

Valuation, Economics & Modeling

Addressing the impact of COVID-19





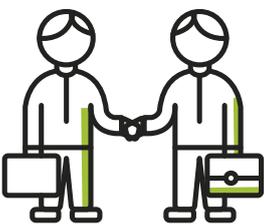
Global impact

- 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, creating uncertainty regarding how long this will influence the current business environment.
- Public policy measures put in place to contain the spread of COVID-19 are resulting in significant operational disruption for many companies. Staff quarantine, supply chain failures, orphaned/unavailable inventories, and sudden reductions in demand from customers are creating serious issues for companies across a far wider range of sectors than initially anticipated.
- Businesses around the world are being severely impacted. Shopping malls and restaurants are deserted; global travel and tourism revenues have collapsed; oil prices have dropped; while the risk of a new debt crisis is looming in the horizon.



Challenges...

- The severity of the financial impact will vary by industry, and will be highly dependent on the time it takes to get the situation under control, which at this point nobody knows.
- A number of companies now face weeks, if not months, of exceptionally poor trading conditions. For many, the revenue lost in this period represents a permanent loss rather than a timing difference and is putting sudden, unanticipated pressure on working capital lines and liquidity.
- As uncertainty rises, and the impacts to the business are more permanent, it is important that businesses are proactive in assessing their capability to withstand disruption, and the options they have to identify, and respond to, potential opportunities.



Requiring our support

- Companies are already challenged to use their capital effectively, particularly if that capital is trapped in underperforming businesses. The anticipated business disruption as a result of COVID-19 is expected to put more pressure on cash, with a need to deploy capital to protect core business operations.
- Some clients are able to maintain adequate liquidity by making unseasonal drawdowns on their Revolving Credit Facilities (RCFs). Others are finding that they need to approach their banks to arrange temporarily larger facilities or covenant resets/waivers.
- Lenders are going to be asked to provide additional support to borrowers through covenant relaxation and new money. In certain cases, the scale and urgency of the funding requirement will be substantial; hence lenders, both existing and new, will rapidly require information to make educated decisions and may need support through the negotiation process.

Focus areas



Liquidity management

Questions

How much money do we need? For how long?

Does this new funding affect the capital structure?

Where can we borrow from and at what terms?

Our services

- ✓ **Reforecast short-term (13 weeks) operating cash flows** – Revised assumptions, forecasts and scenario planning may be required to help prospective funders understand actual/potential financing needs.
- ✓ **Working capital planning** – Prospective funders expect you to improve cash flow by improving working capital and identifying ‘quick win’ self-help measures to deliver rapid, tangible cash flow benefits.
- ✓ **Analysis of the borrowing capacity** – including scenario analysis with impact on potential covenant breaches.
- ✓ **Valuation of assets** identified as potential sources of collateral or collaterals identified to be carved out to support new financing.



Scenario-based forecasting

Questions

What is the most plausible alternate future?

How does these affect your key business drivers?

How can you define the action plan for your business?

Our services

Using a top-down approach to identify potential scenarios for the key drivers of the business and then:

- ✓ **Prepare alternative budgets** – including financial forecasts on a monthly/quarterly basis for each scenario, used then in decision making process.
- ✓ **Monitor key indicators and perform stress tests** with the purpose of identifying if there are changes in the defined scenarios or in the action plans of the company
- ✓ **Reforecast, reforecast, and reforecast again.**



Financial reporting

Questions

How does the current economic situation impacts the valuation of your assets?

Our services

- ✓ Historically, declining stock prices triggered the testing of companies’ assets, especially goodwill and other intangible asset recognized in the balance sheet. The Financial Crisis of 2008–2009 provides a guidepost to how companies viewed impairment testing during periods of market volatility. Based on our analyses we expect a close correlation between declining stock prices and the amount of impairments to be recognized in the forthcoming periods.
- ✓ Given the uncertainty in the near and medium term, we consider alternative scenarios in the forecasting process and perform enhanced modeling in order to **test for impairment** the entire range of assets included in your balance sheet.



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