

Navigating the Financial Impact of Covid-19

Deloitte Restructuring Services | Australia
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Navigating the Financial Impact of Covid-19

Covid-19 took the world by surprise in the new year and as the virus spreads it is impacting businesses and markets globally. Businesses need to respond, refresh and accelerate contingency planning to ensure they survive the downturn and position for growth when the recovery comes.

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Other Covid-19 Resources

Deloitte | Combating Covid-19 with Resilience
<https://www2.deloitte.com/global/en/pages/about-deloitte/topics/combating-covid-19-with-resilience.html>

World Health Organisation
<https://www.who.int/emergencies/diseases/novel-coronavirus-2019/events-as-they-happen>

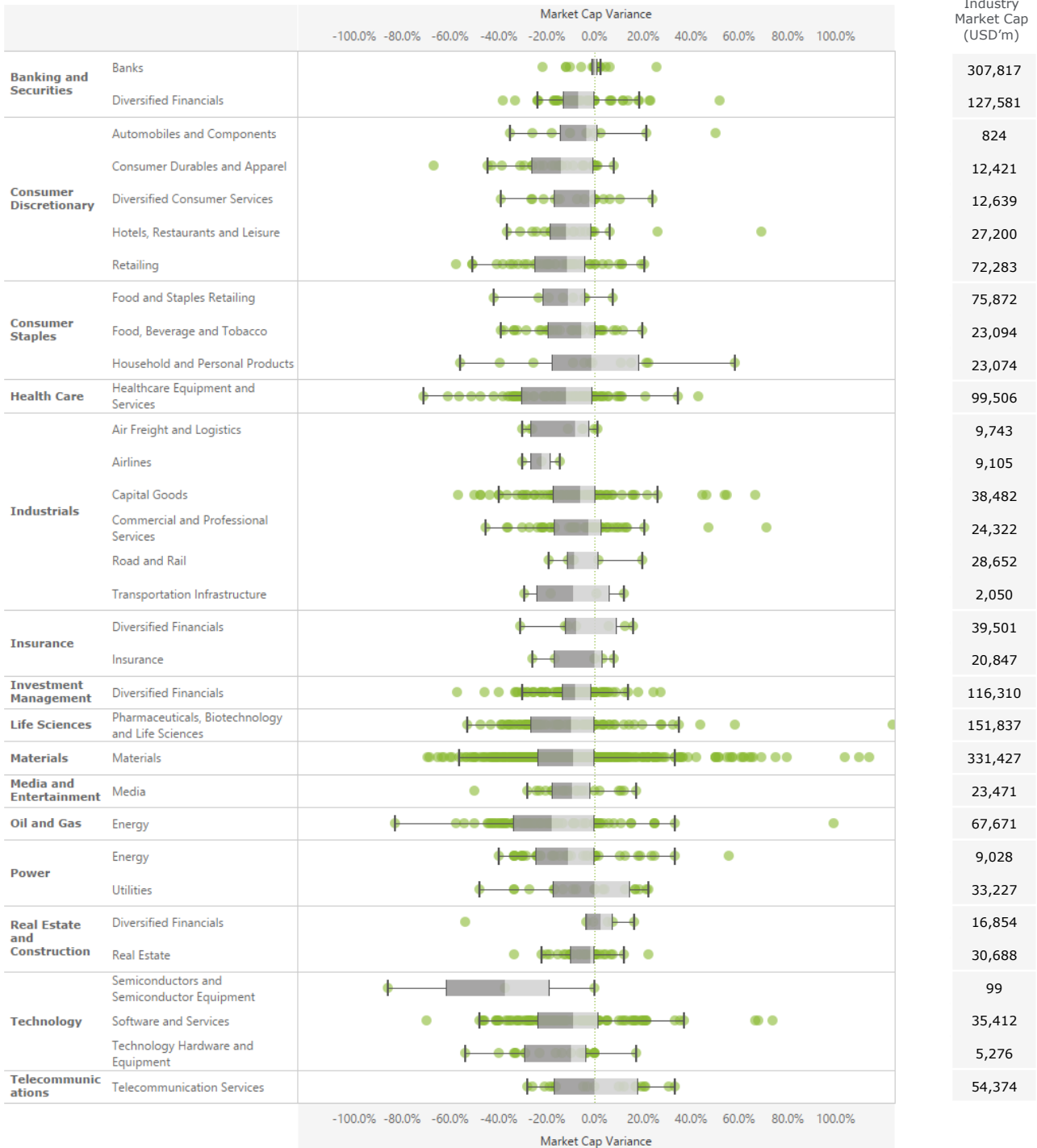
Australian Market



Australian markets are in the red in Q1-20 as investors become bearish. Analysis of the activity in the market over the last two months shows the steep drop across a range of sectors.

Changes in Market Capitalisation for Australian Companies

(Variance of 2 months as of 18 March 2020)



Impacted Sectors and Regions



China, the ground zero epicentre, was hit hard in Q1-20 implementing extensive mitigation measures. Transport, Hospitality and Manufacturing firms (particularly those with complex supply chains) have seen significant disruption. Some sectors will also see short and medium term opportunities.

Heat Mapping Impacted Sectors and Regions (Australia view at 18 March 2020)

Sector		China			Australia			Rest of Asia Pacific			EMEA and Americas		
		Short term	Recovery scenario	Downside scenario	Short term	Recovery scenario	Downside scenario	Short term	Recovery scenario	Downside scenario	Short term	Recovery scenario	Downside scenario
TMT	Telecom & Media	N	N	N	N	N	O	N	N	M	N	N	M
