PANDEMIC

VIEWPOINT

By Howard Tang

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Credit in the time of COVID:

What to expect when you need a business loan

COVID-19 is upending all types of companies. Dismal first quarter results virtually across the board have given us a glimpse into the devastation the pandemic has wrought. But despite this volatility, lenders are still supporting the aquaculture industry because of its critical place in the food sector. A tight credit market however means management teams have to be on point. It is against this dire backdrop that lenders are being forced to pick the winners from the losers.

As a critical food sector, aquaculture has a leg up with lenders since cash flows haven't completely evaporated compared to hospitality, restaurants, and other sectors shut down by the coronavirus. We've been working closely with banks and institutional investors to help them understand who's well placed to survive the pandemic. Here are the key questions that they have been asking aquaculture and seafood executives when lending into this crisis.

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Operationally, how have you prepared for COVID-19?

COVID-19 outbreaks at Smithfield, JBS, and Tyson facilities demonstrated how poorly prepared the meat processing industry was to implement the social distancing needed to protect its line workers. These outbreaks have led to closures, sickened employees, and likely, future lawsuits.

Fish processing has reportedly had some incidence too (think Pacific Seafood, Highline, and Bornstein Seafood) although not as severe, and lenders will want it to stay that way. Thankfully, aquaculture sites can be relatively remote and crowding poses a limited risk unlike processing, so farming is less of a concern in a COVID-19 world.

Still, there should be a comprehensive plan to allow any staff that can work from home to do so; cybersecurity and communication protocols for remote work; and proper guidelines and personal protective equipment (PPE) for frontline workers who can't be isolated. Lenders want to understand how you're adapting your work environment to the current health crisis and that your operations can still operate effectively without putting your employees in danger.

How has the business pivoted to continue to generate revenues?

With hospitality and the food service sectors on hiatus, seafood companies are driving value-add products to retail and ecommerce channels. Chinese seafood demand is starting to rebound for those businesses with the scale and access to deliver to that part of the world.

Lenders are looking to understand the depth of your relationships in these functioning markets and how effectively you can service them. Retail customers, for instance, are focusing on core products such as salmon, cod, and shrimp where supply chains are developed and deliveries reliable. Grocers also want products with longer shelf life such as fillet and frozen. Companies with this market depth are definitely being supported by lenders.

That's not saying that only these producers and processors will have any luck receiving capital support. The key takeaway is for companies to demonstrate how their market niche is keeping the cash flow coming and the lights running.

Do you have liquidity for an extended downturn?

We are back to a "cash is king" environment and, naturally, lenders will be trying to understand your balance sheet and where you can draw additional support if needed. The company's cash position and revolver availability is always the starting point on this question, but are there any unencumbered assets such as real estate, processing equipment, or vessels that can be used to raise money in a pinch?

There will also be concerns on your counterparties where liquidity can be caught. Lenders know that deliveries are taking longer as a global supply chain works its way through COVID-19 related delays. On the receivables side, weak customers may be pushing their payments out or could be facing their own credit issues.

Working capital is going to be the blind spot for many companies since so many assumptions must be made in such a volatile environment. Even long-standing relationships are getting stress tested and lenders will want to know if additional liquidity will be needed to fill any gaps.

Over the next 6-months, what is your current rate of cash burn?

Cash burn goes hand-in-hand with liquidity, so lenders have been diving deep into aquaculture companies' burn rates, and management teams should be ready with projections for at least the next six months.

These details should tackle not only operational needs such as working capital and staff, but maturing debt, priority maintenance and other near-term liabilities. If the company is eligible for various government stimulus programs, these projections will be a good time to showcase them.

Expectations are for a slow recovery from COVID-19 so lenders are testing bearish scenarios and figuring out how much product needs to be sold to break even. Operating flexibility will also be important to demonstrate in your cash burn models.

What parts of the business can be shut down; maintenance put off for the future; or negotiations conducted to preserve cash? And what are the long-term implications to the business? Your projections should address these questions and give lenders an honest sense of these options.

In sum

It's great to have long term visions of expansion and what the business will be like after COVID-19 passes, but lenders need to deal with the here and now. So discussions should surround the key concerns raised by these questions, otherwise you may find little interest from lenders for those grand plans. ANA