

Addressing the financial impact of COVID-19

Scenario Assessment – Virtual Workshops

The number of new infections and deaths continues to rise rapidly and, as yet, there are no signs of COVID-19 being brought under control. Whilst the vast majority of infections and deaths have thus far occurred in China, concern is rising across the world that a global pandemic is upon us.

Business in China has been severely impacted. Shopping malls and restaurants are deserted, whilst travel and tourism revenues in China have collapsed. What has occurred in China is now being witnessed across Europe and, more concerningly, it is starting to impact our shores. The Australian Government has closed borders to foreigners and will likely harshen social distancing measures. This may force schools to close, offices to temporarily shut-down and non-essential stores to cease operating. The impact on all business within Australia will be severe, despite the Government's stimulus policies.

It is possible that COVID-19 may burn out as temperatures start to rise during Spring and into Summer in the northern hemisphere, but at this point nobody knows. It is therefore important that businesses are proactive in assessing their capability to withstand disruption from both an operational and a financial standpoint, and that they act decisively to mitigate actual or potential issues.

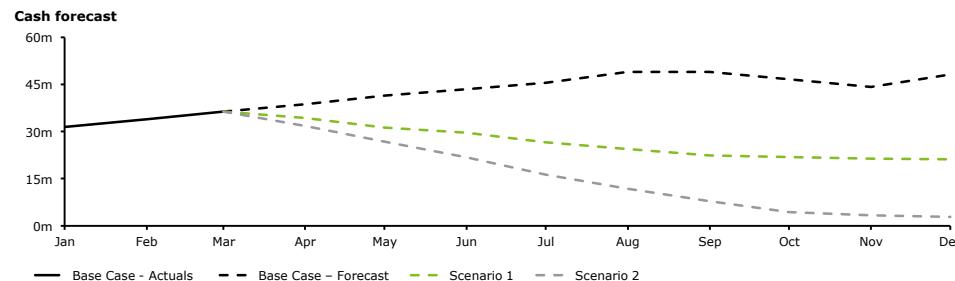
Virtual workshops

A six hour investment to help our clients rapidly develop high-level scenarios and response plans to a COVID economy – combining client information, high-level scenario modelling and opportunity planning. Each workshop aims to answer the following questions:

- What are the financial implications for our business?
- What scenarios might play out?
- What are the timeframes for these scenarios?
- What operational and financial levers can we pull to respond and mitigate risk?
- Do we need access to capital? When? How much?
- How do we set ourselves up to thrive?



Scenario assessment



Assumptions

- Travel restrictions will impact customers, causing revenue to decrease by 50%.
- Employees have been given the opportunity to take a 10% pay cut and work one day less each fortnight.
- CAPEX has been reduced to zero for the period.
- Marketing expenditure has been decreased for the first 2 months and then increased to promote revenue growth.

Decreasing revenue

Increasing cash burn



Operational Measures

- Assess key trading terms and communicate with suppliers.
- Manage inventory levels to ensure working capital efficiencies.
- Reduce employees to 9 day fortnights.



Financial Measures

- Begin landlord negotiations to minimise fixed property costs.
- Regularly review financial forecasts.
- Reduce all unnecessary costs and CAPEX.



Capital Measures

- Review lending documents and understand the key terms, covenants and baskets of headroom.
- Seek out additional sources of capital early.



Thrive Opportunities

- Right-size costs of new business structure to remain efficient post COVID-19.
- Build positive community presence and corporate social responsibility.
- Purchase cheap land.

Your local contacts



Vaughan Strawbridge
Partner
Navigating Volatility & Distress
+61 2 9322 5539
vstrawbridge@deloitte.com.au



Richard Young
Partner
Value Creation Services
+61 2 9322 3748
richyoung@deloitte.com.au



Simon Gattorna
Partner
Value Creation Services
+61 2 8260 4995
sgattorna@deloitte.com.au



Anthony Cocco
Director
Value Creation Services
+61 2 9322 5744
antocco@deloitte.com.au