Dealing with the Financial Impact of the Coronavirus

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With the continuing spread of the Coronavirus Disease 2019 (“COVID-19” or “coronavirus”), hospitality service providers are facing a number of issues that have already exacted a heavy financial toll. With consumers staying home and employers limiting travel, there is currently significant pressure on revenues and operating margins. Regardless of the ultimate health impact of this crisis, there is already a significant economic crisis and it may get worse before it gets better.

Financial Covenant Defaults

Loan documents typically contain various financial covenants – including minimum EBITDA, Net Income and Fixed Charge Coverage – all of which are likely to be impacted. The impacts of an “Event of Default” can have significant impacts on your business. Determining the best path forward can be difficult and the consequence of a misstep can be severe.

Equity Cure Rights

Some loan documents allow companies to “cure” financial covenant breaches by obtaining additional equity. Even if such a provision is not in your loan documents, call your lender to discuss this option, preferable before a default occurs.
Reporting Obligations

Reporting obligations commonly include matters relating to litigation, material contracts or events that have a material impact on the business – all of which may arise as a result of COVID-19.

Business Interruption Insurance

Businesses should have a plan in place in the event of a shutdown. Consider whether there is business interruption insurance in place that will cover the losses incurred. Also, to the extent that business interruption insurance coverage is available, check your loan covenants to determine whether the proceeds of that policy can be added back to EBITDA or Net Income in calculating financial covenants.

What Should You Do?

Review your loan documents and determine whether or not a default has occurred or is likely to occur.

Be proactive not reactive. Get in front of the problem.

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