

COVID-19:

Managing your cash pressures

18 March 2020



The COVID-19 outbreak has been declared a pandemic by the World Health Organization, causing huge impact on people's lives, families and communities.

As the international response continues to develop, we know that organisations are facing potentially significant challenges to which they need to respond rapidly.

We are working closely with organisations globally to help them to prepare and respond, by sharing our experience in working with companies, governments, regulators, NGOs and international organisations around the world to respond to some of the most high profile outbreaks (including Ebola, MERS, SARS and bird flu).

Managing your cash pressures

As the COVID-19 global response evolves, organisations are experiencing significant operational, financial and liquidity challenges.

In order to ensure these challenges can be addressed, the number one concern aired by our clients has been how they can **manage their cash pressures** to ride out the crisis.

Our Business Restructuring Services (BRS) practice provides support to clients in time sensitive and critical scenarios, consistent with the challenges that COVID-19 impacted businesses are now experiencing.

The following **three key steps** should be considered by management teams as they seek to stabilise their cash position:

Rapidly understand the current financial position

1

Take action to protect the position

2

Manage internal and external stakeholders

3

As part of this assessment, issues may be identified which highlight risks to going concern. Companies must keep **directors duties** front of mind to ensure reckless trading risks are avoided during this period of uncertainty and appropriate advice is sought.

Our key considerations and experience at each of these stages have been detailed on the following pages.

Rapidly understand the financial position

1

Depending on the severity of the situation, an assessment of available and trapped cash may need to be made in a matter of weeks or even days. Responding quickly is essential.

Cash

Assess potential short and medium term financial implications of COVID-19 focusing on liquidity and covenants.

Consider the following:

- Immediate 13 week short term cash flow forecast creation and/or review;
- Update business plans, budgets, forecasts;
- Identify potential worst-case scenarios;
- Perform sensitivity analysis, modelling worst-case scenarios and downsides, inclusive of the impact of FX on the cash position; and
- The capability or limitations of existing reporting tools and systems to allow real time reporting across multiple locations.

Funding flexibility/capacity

Review finance documentation and identify if there is:

- Flexibility on covenants, cures, force majeure or baskets;
- Additional borrowing capacity and unencumbered assets – inventory, receivables, intellectual property; and
- Scope to access government funding initiatives.

Contingency plans

- Update your financial position and resource planning analysis to assume staff sickness;
- Assess where and what levels of tactical cost reduction and cash conversion/stock liquidation could be undertaken, if required; and
- Develop operational contingency plans to minimise disruption to your business, inclusive of reviews of authorised personnel to manage bank and system processes and controls.

Stakeholder management

- Review key supplier and customer contracts;
- Identify if there is contractual flexibility to amend payment and pricing terms (for both sides) and engage with suppliers/customers accordingly;
- Reassess payment priorities and consider time to pay arrangements;
- Consider the position of other key stakeholders eg shareholders, pension trustees, regulators, credit insurers, credit card companies; and
- Check insurance policies for business interruption clauses.

We can help you take action to protect the position

2

Once clarity on the cash position has been obtained, the directors and management teams should take immediate action to ensure they can (at a minimum) maintain this position, alongside identifying opportunities to access new money, if required.

- Implement **cash conservation** measures (e.g. cancelling non essential orders, shift rationalisation and 4 day working weeks) and **rapid optimisation of working capital** to preserve liquidity.
- Seek **additional funding** support from existing lenders, **new funding** from alternative providers or opportunities to generate cash via **equity** release.
- Obtain consent from lenders for short term **financial covenant waivers or relaxation** in anticipation of potential or forecast covenant breaches.
- Implement **rapid cost reduction** plans based on the financial position; the severity of cost reduction levers and time execution will be dependent on available liquidity.
- Set up a **programme management office** (PMO) to help ensure consistency in managing the impact of COVID-19 to enable rapid responses to dealing with the range of operational and financial issues as they arise.
- Depending on the severity of the situation and size of the organisation, consider bringing in a **Chief Restructuring Officer** (CRO) to have responsibility for taking control of the cash position.
- Consider whether liabilities and or cash can be accessed via a **managed exit** or **accelerated disposal** process of underperforming parts of the business

Manage internal and external stakeholders

3

Alongside stages 1 and 2, organisations will need to quickly understand who their key stakeholders are (internally and externally). Management of stakeholders can often be challenging in a stressed scenario, particularly where interests are conflicting and there are significant demands for real time information

Communication

Develop a **clear communication plan** to ensure consistent messaging across all channels.

Consult with internal risk and marketing teams, as appropriate.

Stakeholders

Identify all **key external stakeholders**; **engage early** and **proactively manage**.

Understand their **current position**; how they may act and any associated issues which may arise

Assess the impact of these issues on your business and work with the stakeholders to minimise or mitigate the impact.

Internal channels
(staff)

External channels
(stakeholders, customer, suppliers, shareholders, government, market)

Financial stakeholders

banks, bondholders, rating agencies, auditors, pension trustees, credit card companies

Operating stakeholders

landlords, suppliers, customers, credit insurers, insurers, regulators

Keeping directors duties front of mind

In the event of financial and liquidity stress, directors must move their attention away from shareholders towards protecting the interests of creditors to avoid reckless or (in extreme circumstances) fraudulent trading.

In recent years, in the UK and Ireland, we have increasingly seen Directors duties of large companies being put under the spotlight and subject to public scrutiny in instances of financial stress, particularly in situations which lead to insolvency.

