Companies

Dash for cash: companies draw $124bn from credit lines

As traditional capital markets seize up, executives are turning to emergency funding

Eric Platt, **Laura Noonan** and **James Fontanella-Khan** in New York, **Joe Rennison** in London and **Miles Kruppa** in San Francisco 9 HOURS AGO

The shelves normally filled with paper goods at Albertsons supermarkets are now emptied by mid-morning as consumers across the US stockpile toilet rolls.

It is not the sort of challenge that the Boise, Idaho-based retailer expected to face this year. Albertsons' executives had been focused on a public listing that would see shares of the Cerberus-backed group trade on the New York Stock Exchange alongside blue-chip names such as American Express and Johnson & Johnson.

They revealed their plans for an initial public offering on March 6, but less than a week later chief executive Vivek Sankaran and his team were calling on their bankers at Bank of America for an entirely different purpose.

With the uncertainty triggered by the coronavirus crisis, Albertsons wanted cash, and lots of it. By March 18, it had tapped a credit line for $2bn. It could request even more in the days ahead.

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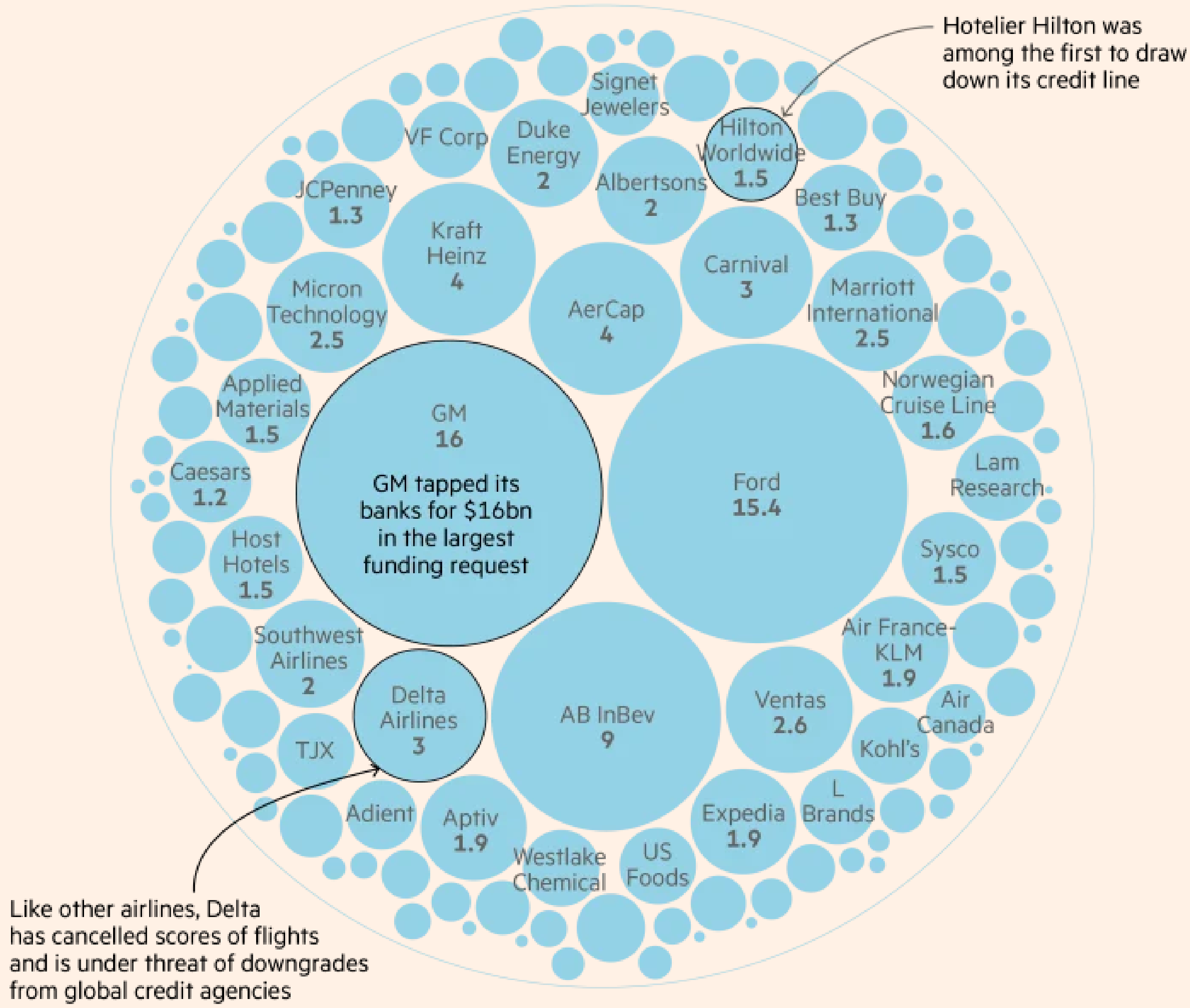
Borrowings made under revolving facilities since Mar 1 2020 ($bn)



