

COVID-19 checklist: Practical steps for the immediate, midterm, and long term

At this point, the COVID-19 pandemic is having a profound effect on societies, businesses, and economies around the world. And with its arrival, CFOs have no choice but to adapt to COVID-19's impact—often virtually and sometimes without the staff and resources they need.

As outlined in the last issue of *CFO Insights*, there are six imperatives for CFOs to consider in the midst of ongoing uncertainty, ranging from bolstering liquidity to virtualizing their organizations to driving operational improvements and managing risks. And in this edition, we outline some additional immediate, midterm, and long-term actions CFOs can take in areas they oversee—and offer a checklist for finance chiefs and their companies to consider as they plan to emerge from this crisis.

Financing and liquidity

*In this environment, **liquidity** and **cash flow** are paramount. CFOs should identify financial constraints that could endanger viability and consider alternatives.*

1. **Determine cash profile.** Estimate weeks of cash and undrawn funding lines available to fund the business based on current free cash flow profile.
2. **Model cash flow.** Review expected cash flow for the next three months in detail and identify potential mitigating actions that can be taken to preserve cash in the short and medium term.
3. **Shore up debt.** Estimate your ability to fund short-term maturities or rollovers; pre-fund longer-term maturities, where possible.
4. **Work with current financing partners.** Assess your current financing sources and actively engage with existing financing partners to seek waivers where necessary; understand if available lines of credit will remain open and what changes, if any, may be coming.
5. **Diversify financing sources.** Continue to nurture other financing relationships, such as banks you have approached, but not done business with yet. In addition, explore alternative lenders and markets.
6. **Assess the Coronavirus Aid, Relief, and Economic Security (CARES) Act.** Consider the implications of government relief programs on your current and future liquidity position. ➔

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- 7. Manage inventory closely.** Focus on the cash-to-cash conversion cycle; in these abnormal business circumstances, a coordinated focus on payables, receivables, and inventory can often be more important than focusing on profits and losses.
- 8. Consider additional cost cutting.** Revisit variable costs; reduce nonessential expenses.
- 9. Manage receivables.** Reset the receivables cycle, collections process, and key performance indicators (KPIs); conversely, if necessary, consider taking a larger float by extending payment terms to suppliers.
- 10. Leverage tax planning.** Consider tax planning to conserve cash in the nearer term, including repatriating cash from non-US jurisdictions, cash tax planning with respect to analyzing and filing refund claims, and accelerating deductions or deferring revenue. Assess CARES Act provisions for potential tax relief.
- 2. Identify critical bottlenecks.** Gain visibility into critical component supply at all tier levels, but particularly at the feeder Tier 2 level (note: some companies are having to evaluate their vendor's vendor [fourth party] as well as fifth-party vendors).
- 3. Prepare for long-term supplier disruption.** Create contingency plans for short-term, midterm, and long-term supplier disruption, particularly for suppliers of high importance (those critical to operations or the financial health of the company).
- 4. Create possible scenarios.** Perform supply-chain-specific scenario planning and wargaming, including impact to margins; leverage available technology tools and predictive analytics for this process.
- 5. Address the possibility of shortages.** Refine inventory strategy to address the potential risk of shortages; incorporate factors such as assessed supply base risk, cash flow, and perishability.
- 6. Locate backup suppliers.** Investigate the use of alternative materials and sources of supply.
- 7. Explore alternative operations.** Prepare for possible facility closures and the rerouting of operations; assess possible use of mobile units.
- 8. Repurpose inventory.** Review existing inventory, including old and obsolete inventory, and determine what can be repurposed; also examine A/B/C inventory segmentation.
- 9. Evaluate current contracts.** Assess risk of noncompliance of current contracts (financial, legal, operational, etc.); force majeure is an issue in the current environment.
- 10. Consider future investments.** Digital tools (e.g., cloud, cognitive, robotics) may enhance supply chain efficiency and resilience; assess what might work best in your organization and when it may be the appropriate time to invest.

Finance workforce well-being

*Finance and other functions are often not used to working remotely. In this environment, however, there may not be a **choice**. Technology platforms can be used to create a virtual campus and maintain collaboration—and this crisis may also present an opportunity for you to reimagine your **talent strategy**.*

- 1. Support virtualization.** Prepare finance to effectively operate and manage work remotely (if not doing so already); roll out the necessary technology tools to help keep teams engaged and productive in a virtual environment.
- 2. Minimize worker exposure.** If remote work is not possible in your business, implement practices to help keep workers safe, such as social distancing and wearing masks, that can allow on-site work to continue.
- 3. Track well-being.** Consider how you will track well-being, while observing HIPAA and other privacy rules; create redundancies and backup plans should critical employees get sick.



