

# Be proactive to address funding challenges in the current climate

By Mike Brown, head of corporate finance, Anderson Anderson & Brown, Chartered Accountants

The importance of securing and retaining appropriate funding, and matching a company's debt structure to its business needs, has become increasingly important in the current financial climate. Being prepared for the volatility businesses are facing is paramount, especially as the markets are expected to remain uncertain in the near to medium term.

The current capital shortages that exist in the banking system have made it more difficult to obtain finance. The availability of cashflow lending has been significantly reduced, debt multiples offered by funders have decreased and the timetable for securing funding has been extended due to increased diligence requirements. The competitive environment amongst banks, so apparent in recent years, has clearly waned. These issues pose significant challenges to the majority of businesses and highlight the need for maintaining a good relationship with current funders and for being prepared to deal with unforeseen circumstances, such as a reduction in trading activities.

Many businesses have debt from a variety of origins which can, if not managed regularly, become inappropriate for its purpose. For instance, funding long term assets such as capital expenditure with short term debt, such as an overdraft, can place too much strain on the operating cashflow. In periods of strong trading this may not prove to be overly problematic, however in the current climate it is important that debt is structured effectively and that there is sufficient 'headroom' in working capital facilities.

In this climate of uncertainty many businesses



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will experience volatile trading in the coming months. When this happens it heightens the risk of a breach in banking covenants. For many

businesses this may only be a temporary breach as a result of a month of poor trading; but it can lead to further pressures on the business due to increased scrutiny from funders as they assess the risk of their lend. These issues need to be addressed quickly and decisively to ensure that the problem is not left unmanaged only for the situation to worsen.

It is equally important for businesses to avoid covenant breaches where possible. Regular preparation of accurate financial information, both historical and projected, will allow informed decisions to be made by management. Keeping in contact with funders and demonstrating that the business has a plan to deal with market conditions is vital in managing continued lender support. By behaving pro-actively and using a good advisor, management will allow themselves greater flexibility, more options and be in a strong position when communicating with their funders.

In situations where alternative or additional funding is required it is again key to demonstrate that the entity has already considered its business model and associated debt structure before approaching funders. Given the scrutiny with which financiers are currently reviewing funding applications, it is mandatory that debt levels are appropriate and based on robust business plans and projections.

The overall message is that it is imperative to be pro-active and act early from a position of strength to tackle any trading issues and to mitigate risks of unexpected events. If not acted on before significant funding issues are faced it may, in some cases, regrettably be too late to secure or retain appropriate funding in the current climate. ■

## Do you think your business has growth potential?

- Thinking of expanding overseas?
- Thinking of diversifying into new markets?
- Thinking of developing new products?
- Thinking of making a strategic acquisition?

IF YOU WANT TO ENERGISE YOUR BUSINESS STRATEGY – THINK OF US!

Contact Mike Brown or Douglas Martin on 01224 625111

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