	Entertainment	H	M	M	H	M	H	H	M	M	H	M	M
	Technology	H	M	H	M	M	H	M	M	N	M	M	N
Consumer	Automotive	H	M	H	H	M	H	H	M	H	H	M	H
	Retail & Consumer Products - Clothing & Essentials	M	M	M	M	M	M	M	M	N	M	M	M
	Consumer Products - Luxury Goods	H	M	M	H	M	H	H	M	H	H	N	M
	Agriculture	M	N	N	O	O	M	N	N	N	N	N	N
	Wholesale & Distribution	M	N	M	H	N	M	M	N	N	N	M	N
	Transportation & Hospitality	H	M	H	H	H	H	H	H	H	H	H	H
	Business Services	M	N	N	N	N	M	M	N	N	M	N	N
	Education	M	N	M	H	M	H	H	N	M	M	N	N
	Industrial Products & Chemicals	M	N	N	M	N	M	M	N	M	M	N	M
	Construction / House builders	M	N	N	M	N	H	M	N	N	N	N	M
ER&I	Oil & Gas	H	M	M	M	N	M	H	H	H	H	H	H
	Mining & Metals	M	N	M	M	N	M	M	N	M	M	N	M
	Power & Utilities	M	N	N	N	N	N	N	N	N	N	N	N
	Real Estate	H	N	N	M	N	H	H	N	M	H	N	M
	Banking & Capital Markets	M	N	M	M	N	H	N	M	H	N	M	H
FS	Investment Management	H	M	M	M	N	M	H	M	H	H	M	H
	Insurance Life & Annuity	M	N	M	M	N	M	N	M	M	N	M	M
	Health Care	H	O	O	O	O	O	O	N	O	O	N	O
	Life Sciences	H	O	O	N	N	O	H	N	O	M	N	O
G&PS	Defence, Security & Justice	O	N	N	N	N	N	N	N	N	N	N	N
	Civil Government	H	M	M	O	O	O	N	N	N	N	N	N
	Health & Social Care	O	N	O	H	N	M	H	N	M	H	N	M
	International Donor Organization	O	O	N	O	N	O	O	N	O	O	N	N
	Transport	H	N	M	H	N	H	H	N	M	H	N	M

Short term Impact in H1 of 2020.
Recovery scenario Impact in Q2-Q3 2020, assumes rate of infection declines and markets largely recover
Downside scenario Impact through 2020, assumes Covid19 continues through 2020 into 2021

H High impact on businesses trading and cash flows
M Significant disruption, likely financial impact/loss
N Neutral or low impact/opportunity
O Higher demand and/or opportunity

Covid-19 | Critical Moves



The speed and effectiveness of businesses' response to the financial impact of Covid-19 will be tested in the coming months. Here we explore some of the critical and pragmatic moves that management teams can take.

