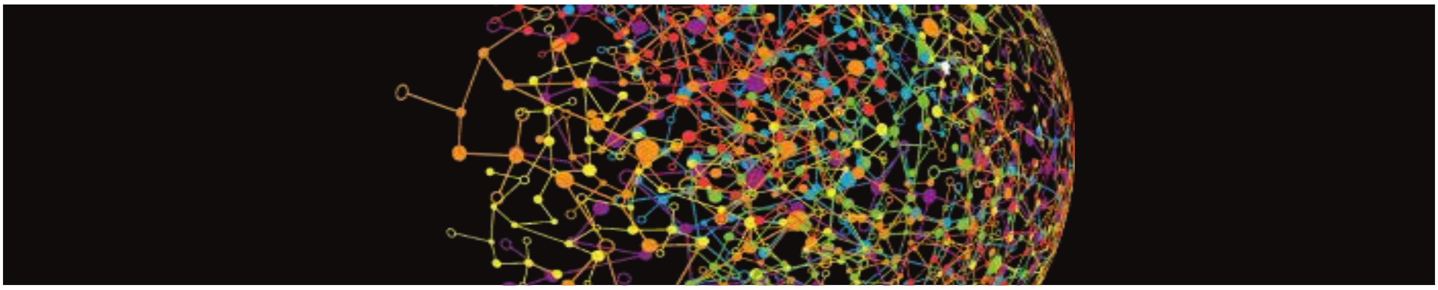

Addressing the financial impact of COVID-19

Liquidity | Government Loan Scheme

Executive Summary

The **government loan scheme ("Scheme")** is a welcome short-term relief to companies, as it provides a **standard agreement** that can be **quickly executed** and provides **quick** access to **liquid funds**. In addition, any outstanding loan amounts under the scheme **can be repaid at any time**, once the company sees itself in the position to do so.

The Scheme does however come with some **rigorous assurances** that **need to be provided** which, particularly for entities organised in a group structure may have further reaching implications. These should be considered when applying for such a loan, including **governance aspects for the duration of the loans**. In certain instances, it appears advisable to put processes and documentation in place to demonstrate compliance. Particular attention needs to be placed on the restrictions of the Scheme by **companies which are part of a group**.

Further guidance is expected to be published over the next weeks by the Swiss government as practical implications become clearer.

General considerations

The purpose of the Scheme is to provide liquidity to generally solvent companies to live through the COVID-19 situation. The relevant federal ordinance outlines a number of conditions under which the loans are granted. Certain assurances in respect to the financial situation of the company and governance commitments need to be given. Non-compliance or misrepresentation may have criminal consequences for the responsible individuals of the company. The following points are particularly relevant from our perspective:

Credit checks
- Under the **COVID-19 Loan Plus Scheme**, banks will perform **customary credit assessments** on the loan. Typically, this includes financial statements as well as forward **looking liquidity and financial plans** which, in our experience, should reflect the current market uncertainties. Banks may also request collateral for the non guaranteed portion of the loan.

Dividend restrictions
- **Dividends and certain other shareholder remunerations** are completely **prohibited** for the entire duration of the loan. Consideration needs to be given to how dividends already planned will be treated.

Capital investments
- The **funds** obtained under the loan **cannot be used** to finance capital **investments that are expansionary in nature**. In our experience, the differentiation between expansion and replacement investments is sometimes not that straight forward.

Insolvency
- The **company** has to confirm that it **is not in insolvency** or similar proceedings. In the context of the finalisation of the financial statements 2019 (general deadline 30 June 2020), it needs to be considered how the loan contributes to the liquidity outlook.

Secrecy release
- The company **discharges** the various **stakeholders** to the loan **from** the **secrecy obligations** towards each other until full repayment of the loan. This includes banking, tax and government authority secrecy. It is noteworthy that the guarantee agency providing the loan guarantee will be authorised to have direct access to company-related information held by third parties, including authorities, banks, accountants, tax advisors and, in general, any "third parties".

Compliance oversight
- We expect that adherence to the scheme rules will be increasingly monitored in the interest of the wider public. While guidance may not be clear in all areas yet, we expect **particular scrutiny on defaulting cases** for which the government guarantee is drawn.

Considerations for companies which are part of a group structure

External bank debt
- According to the explanatory notes to the Scheme, **external bank financing can** continue to **be served** and amortised as stipulated in the respective loan agreement in an ordinary way. However, **extraordinary repayments** and extraordinary interest payments have **to be avoided**.

Cash pooling
- The **funds** obtained under the loan **cannot become part of cash pooling** arrangements within a group. We believe that the ordinance and the explanatory notes on it leaves still a **number of uncertainties** on the treatment of these loans in the context of **cash pooling arrangements**.

Repayment of intercompany loans prohibited
- Repayment of any intercompany loans is prohibited for the duration of the loan. While also **cash pooling** arrangements **might be** considered **intercompany loans**, the company should seek clarity on the impact on existing financing arrangements in the group.

