CFO

How to Keep the Bankers and Investors on Your Side During a Recession

It's important to communicate to your banker and investors that you have a handle on the issues facing your company — but that you need their support.

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I've been in my career long enough now to experience four recessions: in 1991, 2001, 2008, and right now. Despite some individual differences (this is the first one brought on by a health crisis, for instance), by and large they follow the same blueprint: initial warning signs leading to a crisis, then the emergence of a long, difficult period.

As CFOs look at the current situation and consider its likely medium- and long-term effects, they're naturally concerned about protecting their company's liquidity, staying financially healthy for the foreseeable future, and, if possible, looking for opportunities to emerge from this crisis in a better position.

In order to do that, CFOs and other business leaders need to be able to communicate clearly and effectively with their capital partners, demonstrating that their hands are on the wheel and they have a clear plan for the period ahead. Yet, during previous recessions and even in better times, I've watched executives fail at this crucial job again and again.

Based on what I've seen work previously, here are several pieces of advice on how to have productive conversations with your banker and investors.

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Institute a company-wide decision-making process and create a roadmap. First, you'll need to assemble a team of senior managers who can knowledgeably discuss pressing matters across the company and work together on solutions. (In light of the current situation, this team might need to hold its meetings via Zoom.) After identifying the issues most in need of attention, establish a provisional plan that can be adjusted, if necessary, and make a list of specific drivers that will dictate the need for adjustment. Once you've done so, communicate this plan to your business partners and keep them updated on any changes as they take place.

As time goes on, maintain a close eye on those drivers and be prepared to change course if the situation calls for it. Even if the details of the plan change, by keeping a stable team of decision-makers, you'll be demonstrating consistency and a serious-minded attitude to your business partners.

Prepare for a range of situations using scenario planning. Right now, many companies are putting together financial projection models that include a detailed cash forecast. But in times like these, it's impossible to be overprepared. So, I encourage companies to take the time needed to do rigorous scenario thinking — in other words, imagining a range of plausible situations that could happen, assessing your company's resilience, and developing a set of plans to mitigate them. Some questions to be asking: Could my company lose money, and how much? How long would it take to run out of cash? Are we operating under inaccurate assumptions? Nobody can predict the future, so the goal of scenario thinking should be to create a living plan that is applicable for many possible situations.

Demonstrate what you've already done. Recently, I heard this suggestion from a banker: "If you can describe what the problem is, and ideally estimate how long it will last, that's good. Your bank can defer payments or go interest-only if they believe that you have your arms around the issues and are creditworthy." It's important to communicate to your banker and investors that you have a handle on the issues facing your company — but that you need their support. Make any tough-but-necessary decisions without unnecessary deliberation, and make sure to explain your context and your reasoning to your business partners so that they're in the loop.

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Be a credible voice to your partners. In tough times, you need your banker and investors to back you up. To do that, you need to gain their trust, and trust comes from establishing credibility. In conversations with them, your tone must be fact-based, but also humble and balanced. It's a fine line to walk, as you don't want to appear lackadaisical or, on the other extreme, overwhelmed. The worst thing you can do is to paint a cheery picture if there are problems that need to be discussed. Instead, bring those issues up in a calm, matter-of-fact way to your partners as early as possible.

When your capital partners offer help, accept it. Don't presume that you know everything — humility is always an important quality, and maybe no more so than right now. So, make sure that your conversations with investors, board directors, and bankers include plenty of listening on your part. Each group will bring a different, equally valuable perspective. Since they're probably having similar conversations with executives at other companies, they might be observing wider patterns and trends throughout certain industries or over the economy as a whole. Make sure that you empathize with their perspectives: Bankers, for instance, interface with highly regulated companies, and investors will be concerned about managing reserves and risks across their entire portfolio.

When the time is right, be ready to go on the offensive. When you're in the middle of a crisis, it's easy to lose perspective. But it's important to be thinking not just of how you'll stabilize your business, but what you want to do after you've accomplished that objective. First, confront your issues head-on and make sure your business is back on solid footing. Then, be ready to pivot to a growth mindset — a recession creates opportunities that might only exist for a short period, so make sure you're prepared to take advantage. For some companies, it's possible that a business combination will be preferable to overhauling the financial structure or undergoing major operational changes.

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Nobody enjoys going through a recession, but few financial professionals would argue that they don't serve a necessary purpose by forcing businesses to work in a smarter, more streamlined way. If you communicate honestly and knowledgeably with your business partners during rough periods like this, you'll put your company in the best position to emerge on the other side stronger than ever.

Frank Williamson is the founder of Oaklyn Consulting, a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession and other strategic corporate finance decisions. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.