Sources: company filings; FT research

During the past three weeks, more than 130 companies in Europe and the Americas have drawn at least $124.1bn from their lenders, according to an analysis of public disclosures by the Financial Times and people briefed on the activity. The true figure is likely to be much higher, since publicly traded companies are not required to report the drawdowns immediately and privately held groups often have no obligation to announce them at all.

Back when the world was awash with liquidity, lenders would offer low-cost revolving credit facilities — akin to a credit card — as a perk to win other business. The banks believed that most would never be used in full; such was the stigma of large companies drawing them.

But credit is now harder to come by. The $10tn US corporate bond market, where investors had eagerly lapped up debt offerings from even the shakiest companies, is now reserved for the most well-known and financially sound — the likes of Walt Disney, Coca-Cola and UPS. The short-term commercial paper market has also been frozen, requiring emergency surgery from the Federal Reserve.

Among the first to tap credit lines in this crisis were companies such as Norwegian Cruise Line and Hilton Worldwide, which were acutely hit by fallout from the global health pandemic as customers cancelled trips. But nearly every other industry followed. Car manufacturer Ford borrowed $15.4bn and announced it would shut down factories to preserve cash; brewer Anheuser-Busch InBev raised $9bn as taps stopped flowing; and TJ Maxx-owner TJX and Kohl's each drew $1bn as they closed stores.

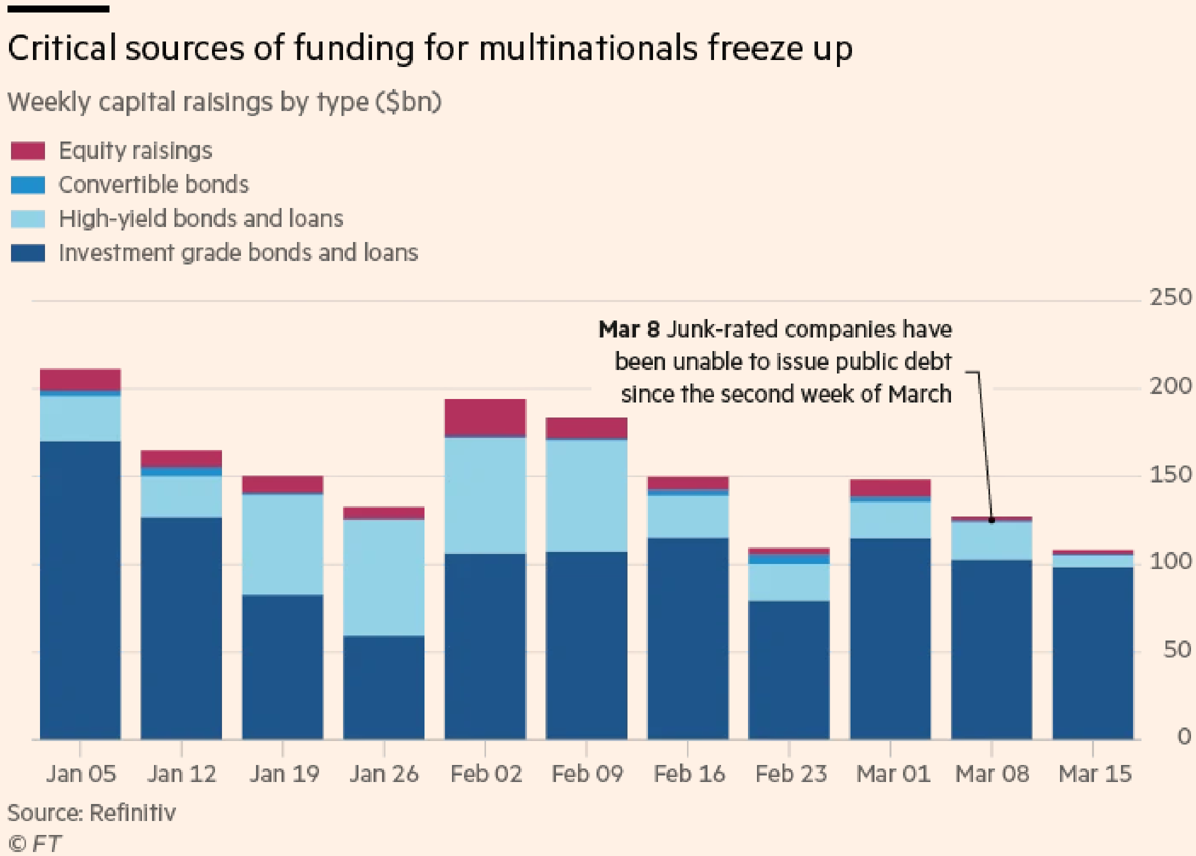
"The economy is really suffering. It has hit an iceberg and nobody knows frankly how long this will last," said Carlos Hernandez, the executive chair of global investment banking at JPMorgan Chase. "It's not unreasonable to assume that more businesses will draw their lines."

