European Funds Comment: COVID-19:
The UK’s Policy Response (So Far)

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Just as the truly devastating social and economic consequences of COVID-19 are now occupying most of the attention of private fund managers – in particular, with a focus on providing financial and practical support to the portfolio – so policy-makers have redirected their efforts. In the UK, the short-term measures announced in the budget last week have already been superseded by a significantly more generous package of aid for businesses, aspects of which may be of value to some UK-based private equity-backed companies. However, there are still some important gaps, and these need urgent attention.

Last week, the UK government’s budget included a plan to suspend business rates for firms in certain sectors, to help with funding for sick pay, and to offer emergency support for the health service. However, it quickly became clear that these were not bold enough, given the scale of the disruption, and this week the government accelerated – and significantly bolstered – its plan to offer loan guarantees to support smaller businesses, and announced a separate “COVID-19 Corporate Financing Facility” (CCFC) for larger ones.

The first of these measures, the “Coronavirus Business Interruption Loan Scheme” will be operated by the British Business Bank and will guarantee 80% of bank loans, overdrafts, invoice finance and asset finance facilities. Each facility, which must be made available by a participating lender, can be up to £5 million and businesses with a turnover of up to £45 million will be eligible. The UK government will pay the interest on the loans for the first six months. However, many have argued that this scheme, even when combined with the other measures already announced, will not be enough to protect smaller firms – and especially their workers – from the sudden and unexpected drop in demand that most companies will face. In particular, prudent businesses may be reluctant to take out a loan, which they will be required to repay in the coming years, instead of taking steps to cut costs. There have been calls for the government to go further, and (for example) subsidise wage bills to ensure that companies are not forced to lay off staff, as some other European governments have already done. An announcement on a plan to do just that is now expected later today.

The Corporate Financing Facility, further details of which were released on 18 March, is intended to help larger firms that are “fundamentally strong, but have been affected by a short-term funding squeeze” by giving them an opportunity to issue short-term debt. The Bank of England will buy notes of up to one-year maturity, issued by firms making a “material contribution to the UK economy”. There is no precise definition of what constitutes such a material contribution, but the Bank says that companies with significant employment, or their headquarters, in the UK will
generally pass the test. In addition, companies with significant revenues, a number of operating sites, or a significant customer base in the UK will be considered. However, the scheme appears to have an important limitation: only businesses that can show that they were in good financial health — apparently those rated as “investment grade” or with “equivalent” financial health — before the coronavirus shock will be eligible. Further details, including information on how to apply, are expected next week, and there will be urgent calls to ensure that the facility is available to all mid-size and large firms that need to access it, and not just the types of companies that traditionally issue commercial paper. At the moment, the scheme does not seem to be designed for the typical private equity-backed company. That may yet change, and firms will need to monitor further announcements carefully.

The UK government — and indeed the Bank of England — will announce further interventions in the coming days and weeks, and is under increasing pressure from politicians and business groups to do so. In the meantime, venture and private equity-backed companies should certainly take a look at the measures announced so far to make sure that they take advantage of them if they are eligible. But larger firms that cannot qualify for either of the main financing schemes are currently without the support they need.

In the meantime, private equity investors will be looking to do what they can to support their portfolio companies (including, in some cases, by injecting further funding themselves), and many companies will learn the value of having a private equity partner in times of crisis.