Area	Critical Moves	Learn More
Downturn Planning 	<ul style="list-style-type: none"> Re-forecast under three scenarios; short-term downturn, market recovery and longer-term downside case. Continuously assess short term liquidity requirements and potential internal sources of cash as a bridge to recovery. 	Page 6
Supply Chain Risk 	<ul style="list-style-type: none"> Map out supply chains, ascertain ability of critical suppliers to fulfil orders and commence active monitoring. Prepare for upstream production and logistics disruptions; understand and activate alternate sources of supply. 	Page 7
Working Capital 	<ul style="list-style-type: none"> Seek to optimise working capital by identifying 'quick win' self-help measures to deliver rapid cash release. Examine potential accounts receivable, inventory and accounts payable levers that can help improve liquidity. 	Page 8
Cost Base Realignment 	<ul style="list-style-type: none"> Assess opportunities to improve resource and spend allocation, process efficiency and systems enablement. Start bold at the top, identify the big ticket / easy to implement measures and drive hard to value. 	Page 9
Credit and Funding 	<ul style="list-style-type: none"> Use reforecasting to define the gap / ask, identify collateral and structuring opportunities and engage lenders early. Demonstrate that the business is doing its part and seek committed but undrawn lines of credit as a buffer. 	Page 10
Under-performing Business Units 	<ul style="list-style-type: none"> Accelerate 'fix, sell or close' assessments and act fast to resolve BU, division or subsidiary underperformance. Effective planning (operational, financial, risk, stakeholder etc.) is essential to successful implementation. 	Page 11
Accelerated M&A Opportunities 	<ul style="list-style-type: none"> Ensure your own house is in order and re-calibrate your strategic priorities on a path for viable inorganic growth. Expand your structuring perspective (debt routes) and scan for under pressure targets with potential synergies. 	Page 12
Contingency Planning 	<ul style="list-style-type: none"> Identify the different options available and develop a "Plan B" to drive a consensual deal or restructuring. If a consensual route is not possible, Contingency Planning is a vital bridge into a formal insolvency process 	Page 13

Covid-19 Downturn Planning

Very simply, failure to plan is planning to fail. Now is the time to re-assess business plans, key risks and key actions focused on cash generation to prepare for the impact of Covid-19.



Area

Downturn Planning

Covid-19 Impact



A number of companies may now face a prolonged period of exceptionally poor trading conditions. For many, the revenue foregone in this period represents a permanent loss rather than a timing difference and this is putting sudden, unanticipated pressure on liquidity.

Critical Moves



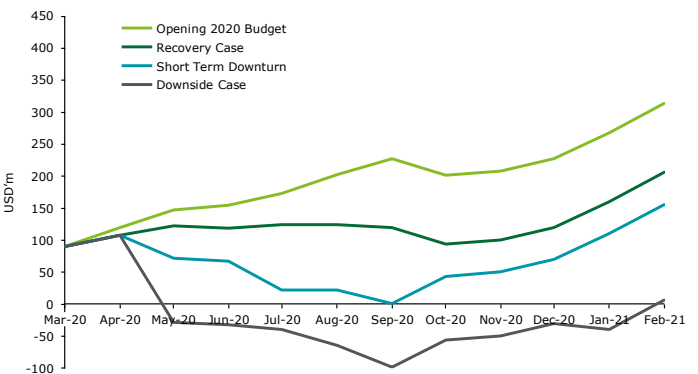
1. Operations and Finance teams need to work together on **re-forecasting three scenarios**; short term downturn, market recovery and longer term downside case.
2. Continuously assess **short term liquidity** requirements and potential internal sources of cash (such as working capital optimisation) as a bridge to recovery.
3. Assess **supply chain impact** (prioritising essential sourcing) and prepare contingency plan B options in the event of a failure of supply.
4. Engage with lenders early on the need for covenant resets / waivers to prevent surprises and seek out **additional sources of capital** early, if required.