Mr Hernandez's bank has been on the receiving end of more calls about credit lines than any other, the FT analysis showed. JPMorgan had almost $367bn of undrawn commitments to corporate clients at the end of last year — equal to more than 13 per cent of its $2.7tn balance sheet.

Bank of America, Citigroup and Wells Fargo together provided another $1.2tn of lines, while Morgan Stanley and Goldman Sachs had a combined $260bn, according to recent filings with US securities regulators.

This reflects the fact that banks remain "the main source of liquidity insurance" for US companies, according to Sascha Steffen, a professor at the Frankfurt School of Finance, and Viral Acharya of NYU, who studied nearly $1tn of undrawn credit lines held by more than 2,400 US groups. That became clear as the market meltdown began on February 21 and corporate bond, loan and equity markets all gummed up.

"I cannot recall a week this crazy or this stressful — I feel like I haven't been off the phone since 5am [last] Monday," said Scott Barshay, a corporate lawyer at Paul Weiss. "Unlike 9/11 or the financial crisis in 2008 and 2009, this is a crisis for companies in every single sector of the economy — everyone's grappling with how to make business decisions when most businesses are shut down and you have no idea when they're coming back."



Some companies, such as Albertsons, tapped their credit lines to give themselves ample cash even as their operations chugged along. Several big groups, including Oreo-maker Mondelez International, established new credit lines in case financing markets worsened. Other, more stressed, companies drew on their lines in anticipation of falling foul of covenants, which would allow lenders to cut off cash.

"The speed at which companies are already drawing down credit lines is faster than what we have seen before," Mr Steffen said. If credit markets become even more challenged, the drawdowns could accelerate, he added.

Top financiers warn that cracks are already beginning to form in the corporate world and that the worst is yet to come. Analysts at credit rating agency S&P Global have been working nonstop, downgrading 121 companies and warning of the prospects of another 176 groups in part due to the global health pandemic. Rivals at Moody's estimate $235bn of debt matures this year and must either be repaid or refinanced, with a further $345bn due in 2021. Rising borrowing costs will pressure companies' finances after a period when multinationals had binged on debt, and defaults are expected to rise.

The owner of New York Sports Club is one of the groups that has already run into trouble. The indebted gym operator, known as Town Sports, warned late on Friday that it might not be in business in a year as it faces the threat of a surge of cancellations related to the coronavirus outbreak. It is already trying to get its landlords to agree to reduced rent payments. It drew $12.5m from its credit line.

"We have never been in an environment with zero revenues," said Bruce Mendelsohn, who runs the restructuring advisory business at boutique investment bank Perella Weinberg Partners. "It's a major paradigm shift. We're helping all kinds of companies, especially with access to capital: credit lines, revolvers, you name it.

"I was around during the stock market crash of 1987, I lived through the dotcom bubble, then came 9/11 and more recently the 2008 financial crisis. This has the potential to be way more devastating," Mr Mendelsohn added.

For private groups, the same pressure is on. In Silicon Valley, New Enterprise Associates, one of the largest venture capital firms, with investments in Gwyneth Paltrow's lifestyle brand Goop and online education platform Coursera, has urged the companies it backs to consider alternative funding strategies including looking to use their lines of credit, according to a presentation reviewed by the FT.