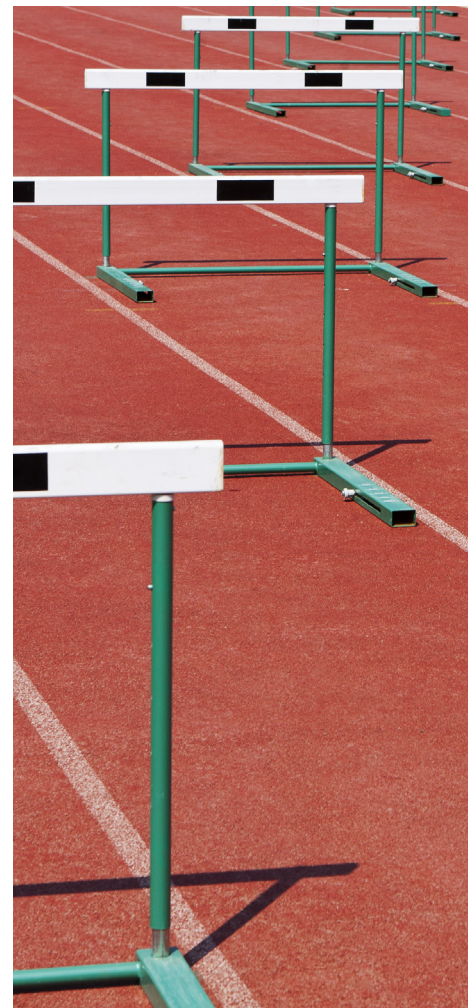
4. **Identify minimum staffing requirements.** Assess what—and who—is needed to meet minimum requirements (i.e., closing the books, meeting regulatory deadlines, assessing capital requirements).
5. **Secure critical IT funding and support.** Understand potential technology limitations; ensure IT support (e.g., password access, ability to skip parts of the workflow) should the crisis impact the ability of employees to complete key tasks.
6. **Train staff in new work processes.** Leverage training courses that cover key operational aspects of virtual work, including business development, work management, customer management, team management, and HR policies.
7. **Rethink authority for decision-making.** Convene key operating groups and develop working norms for rapid decision-making, especially given potential financial implications. For example, how will each line of business act if liquidity is a concern? What decision rights change under various circumstances? Should a competitor falter, who owns the decision-making in a potential M&A scenario?
8. **Maintain open communication.** Communicate with the finance team often, and provide accurate, authoritative information from reputable sources that addresses employees' concerns and promotes their ability to function.
9. **Lay the groundwork for return to work.** Prepare for the return of the workforce; convene teams to assess what is working in terms of workplace flexibility; develop plans to maintain desired behaviors.
10. **Prepare for the Future of Work.** Track the talent gaps (e.g., leaders who cannot handle rapid change; areas that require digital skills) that become evident in this environment; team with HR to develop plans to mitigate those gaps in the future.

Investor relations

The financial impact of the current crisis naturally raises concerns among investors. But organizations can help mitigate the ambiguity that erodes value by demonstrating to the investment community that leaders have an adaptive strategy and a plan to execute on it.

1. **Re-evaluate guidance.** Companies will have to decide whether to update, withdraw, or reaffirm their existing guidance, and Deloitte's experience indicates that many that have changed have decided to withdraw. But if guidance is revised instead, there's still a risk that an update may have to be changed or withdrawn at a future point. Companies should consult with legal counsel to explore whether guidance revisions or withdrawals increase legal risk.
2. **Assess additional disclosures.** Determine appropriate COVID-19 disclosures in current or future materials (e.g., proxy statement); assess if any additional actions trigger an SEC 8-K disclosure.
3. **Communicate potential impact.** While quantitative information may be unavailable, management can convey how the virus fallout is expected to affect sales, revenue, operating profit, and P&L. Some companies have already done so, expressing the potential COVID-19 impact in a range.
4. **Undertake scenario planning.** IR teams can undertake scenario planning to forecast potential impacts and associated consequences of areas of particular interest to investors, such as covenants.
5. **Coordinate with the crisis and resiliency teams.** CFOs can draw on the work of the crisis and resiliency teams to help build trust with investors. For example, management can demonstrate that its strategies to combat COVID-19 are fit for the purpose by linking gap assessment findings to current mitigation efforts.
6. **Go virtual.** Where possible, consider replacing in-person investor conferences with virtual presentations, webcasts, and conference calls.

7. **Conduct competitive analysis.** Monitor competitor disclosures related to COVID-19 to keep up-to-date with what others are disclosing.
8. **Stay the course.** Reiterating the company's long-term strategy can reassure investors that the stated vision remains intact. At its heart, the message should reflect a steady hand and assurance that when the crisis abates, the company plans to return to executing on its [investment thesis](#).
9. **Review communications to rating agencies.** In light of COVID-19's potential impact, reconsider communications to ratings agencies.
10. **Monitor activist activity.** Assess activist investor responses to the lower stock price environment; evaluate your company's vulnerability to activist investors.