How we can Help







We assist clients with the development and review of financial forecasts (including scenario analysis) to help improve visibility on potential funding gaps which can help inform key mitigation and remediation actions.

Illustrative Scenario based Cash Flow Forecasting



Supply Chain Risk Mitigation

Complex cross-border supply chains have already been disrupted by Covid-19 shocks. Supply chain failures can have material financial, operational and reputational consequences.

Area	Supply Chain
<div>Covid-19 Impact</div> <div></div>	<p>Asia’s increasing role as the “world’s factory” means that any major disruption puts global supply chains at risk. More than 200 of the Fortune Global 500 firms have a presence in Wuhan, the highly industrialised province where the outbreak originated, which has been hardest hit. Companies whose supply chains are reliant on Tier 1 (direct) or Tier 2 (secondary) suppliers in impacted areas are likely to experience significant disruption.</p>
<div>Critical Moves</div> <div></div>	<ol style="list-style-type: none">1. Gain visibility over critical suppliers as quickly as possible and map out supply chains (prioritising Tier 1 suppliers).2. Ascertain the ability of critical suppliers to continue to fulfil orders (their safety stock, logistics routes, workforce response etc.)3. Prepare for plant closures and logistical disruptions; understand and activate alternate sources of supply.4. Commence active monitoring by setting reporting KPIs and requesting management accounts, using risk intelligence sources, public financial data and also local news sources.
<div>How we can Help</div> <div></div>	<p>We work with clients to illuminate, assess and mitigate supply chain operational and credit risk. We can assist to assess and to implement funding and M&A integration solutions for critical but financially impacted suppliers.</p> <p>Illustrative Traditional Supply Chain</p> <div></div>



Working Capital Optimisation

Working capital is the lifeblood of business. Covid-19 is resulting in working capital lock-up for many businesses and left unchecked this can quickly translate into liquidity stress.



Area

Working Capital

Covid-19 Impact



We are already seeing a number of themes:

- A downturn in consumer demand leading to increasing inventories that are difficult to clear
- Challenges in collecting receivables in a timely fashion from cash strapped customers
- Difficulties in paying suppliers, due to short term cash flow constraints

Critical Moves



All businesses should seek to optimise working capital by identifying 'quick win' self-help measures to deliver rapid, tangible cash release:

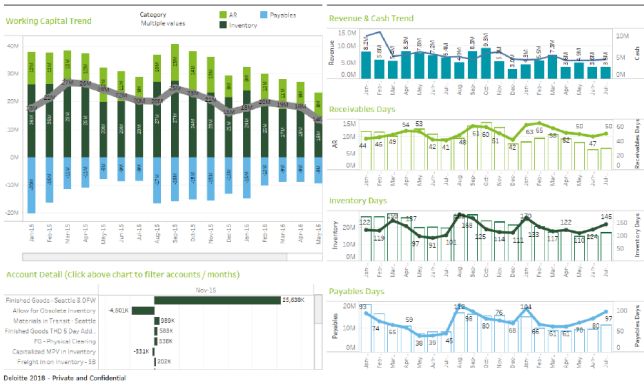
- 1. Accounts receivable** levers include early and proactive engagement with customers, shorter payment terms for discounts and debtor financing
- 2. Inventory** levers include reducing order quantities and safety stock levels, consignment strategies, discounting slow moving / obsolescent stock and eliminating production bottlenecks to reduce WIP
- 3. Accounts payable** levers include eliminating early payments, prioritising critical suppliers, renegotiating terms and supply chain financing

How we can Help






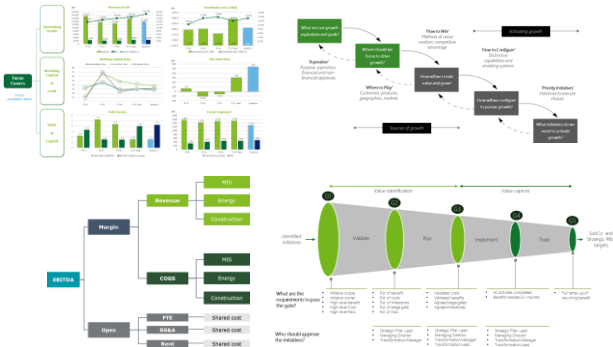
Our working capital optimisation experts and platform can assist clients to rapidly identify and unlock cash release opportunities and monitor ongoing working capital performance.