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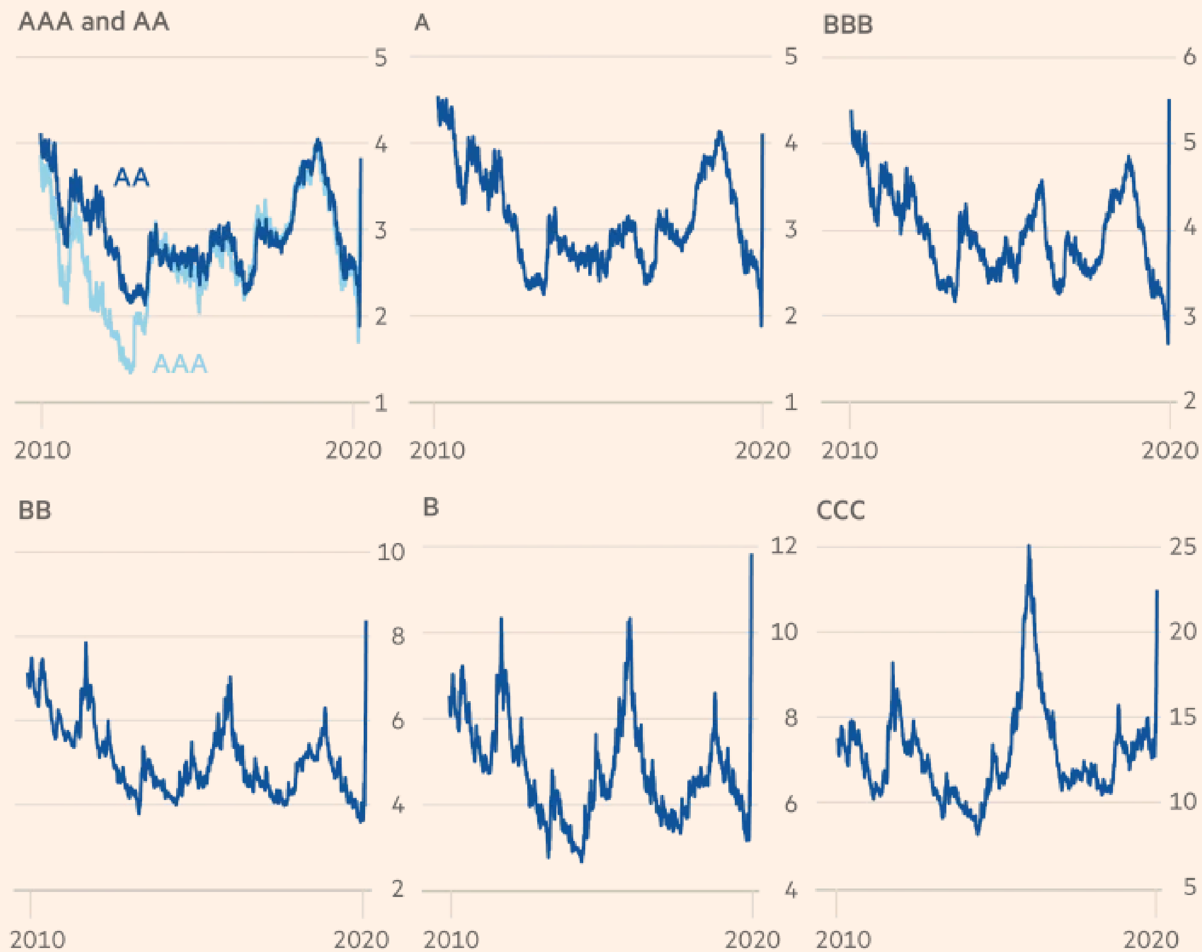
Yields on US corporate debt, by rating class (%)



Source: Ice Data Services

In private equity, some Blackstone and Carlyle portfolio companies have been encouraged to draw their lines of credit to avoid a credit crunch, according to people familiar with the discussions.

The banking system has so far been able to handle the strain of the torrent of capital requests, even as loan officers and bankers process them from home. Senior executives at several of the largest banks told the FT they could write the cheques, even if 100 per cent of their undrawn lines were called in. Even if that proves to be the case, there might be a knock-on impact on other lending, especially if fears mount over companies' ability to ever repay their credit lines.

"Banks have the ability to meet those draws but it takes away their ability to lend in other areas," said Bradley Rogoff, a credit strategist at Barclays. "The risk is that if bank capital gets constrained with revolvers. then they can't lend. They have the capital but then they cannot do anything else with it."