WWD

The Rush for Funds to Stay Afloat

Companies are looking to tap credit lines, cut costs and bring in more money to make it through the COVID-19 shutdown.

By Evan Clark on March 23, 2020

Retailers and brands are racing to secure cash amid the COVID-19 shutdown.
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The stampede for cash is on.

And the stakes are high for businesses looking for any way to keep going during the coronavirus shutdown.

"If you survive to see Dec. 31, 2020, you should be out of the woods," said Bill Detwiler, general partner of Fernbrook Capital Management, referring to the mind-set companies need to take to weather the crisis.

That could be a big "if" for marginal companies when non-essential businesses are shuttered in New York, California and beyond and consumers are staying locked indoors to slow the outbreak.

Detwiler, whose company has investments in brands such as Knot Standard, Maisonette, Stantt, La Ligne and Universal Standard, said he started helping his portfolio companies prepare a couple weeks ago.

The investor urged them to get ready to apply for disaster loans from the Small Business Administration and to look at other avenues to conserve cash.

"We immediately went in to, 'How do we mitigate the damage and extend runway,'" he said.

Fernbrook's focus right now isn't on making new investments, but on keeping "our powder dry to support our companies," he said. "We'll look to invest in the right structures and valuations if they need it."

Eventually, the deal market will start to open back up, but Detwiler said it's the best companies that will be appealing.

"There are enough investors sitting on the sidelines waiting for good opportunities that they'll be ready to act," he said. "Deals are going to get done for the right companies. You're going to see some companies just go away. They maybe have built a great substantial brand, but they didn't build a sustainable business. It's not worth having that next men's clothing company or beauty company that's not backed by the right sort of influencer."

Even fashion's strongest companies are going into cash-saving mode.

VF Corp., parent to Vans, The North Face and Timberland, said it was drawing down $1 billion from its $2.5 billion revolving credit facility out of "an abundance of caution," effectively funding its working capital needs through the first half of fiscal 2021.

Matt Kaden, managing director of MMG Advisors, said existing lines of credit are among the first places companies of all sizes are looking to shore up their books.

And they're also turning to the cost side of the equation.

"They are unfortunately either laying off or furloughing people to free up cash," Kaden said. They are also canceling production of and either not paying or "stretching" their accounts payable as they wait on Washington, which is working on an aid program.

"The hope is fashion and retail are represented well in the stimulus package," Kaden said. "You can't base your strategies upon that, so you've got to be very resourceful and you've got to go in and you've got to really plan right now and plan for the worst right now — I don't want to say hope is a strategy.

"The stimulus is not going to pull everybody through," he said. "If you're on the margins, it's a very scary time right now."

But he said there are some creative solutions, for instance repurposing your fashion business to make critical medical supplies, as Hanesbrands, American Giant and others are.

"You've got to find ways to create cash flow," Kaden said.