Illustrative Working Capital Dashboard



Cost Base Re-alignment

Market disruptions, such as Covid-19, should trigger management and owners to re-evaluate cost bases and how these can be re-aligned and flexed with evolving business conditions.

Area	Cost Base
<div>Covid-19 Impact</div> <div></div>	<p>Covid-19 is causing top line contraction in several sectors and driving earnings decline in those with highly fixed or inflexible cost structures. Several businesses finalising their Q1-20 financial results may have to confront an early and material run-rate performance gap against FY20 plan.</p>
<div>Critical Moves</div> <div></div>	<p>Cost savings can flow directly to the bottom line to improve value and debt capacity outcomes. Cost optimisation should be targeted at maximising efficiency and effectiveness across the value chain. Focus on resource and spend allocation, process efficiency improvement and infrastructure / systems enablement. The best cost reduction programs:</p> <ol style="list-style-type: none">1. Start bold at the top Translate strategic goals into a bold yet realistic transformation program with executive buy-in2. Drive hard to value Be explicit about how exactly you intend to create value and focus on driving execution3. Reinforce agility and flexibility Implement an agile approach that delivers quick wins through an iterative process
<div>How we can Help</div> <div></div>	<p>We combine operational and financial analytics with situational and industry expertise to develop baselines, benchmark performance and test improvement hypotheses to plan and implement comprehensive cost reduction programs, fast!</p> <p>Illustrative Diagnostics, Planning and Implementation Tools</p> <div></div>



Credit and Funding Solutions




Facility headroom will come into focus with Covid-19 disruptions affecting corporate borrower performance and liquidity. Lenders can expect more requests for support during the outbreak.

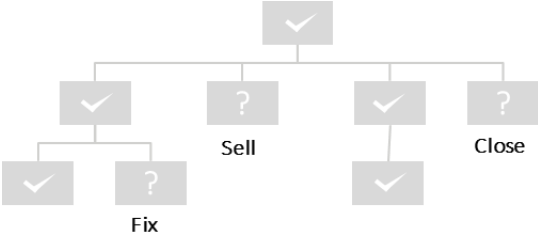


Area		Credit and Funding
Covid-19 Impact		Some companies will be able to maintain adequate headroom making drawdowns on their revolving credit facilities. Others will find that they need to approach banks to arrange covenant waivers or limit increases. The scale and urgency of the funding requirement has taken many by surprise and the uncertainty is affecting financier appetite.
Critical Moves		<ol style="list-style-type: none">1. Borrowers should engage lenders early to prevent any surprises.2. Re-forecast to define the gap / ask; how much funding is needed and for how long?3. Demonstrate that the business is doing its part with working capital and cost measures.4. Identify un-pledged collateral which could be capable of supporting new funding requests.5. Review existing facility / inter-creditor agreements; seek consents if necessary.6. Seek committed but undrawn lines which can provide a liquidity buffer.7. Existing lenders are a good starting point whilst alternative lenders and special situations funds may provide options.
How we can Help		<p>We provide debt advisory services to facilitate negotiations between borrowers and lenders across the spectrum of debt situations; from new money lending through to credit restructuring.</p> <div><div>Debt and Structuring Advice for Borrowers and Lenders</div><div><div>Business Plan Review</div><div>Options Analysis</div><div>Financing Negotiations</div></div><div>Stakeholder Management and Process Coordination</div></div> <p>We also have a proven track record for successfully sourcing new money in complex special situations from our extensive global network of capital providers.</p>