Lack of routine in preparing individual legal entity planning documentation
- Group companies may not have readily available **MIS information on legal entity level** and may lack routine in preparing financial plans on that level. Particularly for the **COVID-19 Loan Plus** we expect banks to **require full documentation** as part of the application process.

Number of applications and intercompany sales
- **Companies apply on an individual basis for the Scheme**. Currently, there seems no restriction in place so that each eligible group entity can apply. **No** reference is made to a **specific** treatment or **differentiation between third-party sales and intercompany sales** when determining the loan amount.

Restrictions may adversely impact group arrangements and flexibility
- Overall, the restrictions under the Scheme will **likely** result in **disruption of current group arrangements**. Companies which are part of a group might therefore want to consider restructuring certain group arrangements prior to applying for the Scheme and be bound by its restrictions thereafter.

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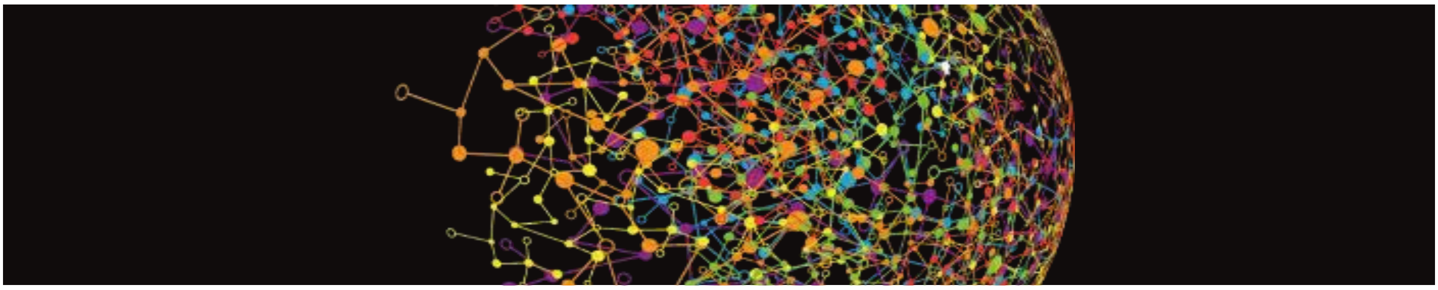

Loan Facilities

COVID-19 Loan:
- *Amounts up to CHF 0.5 million but not exceeding 10% of sales*
- *To be paid immediately by banks and 100% guaranteed by the government*
- *Interest rate of 0%*

COVID-19 Loan Plus:
- *Amounts in excess of CHF 0.5 million up to CHF 20 million not exceeding 10% of sales*
- *To receive 85% government guarantee and to require additional credit checks*
- *Interest rate of 0.5% for 85% of loan amount and individual bank rate for remaining 15%*

Key Facts of the COVID-19 government loan scheme

- The federal government announced up to CHF 20 billion in guaranteed loans to support companies facing liquidity issues resulting from COVID-19. Guarantees are provided by the existing guarantee agencies and backed by the federal government.
- Two main tranches: COVID-19 Loan up to CHF 0.5 million with 100% guarantee and COVID-19 Loan Plus from CHF 0.5 million to CHF 20 million with 85% guarantee. The latter involve standard credit assessments by the banks. Each case not to exceed 10% of company sales.
- The application period ends on 31 July 2020. The loans have a duration of 5 years but can be repaid earlier at any time.
- Companies have to provide a catalogue of assurances and commitments that are tied to the loans for the duration of repayment with potential criminal consequences in case of violations.

Eligibility

The COVID-19 government loan scheme is available to all sole proprietorships, partnerships and legal entities based in Switzerland that have not already applied to other COVID-19 support facilities (i.e. through special funds for sport and culture). The company must be registered in Switzerland and established before 1 March 2020. Company sales must be significantly impaired due to the COVID-19 pandemic and may not exceed CHF 500 million for the year of 2019. Companies must neither be in bankruptcy proceedings nor in liquidation.

Application Process

COVID-19 Loan:

Applying company
- Fill in government provided credit agreement form, this includes self-declaration of fulfilling requirements
- Send complete form to partnering bank

Bank
- Checks completeness of form
- Triggers payment of loan to applicant
- Forwards credit agreement to guarantee organization

Guarantee agency
- Provides guarantee for the loan to the bank (100% of loan amount)

COVID-19 Loan Plus:

Applying company
- Fill in government provided credit agreement form, this includes self-declaration of fulfilling requirements
- Send complete form to partnering bank

Bank
- Checks completeness of form
- Performs a standard credit check of the applicant
- Agrees bank interest rate with the applicant
- Forwards credit agreement to guarantee agency
- Triggers payment of loan to applicant once the guarantee is confirmed

Guarantee agency
- Provides guarantee for the loan to the bank (85% of loan amount)

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