideration when evaluating whether to draw down on their bank facilities?

A: Treasurers should think about their financing needs in the current environment and take into account any increase in flexibility and associated capital costs. They should also consider any potential change in business conditions which may restrict their access to liquidity down the road. Lastly companies should be aware of rating agency implications when drawing down their credit facilities.

5. On March 19, Ford announced they were fully drawing down their credit facilities and was shortly thereafter downgraded by both S&P and Moody's and is no longer investment grade. How should corporates manage rating agencies when drawing down their bank lines?

A: Companies should be proactive with rating agencies prior to drawing down their liquidity facilities. In addition, rating agency communication and discussions should be thoughtful and proactively planned out in advance so they can be strategically managed.

6. If there is no immediate use for proceeds, should corporates still drawdown and just leave the funds in cash?

A: Unlike 2008, there is less concern about banks being unable to fulfill their funding commitments (e.g. Lehman) and as such no reason to hoard cash. However, if other alternatives to create liquidity runway are limited, drawing down when such availability exists may be warranted.

7. I would imagine the draw decision may ultimately reach the CFO/CEO/board level; what advice do you have for Treasurers to help prepare the leadership of corporations to make this decision?

A: The current situation warrants a conservative reassessment of the Company's funding and liquidity needs under this changed market environment. Leadership / Boards would want to assess the adequacy of current funding sources under various potential downside scenarios as well as a comparison of various potential alternatives that might be available to the Company. Finally, Treasurers can provide invaluable help with positioning / messaging around any contemplated actions.

8. How should corporates think about messaging to the broader markets if they choose to draw?

A: Clear communication with investors and financing partners is even more important under current market conditions and corporates should aim to clearly identify the use of proceeds and rationale behind their actions.

9. What other options should corporate Treasurers be considering vs. drawing?

A: Treasurers may consider raising capital through other channels outside of the3 bank markets and retaining liquidity under the existing bank facilities (notes, converts, equity, preferred etc.).

10. What are your thoughts about increasing the size and/or the number of banks in a revolving credit facility as an additional means of sourcing liquidity in the current environment?

A: Unlike 2008, there is no systemic liquidity issue or heightened risk of bank failures so the number of banks in the facility might be less relevant today for most companies. It may be worthwhile to consider increasing the facility size, if increased liquidity is warranted. However, companies need to take the associated costs into consideration.

Robert Imershein is President of EA Markets. He leads the firm's strategic initiatives and corporate management activities. Robert co-founded Capstar Partners, a leading financial services firm specializing in leveraged leasing and structured financing solutions, which was acquired by BNP Paribas. He has worked in the financial industry for over 30 years, and began his investment banking career with Bankers Trust. He is Chairman of Melior Discovery.
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