

COVID-19

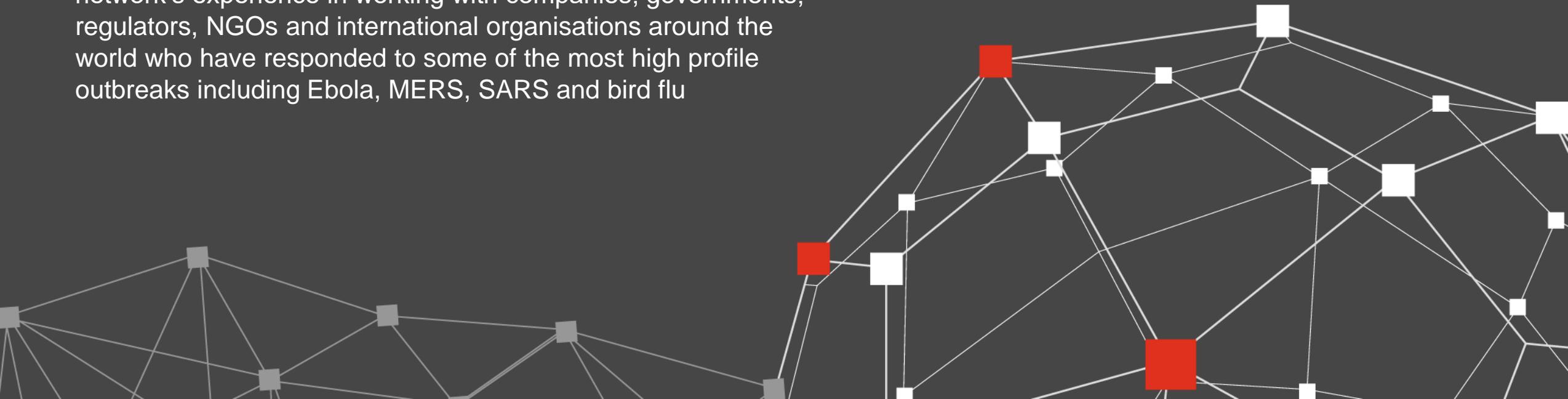
Managing your cash pressures



The COVID-19 is a global pandemic, which is continuing to cause a huge impact on people's lives, families and communities.

As the Government of Malta continues to develop assistance response measures, we know that organisations are facing potentially significant challenges to which they need to respond immediately.

As a PwC network, we have been working closely to understand how best to respond to this situation. We are sharing our network's experience in working with companies, governments, regulators, NGOs and international organisations around the world who have responded to some of the most high profile outbreaks including Ebola, MERS, SARS and bird flu



Managing your cash pressures

As the COVID-19 global response evolves, organisations are experiencing significant operational, financial and liquidity challenges.

In order to ensure these challenges can be addressed, the number one concern aired by our clients has been how they can **manage their cash pressures** to ride out the crisis.

Our Business Restructuring Services (BRS) practice provides support to clients in time sensitive and critical scenarios, consistent with the challenges that COVID-19 impacted businesses are now experiencing.



Common challenges and worries our clients are facing

- Unclear cash position and cash forecasts, resulting in an inability to identify any net funding shortfalls
- Developing robust contingency plans and 'what if' scenarios to model impacts (e.g. cash needs, changes in customer demand, failure in the supply chain, withdrawal of credit insurance, restriction on cross border payments, changes in regulation or other business shocks).
- Understanding FX risk, due to changes in supply chain or customer flows.
- Weak cash controls need to change so that those responsible for cash recognise that 'business as usual' principles no longer apply (e.g. ensure on-time customer payment or prioritising supplier payments align with business critical activities).
- Liquidity or FX management tools are withdrawn or become unavailable - such as bank accounts, facilities and derivatives.
- Difficult relationships with struggling customers who have liquidity issues/financial instability.
- Unclear who critical suppliers are, to continue your operational delivery.
- High invoice error rates to customers, causing delays in customer payments.
- Fragmented sales, production and cost planning - unable to assess current sales demand with adjusting production schedules and purchasing.
- Unable to assess options to defer existing purchases or forward orders, such as consequences if credit insurance cover is pulled.
- Responding to requests from other financial stakeholders where additional liquidity is being sought.

Managing your cash pressures

The following **three key steps** should be considered by management teams as they seek to stabilise their cash position:

- 1** Rapidly understand the current financial position
- 2** Take action to protect the position
- 3** Manage internal and external stakeholders

As part of this assessment, issues may be identified which highlight risks to going concern.