The heart of resilient leadership: Responding to COVID-19*

The following excerpt is taken from Deloitte Global CEO Punit Renjen's recent article "The heart of resilient leadership", in which he describes the five fundamental qualities that successful leaders share as they guide their enterprises through the COVID-19 crisis.

The rapid global spread of COVID-19 has quickly eclipsed other recent epidemics in both size and scope. In addition to the deadly human toll and the disruption to millions of people's lives, the economic damage is already significant and far-reaching.

In the face of certain challenges and a still uncertain set of risks, business leaders are rightly concerned about how their companies will be affected and what they have to do next. In the heat of the moment, there are a number of lessons from history that can be applied now. Regardless of the extent of the virus's impact on an organization, we believe there are five fundamental qualities of resilient leadership that distinguish successful leaders as they guide their enterprises through the COVID-19 crisis:

1. **Design from the heart ... and the head.** In crisis, the hardest things can be the softest things. Resilient leaders are genuinely, sincerely empathetic, walking compassionately in the shoes of employees, customers, and their broader ecosystems. Yet, resilient leaders must simultaneously take a hard, rational line to protect financial performance from the invariable softness that accompanies such disruptions.
2. **Put the mission first.** Organizations in the middle of a crisis are faced with a flurry of urgent issues across what can seem like innumerable fronts. Resilient leaders are skilled at triage, able to stabilize their organizations to meet the crisis at hand while finding opportunities amid difficult constraints.
3. **Aim for speed over elegance.** Resilient leaders take decisive

action—with courage—based on imperfect information, knowing that expediency is essential. There will be many "known unknowns" in the weeks ahead. Collect as much proxy data as you can to inform your decisions so you're not flying blind.

4. **Own the narrative.** Resilient leaders seize the narrative at the outset, being transparent about current realities—including what they don't know—while also painting a compelling picture of the future that inspires others to persevere. In the absence of such a narrative, teams and stakeholders may start to fill the void with misinformation and assumptions.
5. **Embrace the long view.** Resilient leaders stay focused on the horizon, anticipating the new business models that are likely to emerge and sparking the innovations that will define tomorrow.

We believe that a typical crisis plays out over three time frames: respond, in which a company deals with the present situation and manages continuity; recover, during which a company learns and emerges stronger; and thrive, where the company prepares for and shapes the "next normal." Company leaders have the substantial and added responsibility to nimbly consider all three time frames concurrently and allocate resources accordingly.

Within the framework of these broad imperatives, resilient leaders can take specific tactical steps to elevate these qualities during the current crisis, blunting its impact and helping their organizations emerge stronger. With the right approach, this crisis can become an opportunity to move forward and create even more value and positive societal impact, rather than just bounce back to the status quo. Covid-19 is a crucible within which resilient leadership is refined.

*To read the expanded article, "The heart of resilient leadership," and other COVID-19 material, visit the dedicated [website](#) on [Deloitte.com](#).

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Financial reporting disclosures

*As the pandemic spreads, finance leaders need to balance uncertainty and transparency around certain key **financial reporting considerations**.*

1. **Assess future impact.** Forward-looking cash-flow estimates should reflect the uncertainty associated with the pandemic's trajectory, quantifying, where possible, its potential impact on areas such as human capital, supply chain, inventory levels, and production.
2. **Evaluate economic risks.** Similarly, risks associated with a sudden downturn should be absorbed into forward-looking estimates, even though they are dependent on unknown variables, such as the effectiveness of government assistance.
3. **Conduct impairment testing.** Finance leaders need to evaluate whether the impact of COVID-19 is significant enough to warrant establishing a new cost basis for long-lived assets, intangibles, and goodwill. If so, CFOs may need to conduct an interim impairment test.
4. **Revalue investments.** Any significant investments in equity securities and debt securities should be assessed in light of the pandemic's impact. Entities will need to carefully consider and apply the appropriate impairment and loss recognition guidance.