Underperforming Business Units

For many businesses, Covid-19 presents a defining moment for the future of the enterprise, and there is heightened pressure to resolve BU, division or subsidiary underperformance which is accelerating the need for a clear strategy to either **fix, sell or close**

Area	Underperforming Business Units
<div>Covid-19 Impact</div> <div></div>	<p>Prior to Covid-19 many businesses were already facing the challenge of managing non-core, underperforming or loss-making BU's, divisions or subsidiaries. The demand, supply chain and liquidity impacts of Covid-19 have heightened these issues and present an increasing drag on broader enterprise performance and value.</p>
<div>Critical Moves</div> <div></div>	<p>Businesses need to undertake a rapid and honest assessment to answer these key questions:</p> <ol style="list-style-type: none">1. What is the preferred option; fix, sell or close?2. What will it cost to implement?3. What would be the impact on the core business?4. What are the risks and how do we mitigate these and protect our reputation?5. What do we do with the assets and what are the potential contingent liabilities?6. How do we manage the impact on employees and other key stakeholders?7. How long will it take and can we accelerate the process?
<div>How we can Help</div> <div></div>	<p>We commonly help businesses to answer the above questions and align stakeholders on an agreed strategy. We can assist to plan and implement a comprehensive turnaround or managed exit program with defined operational and financial roadmaps for optimal outcomes.</p>





Accelerated M&A Opportunities

We expect to see increasing potential for distressed M&A as a result of Covid-19 and smart businesses and investors will position themselves early in order to seize these opportunities.



Accelerated M&A Opportunities	
<div>Area</div> <div>Covid-19 Impact</div> <div></div>	<p>In chaos there is opportunity. Sellers are looking to rescue or exit their underperforming or liquidity challenged businesses. Buyers are looking to pursue accelerated off-market strategic value opportunities to drive future growth.</p>
<div>Critical Moves</div> <div></div>	<ol style="list-style-type: none">1. Ensure your own house is in order. Plan for the downturn by managing costs, working capital, supply chain risk and liquidity.2. Re-calibrate your strategic priorities. Agree a path for viable inorganic (M&A) growth and scan for opportunities who (a) are facing pressure; and (b) could provide synergies.3. Assess funding requirements. Consider your current ability to fund new opportunities. Can this be enhanced by unlocking capital through divestments or a fresh debt / equity raise?4. Expand your structuring perspective. Look beyond the typical M&A, equity, JV structures to working capital and debt as potential routes to value, control and ownership.5. Do your homework. There will be higher than normal time pressures in special situations. Make time for a robust due diligence process.
<div>How we can Help</div> <div></div>	<p>We help sellers and buyers in complex special situations to define a clear path to value. This can sometimes involve white knight / new money infusion through debt restructuring, deleveraging via capital proceeds, loan to own strategies, super priority rescue financing and / or cleansing or cram down through a formal restructuring process.</p>

Contingency Planning

Contingency Planning plays a critical role in driving a consensual restructuring deal or planning for, and implementing, a formal insolvent scenario.