The Board of directors of such companies must ensure, now more than ever, that they abide by their duties and obligations. This might, in some cases, necessitate that proper advice is sought.

Our key considerations and experience at each of these stages have been detailed on the following pages.



Rapidly understand the financial position

Depending on the severity of the situation, an assessment of available and trapped cash may need to be made in a matter of weeks or even days. Responding quickly is essential

Cash

Assess potential short and medium term financial implications of COVID-19 focusing on liquidity and covenants.

Consider the following:

- Immediate 13 week short term cash flow forecast creation and/or review;
- Update business plans, budgets, forecasts;
- Identify potential worst-case scenarios;
- Perform sensitivity analysis, modelling worst-case scenarios and downsides, inclusive of the impact of FX on the cash position; and
- The capability or limitations of existing reporting tools and systems to allow real time reporting across multiple locations.

Funding flexibility/capacity

Review finance documentation and identify if there is:

- Flexibility on covenants, cures, force majeure or baskets;
- Additional borrowing capacity and unencumbered assets – inventory, receivables, intellectual property; and
- Scope to access government funding initiatives.

Contingency plans

- Update your financial position and resource planning analysis to assume staff sickness;
- Assess where and what levels of tactical cost reduction and cash conversion/stock liquidation could be undertaken, if required; and
- Develop operational contingency plans to minimise disruption to your business, inclusive of reviews of authorised personnel to manage bank and system processes and controls

Stakeholder management

- Review key supplier and customer contracts;
- Identify if there is contractual flexibility to amend payment and pricing terms (for both sides) and engage with suppliers/customers accordingly;
- Reassess payment priorities and consider time to pay arrangements;
- Consider the position of other key stakeholders eg shareholders, pension trustees, regulators credit insurers, credit card companies; and
- Check insurance policies for business interruption clauses.

We can help you take action to protect the position

Once clarity on the cash position has been obtained, the directors and management teams should take immediate action to ensure they can (at a minimum) maintain this position, alongside identifying opportunities to access new money, if required.



Implement **cash conservation** measures (e.g. cancelling non essential orders, shift rationalisation and 4 day working weeks) and **rapid optimisation of working capital** to preserve liquidity.



Seek **additional funding** support from existing lenders, **new funding** from alternative providers or opportunities to generate cash via **equity** release.



Obtain consent from lenders for short term **financial covenant waivers or relaxation** in anticipation of potential or forecast covenant breaches.



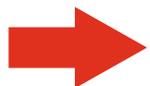
Implement rapid cost reduction plans based on the financial position; the severity of cost reduction levers and time execution will be dependent on available liquidity.



Consider whether liabilities and or cash can be accessed via a **managed exit** or **accelerated disposal** process of underperforming parts of the business



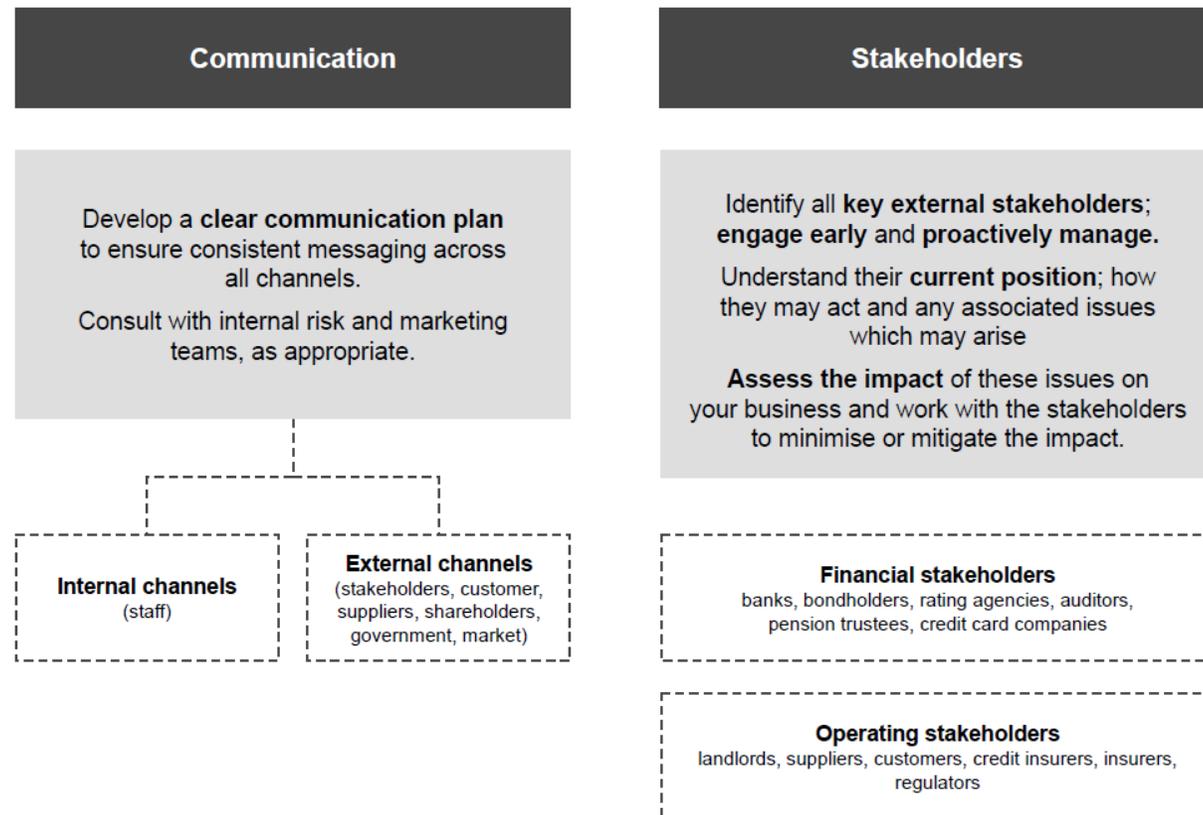
Set up a **programme management office** (PMO) to help ensure consistency in managing the impact of COVID-19 to enable rapid responses to dealing with the range of operational and financial issues as they arise.