The ability of a company to avoid insolvency is not always immediately obvious and as a result, it is imperative that Directors fully understand their roles and responsibilities, and consider this when making critical business decisions.

Reckless trading

Being knowingly a part to the carrying on of any business of the company in a reckless manner that would cause loss to creditors or contracting of a debt by that company in the knowledge that the company would not be able to pay the debt when it fell due. Directors can expose themselves to personal liability and lengthy disqualification.

Fraudulent trading

Knowingly carrying on a company's business with the intent to defraud creditors i.e incurring credit that cannot be paid. Fraudulent trading imposes civil and criminal responsibility to Directors and is grounds for disqualification.

Financial and liquidity crisis often creates competing demands on the limited cash a company has available. Directors are often uncertain as to the right decisions to be making in the interests of the stakeholders. We have the experience and knowledge to support them. We recommend that Directors take the following steps:

- 1. Seek professional advice** – we can provide Directors with immediate and ongoing advice on their responsibilities and exposure.
- 2. Consider your financial position (see steps 1-3)** – Directors require a clear view of cash flow, alongside balance sheet position and trading performance. We can support the board in rapidly producing in depth financial reviews to identify key issues and mitigations. This analysis should be reviewed and updated on a frequent basis and used to inform trading decisions.
- 3. Maintain evidence of decision making process** – ensure all material decisions and the associated considerations are documented in detail
- 4. Consider ceasing of trading** – in extreme circumstances where stakeholder support is not forthcoming, we can develop contingency plans to help the directors understand the options available to minimise loss to creditors.

How we can help

We draw together the experience and specialist skills from across the Restructuring team and the wider PwC firm.

Financial restructuring

Financial advice to corporates, sponsors, lenders and credit funds in assessing options and negotiating and implementing a restructuring

Working capital management

Creating and implementing initiatives to release working capital and create liquidity at pace

Independent business reviews

Rapid commercial and financial due diligence focussed on the key issues for lenders or corporates normally in support of a refinance

Restructuring Tax

Helping work with Revenue as to manage cash tax payments. Designing and executing tax efficient debt restructuring or reorganisation of the business to facilitate new investment or sale.

Chief restructuring officers

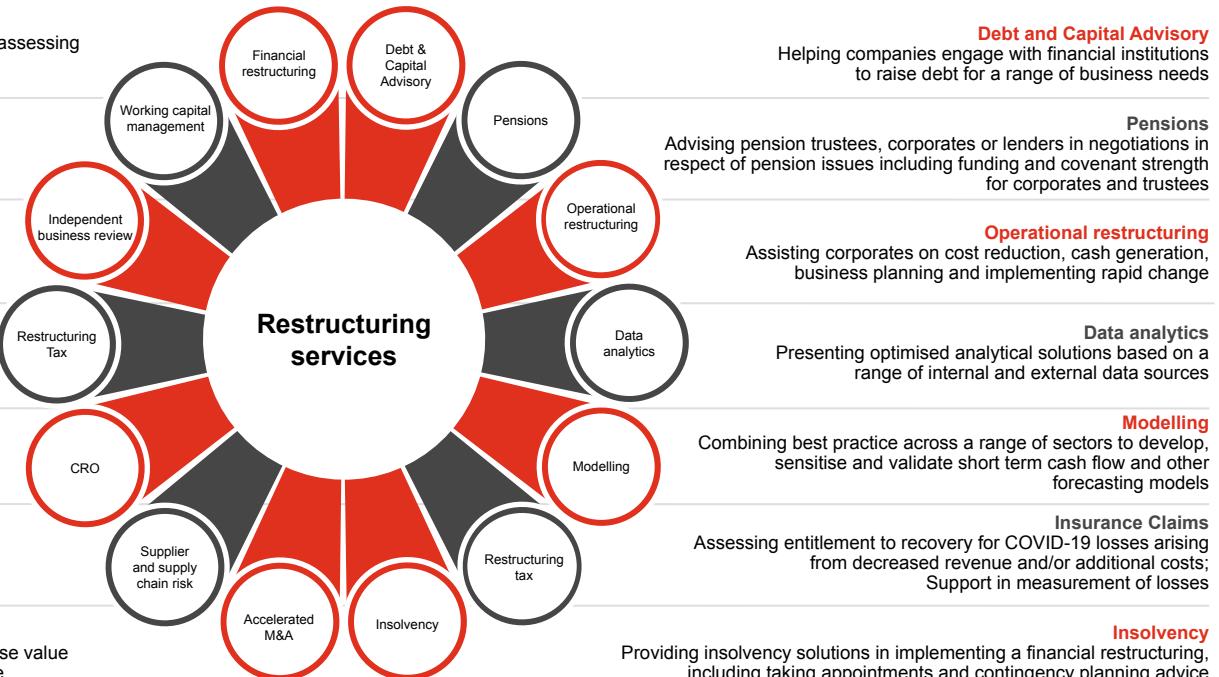
Placing a senior PwC practitioner into hands-on executive positions in organisations facing financial pressure or which need to drive rapid change

Supplier and supply chain risk

Supporting corporates to identify vulnerability and risk in their supply chain which will adversely impact production

Accelerated M&A

Using corporate finance, restructuring and insolvency skills to maximise value through the sale of shares, businesses or assets in a short time frame.



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To find out how we at PwC are responding to the COVID-19 outbreak, please visit:

www.pwc.ie

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