

# *Dealing with your banker*

**Let's talk series**

*Bankers are just like any other stakeholders: they don't like surprises.*



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*The credit crunch continues to squeeze the supply of capital. Combined with the economic downturn, this means that lenders continue to take a much more cautious stance, especially with underperforming companies. Companies needing to refinance or obtain waivers and amendments to existing finance arrangements are facing an unpredictable response from their lenders, even when the relationship has historically been strong. Fearing the worst, some private company leaders are shying away from proactively communicating with their bankers.*

The good news is that dealing with your banker—even in this economy—doesn't have to be a nerve-racking experience. "A number of companies fail to view their bankers as partners, but they in fact are," says Vince De Luca, Managing Director of the Corporate Finance Practice at PwC. "It's in the bank's interest to see the companies they deal with succeed. At the same time, the reality is that we're experiencing a severe downturn that's affecting every industry and sector—and the likelihood is that some businesses will face financial challenges." While banks always need to be cautious, they are protecting their capital during this downturn by managing risk. Business owners who can demonstrate to their bankers that they are forthcoming and proactive—that they have winning plans—can potentially avert being squeezed by the credit crunch. Here's how to do just that:

### **Stay in touch**

- "Even if you are escaping this current economic downturn unscathed and performing well, you should still talk to your bank regularly and keep them apprised of your situation. If you're not doing well, let your bank know and explain what measures and actions you've implemented to address the issues. There will be a number of

companies performing well, even in industries that are struggling most, but unless informed, bankers won't necessarily be aware of that and unfortunately may assume the worst," says De Luca.

- Talk to your relationship manager at least twice a month, unless there's a crisis situation that requires more frequent contact. Make a quick call to update them on progress and any changes you've implemented. Invite them to come and see the operations for themselves.
- Relationship managers can move around, which can be frustrating, but getting to know the new manager is critical. "Your relationship manager is your voice and your first line of defence to your bank's credit department. It's critical to educate them effectively and thoroughly on your business and strategy," says De Luca. "If you have the misfortune of having your relationship manager change, especially during this period, it is essential that you invest the time and effort into getting to know the new one and ensure they fully understand your business and your strategy. This approach will benefit you in the long run and can help the relationship manager react faster to any changes that you may require to your loan facility in the future."

## Trust is a two-way street

Unlike public companies that disclose detailed reporting and strategy on a quarterly basis and discuss it with financial analysts, private companies tend to be, well, very private. “They’re generally not accustomed to communicating timely and detailed information or business strategy to anyone outside their business—and sometimes, depending on the size of their loan, this includes their bankers,” says De Luca. “In today’s climate, it’s vital that you are as candid and forthcoming as possible with your banker.

## Do your homework

- Generally, private companies tend to do far less detailed forecasting compared to public companies. However, during a credit crunch and an economic downturn, extensive forecasting is highly recommended. This is not only for your own strategic planning, but also to share with your banker to gain and/or increase their confidence in your company. “Model a range of financial, operational and workforce scenarios that reflect the impact of the downturn on your business,” says De Luca.
- Don’t be reluctant to ask for help from your financial advisors. “We have experienced strong economic growth over the last decade, and even longer for some industries and sectors. Canadian businesses and their executives

face considerable challenges. Managing in a downturn will be a new experience for many, and managers with previous downturn experience may have already exited the corporate scene due to natural attrition,” says De Luca. It’s paramount that the reporting you provide to the bank is accurate and reliable as it protects your credibility and strengthens the bank’s trust in you. “That’s where you have to make sure that you have strong financial advisors preparing this information—people who not only understand your business but also your long-term strategy. Maintaining confidence and credibility in the management team in uncertain times is crucial, as is management’s ability to act decisively. It’s critical that all decisions are made quickly, but are based on sound financial information.”

- Perform detailed 6-, 12- and even 24-month forecasting, looking at various worst-case scenarios and preparing strategies for dealing with each one. Take into account what’s going on with the general economy, your sector, your clients and your suppliers. Identify exactly what factors would cause you to default on your loan and have a pre-emptive plan in place. “The bank wants you to stay in business. You need to have a detailed plan that shows them that even if you’re temporarily going to hit some hard times, you have a strategy that will protect your survival—and their loan.”

## Communicate your new focus

Bankers expect to see that management teams have shifted from a sales growth orientated focus to a capital preservation mode. “We have seen numerous examples of late, where the subject companies did not adjust their production and purchasing behaviours despite the fact that sales were significantly decreasing. These actions, or lack thereof, resulted in drastic increases in working capital and covenant breaches,” says De Luca.

## And finally, you have to lead the way

“If you do run into financial difficulty, you want to be able to manage your business and your relationship with the bank. You don’t want the bank to manage you; bring the problem and your solution to them as soon as possible. Time, and enough of it, is one of the most important factors in dealing with any issue—especially a financial one,” says De Luca.

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