Depending on the severity of the situation and size of the organisation, consider bringing in a **Chief Restructuring Officer** (CRO) to have responsibility for taking control of the cash position.

Manage internal and external stakeholders

Alongside stages 1 and 2, organisations will need to quickly understand who their key stakeholders are (internally and externally). Management of stakeholders can often be challenging in a stressed scenario, particularly where interests are conflicting and there are significant demands for real time information



Keeping directors duties front of mind

In the event of financial and liquidity stress, directors would need to adequately protect the interests of creditors.

In recent years, we have increasingly seen Directors duties being put under the spotlight and subject to public scrutiny in instances of financial stress, particularly in situations which lead to insolvency.

The ability of a company to avoid insolvency is not always immediately obvious and as a result, it is imperative that Directors fully understand their roles and responsibilities, and consider this when making critical business decisions.

Wrongful trading

When a director knew or ought to have known that a company could avoid being dissolved due to insolvency and the director failed to take every step which he ought to have taken in order to minimise the potential loss to the creditors. Wrongful trading exposes Directors to personal liability.

Fraudulent trading

Knowingly carrying on a company's business with the intent to defraud creditors i.e incurring credit that cannot be paid. Fraudulent trading imposes civil and criminal responsibility to Directors and is grounds for disqualification.

Financial and liquidity crisis often creates competing demands on the limited cash a company has available. Directors are often uncertain as to the right decisions to be making in the interests of the stakeholders. We have the experience and knowledge to support them. We recommend that Directors take the following steps:

1. **Seek professional advice** – we can provide Directors with immediate and ongoing advice on their responsibilities and exposure.
2. **Consider your financial position (see steps 1-3)** – Directors require a clear view of cash flow, alongside balance sheet position and trading performance. We can support the board in rapidly producing in depth financial reviews to identify key issues and mitigations. This analysis should be reviewed and updated on a frequent basis and used to inform trading decisions.
3. **Maintain evidence of decision making process** – ensure all material decisions and the associated considerations are documented in detail.
4. **Consider ceasing of trading** – in extreme circumstances where stakeholder support is not forthcoming, we can develop plans to help directors understand options available to minimise loss to creditors.

How we can help

Short-term cash flow review:

Creation or review of immediate 13 week short term cash flow forecast

Working capital management and optimisation

Creating and implementing initiatives to release working capital and create liquidity at pace

Financial risk analysis of the Company:

Devise an effective response as required

Treasury, FX and cash management advisory:

Key metrics and derivatives and identify opportunities to mitigate cash impacts

Rapid cost reduction and operational restructuring:

Assisting with cost reduction, cash generation, business planning & implementing rapid change

Scenario modelling:

Develop, sensitise and validate short term cash flow for a number of possible scenarios

Debt and Capital Advisory:

Help companies engage with financial institutions to raise debt for a range of business needs

Supply chain review:

Supporting to identify vulnerability and risk in supply chains which will adversely impact operations

M&A/managed exits:

Restructuring to maximise value through the sale of shares, businesses or assets in a short time frame

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Thank you

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