



## Addressing the financial impact of COVID-19 Navigating Volatility & Distress

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. If measures against infection occurrence fail, there is risk that business in Europe will be severely impacted like in China. Shopping malls and restaurants are deserted, whilst travel and tourism revenues in China have collapsed and return of people to work from home etc. Moreover, as already proven, the global supply chains are being severely affected since closely interconnected to supplies from China. Some of automotive plants have already suspended production due to a lack of parts.

**Currently, there is hard to predict the development of the Covid-19 situation. 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.**



### Liquidity forecasting and headroom

- **Reforecast trading and cash flows.** Test and challenge all assumptions. Ensure trading and cash flow forecasts are integrated. Model a downside scenario to understand actual/potential needs.
- **Review cash flow forecasts.** Some businesses' cash flows are already being devastated as revenue evaporates. Review in detail cash flows for the next 3 months, and identify what mitigating actions can be taken to preserve cash in the short/medium term.
- **Review your lending documents.** Understand the key terms, covenants, baskets of headroom and flexibility in your banking and finance documents.
- **Remain in contact with key stakeholders.** Businesses should communicate regularly with key stakeholders including their lenders and investors in order to retain their confidence and support.

### In the event Covid-19 extends into medium term

- **Seek out additional sources of capital early.** Should cash flow forecasts suggest that liquidity is or will become an issue, assess options for raising funds including asset based financing, RCF, distressed M&A and alternative financing options (through our funds network) and also tapping the equity markets.
- **Keep plans and options actively under review.** Sustainable financing is an iterative process.

### Your local contacts



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### Working capital and supply chain

- **Working capital:** Working capital management is likely to be challenging:
  - Businesses impacted by lower demand may experience overstocking that could persist until production reduced or demand picks up.
  - Customers likely to delay payments to preserve cash, whilst affected suppliers may be desperate to be paid for shipped/ordered goods.
  - Non-impacted counterparties may offer early payment discounts or factoring opportunities.
- **Affected operations:** Assess ability of own affected operations in affected territories to continue production and supply. Make contingency plans for alternative supply in short and medium term as required.
- **Engage with critical suppliers.** Assess key trading terms and communicate regularly with critical suppliers to understand their ability to maintain and/or negotiate for continuity of supply.
- **Alternative suppliers.** Identify which of your key suppliers may be exposed and consider scenarios for supply being partly/fully restored. Make contingency plans for alternative suppliers as appropriate.
- **Customers:** Frequent engagement with customers at an executive level is key to manage expectations.



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### Impacted sectors

- **Business dependent on tourists:** Hotels, some Airlines, luxury goods Traders & Retailers.
- **Manufacturers dependent on parts from affected countries,** notably **Automotive and Technology.**
- **Oil & Gas and Mining & Metals** due to fall in both demand and commodity prices.
- **Exporters** who are strongly exposed to the international market.



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