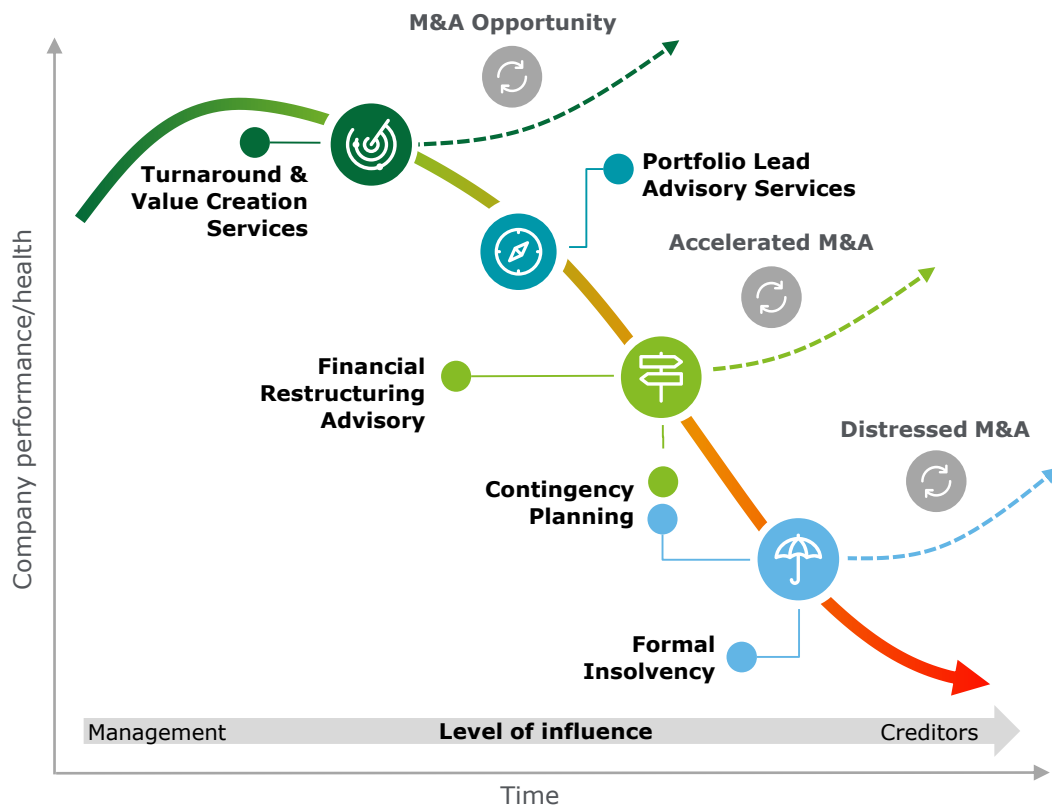
Area	Contingency Planning
<div>Covid-19 Impact</div> <div></div>	<p>Companies now face months of exceptionally poor trading conditions. For most, the revenue lost in this period represents a permanent loss rather than a timing difference. In addition to robust restructuring advice, Contingency Planning is integral before and during complex restructurings, to support options analysis and “Plan B” scenarios if “Plan A” fails.</p>
<div>Critical Moves</div> <div></div>	<ol style="list-style-type: none">1. Undertake options analysis; identify all key “Plan B” options and identify stakeholders2. Stakeholder management; communicate with your key stakeholders and obtain their support (e.g. lenders)3. Recovery prospects; model financial outcomes to inform stakeholders of potential outcomes from various scenarios4. Fallback planning; detailed “Plan B” planning if “Plan A” fails including developing a steps plan
<div>How we can Help</div> <div></div>	<p>We have the expert knowledge and experience to assist companies to identify the options available to it to help facilitate successful outcomes in complex scenarios.</p> <p>Contingency Planning bridges advisory and insolvency with specialist Deloitte teams to provide options and advice depending on the situation.</p> <p>We can assist directors (alongside legal advice) when a company is facing insolvency.</p>

Deloitte Restructuring Services

We work with businesses to improve value outcomes across the spectrum ranging from companies seeking to turnaround short-term underperformance to those in deep financial distress requiring crisis management.

We are actively helping businesses in Australia to turnaround, transform and grow their businesses and to Navigate the Financial Impact of Covid-19.

Deloitte Restructuring Services



- **Turnaround & Value Creation Services** for underperforming businesses using M&A, restructuring and private equity techniques to deliver performance improvement ...fast
- **Financial Restructuring** business reviews and options assessment to establish a foundation to assist stakeholder negotiations in corporate refinancing, restructuring and M&A situations
- **Accelerated M&A** capital raising, divestment, distressed acquisitions and structuring assistance in complex multi-stakeholder special situations
- **Contingency Planning** before and during complex restructurings, supporting with options analysis and "plan B" scenarios to drive a consensual deal or provide a bridge into insolvency
- **Formal Insolvency** where a consensual restructuring is not possible; we can provide assistance to debtors and creditors through formal corporate insolvency processes

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