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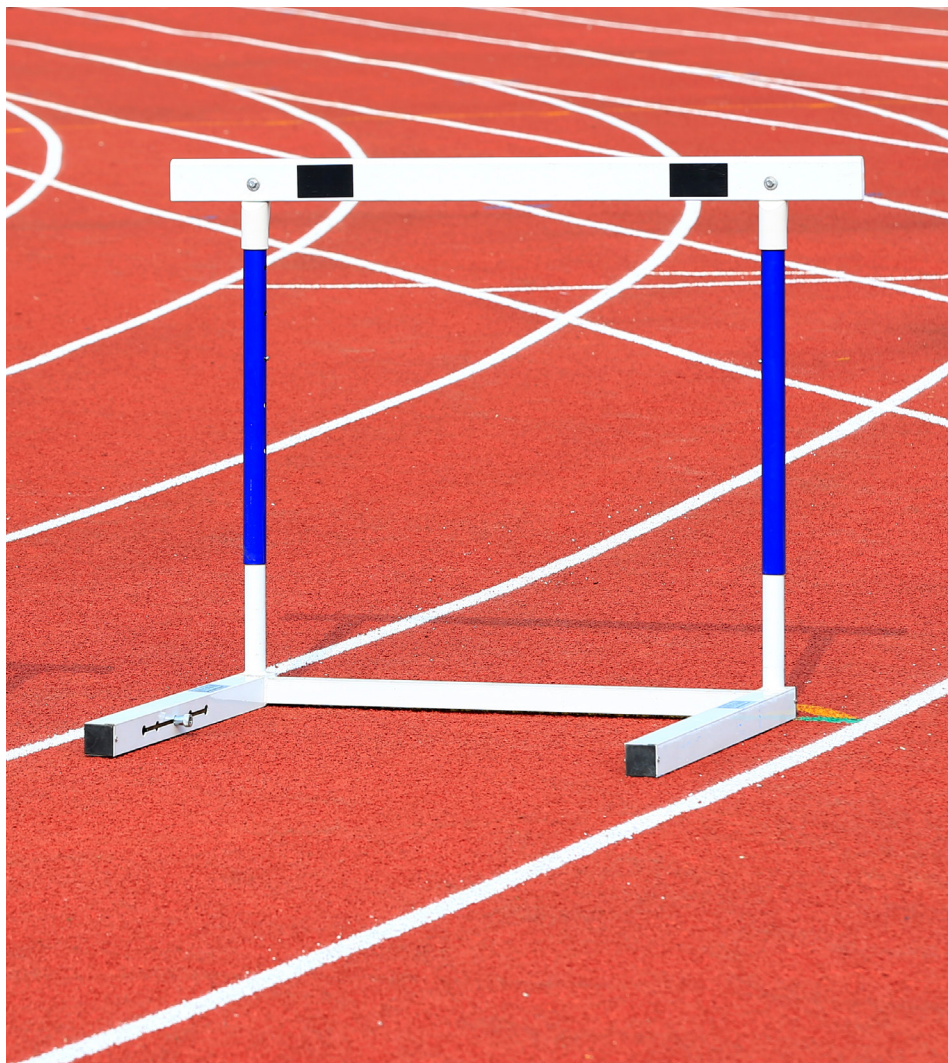
5. **Modify contracts.** For many entities, changes in economic activity will require renegotiating the terms of existing contracts and arrangements, including agreements with customers, compensation arrangements, leases, and the terms of many financial assets and liabilities. As a result, companies will need to ensure that the appropriate GAAP guidance is considered.
6. **Assess subsequent events disclosures.** Evaluating whether the pandemic's consequences represent subsequent events may be challenging in the current environment. All facts may not be known on the balance-sheet date, but as soon as they are gathered, an assessment must be based on conditions as they existed on the balance sheet date.
7. **Calculate ongoing viability.** As a result of COVID-19 and its associated effects, companies need to consider whether they have the ability to continue as a going concern within one year after the date on which the interim or annual financial statements are issued (or available to be issued, when applicable).
8. **Consider MD&A disclosure.** In addition to offering historical comparisons in the management discussion and analysis section, companies should also focus on known trends or uncertainties that have had, or that the registrant reasonably expects will have, a material impact on their financial condition, results of operations, or liquidity.
9. **Re-evaluate internal controls.** Companies should consider—and disclose—how their internal controls over financial reporting may be affected by COVID-19. Absences or closures, for example, may prevent management from having the information it needs to effectively operate controls.
10. **Monitor disclosure developments.** Finance leaders should stay abreast of disclosure developments at the SEC, which has issued guidance around such issues as [conducting annual meetings](#) in light of COVID-19 concerns.

This list is, of course, hardly definitive. For checklists covering several additional areas, please see Part B of this article in a future *CFO Insights*.

What is also far from definitive is how and when this crisis will end. Moreover, beyond the outbreak itself, the impact of governmental measures to combat the coronavirus's effect on economic activity—and corporate forecasts—remains to be seen.

Through it all, the overwhelming disruption caused by COVID-19 may be the ultimate test of resilient leadership (see sidebar, "The heart of resilient leadership"). Acting with far-from-perfect information, CFOs are guiding their organizations through a myriad of decisions in a host of areas, with significant implications for their stakeholders. Those finance leaders who can best exhibit clarity in decision-making—in everything from supply chain disruption to employee well-being—will inspire their organizations to persevere through this pandemic and position them to thrive whenever the current crisis subsides. ◀

*For more information on how CFOs and other C-suite executives can respond to the current crisis, visit the dedicated [COVID-19](#) site on Deloitte.com.



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