



How private companies
can reshape results
and plan for a
COVID-19 recovery



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How private companies can reshape results and plan for a COVID-19 recovery

As companies grapple with a black swan event, now is the time to focus on five key priorities that can help reshape results.

In 2007, Nassim Nicholas Taleb – a finance professor, writer and former Wall Street trader – wrote a book about what he termed “black swan” events. Taleb argued that black swan events are impossible to predict due to their extreme rarity. Yet they have catastrophic consequences. As a result, it was critical for companies to always assume that a black swan event was possible and to plan accordingly.

The World Health Organization (WHO) declared COVID-19 a public health emergency of international scale. COVID-19 has become a black swan event, one that is a human tragedy and impacting governments and businesses alike with unprecedented disruption and risks. It is a crisis that has profound implications for companies globally. From the complete or partial shutdown of factories, to supply chain disruptions, to labor shortages to cash flow stress, companies are feeling the business and financial shock of the COVID-19 outbreak.

As companies navigate the ongoing COVID-19 crisis, there are a number of key issues corporate leaders should be thinking about, as well as steps they can take to reshape their business and plan for recovery.

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Five ways to respond to the COVID-19 impact

As companies grapple with an ongoing and evolving situation, we have identified five priorities for them to consider.

1

Prioritize people safety and continuous engagement

Ensuring the safety and well-being of the employees in the workplace is essential. People are looking to their employer, community and government leaders for guidance. Addressing their concerns in an open and transparent manner will go a long way to engaging them and reassuring the business continuity.

One of the adjustments companies have to make is to initiate or expand flexible work arrangements and other policies that allow people to work remotely and safely. Depending on the sector, companies will want to reorganize teams, reallocate resources and establish employee well-being programs and policies that support a safe working environment. Additionally, companies will want to produce regular communications that align with current government and health authorities' policies to help employees remain engaged as they and the organization navigate the crisis.

Finding ways to reimagine a business-as-usual environment that minimizes disruptions for the organization requires a fine balance. Where telecommuting or flexible work arrangements aren't possible and companies must have workers on site or in direct contact with customers, it is important to provide infection protection measures.

2

Reshape strategy for business continuity

Most businesses are likely to experience significant disruption to their business-as-usual operations and will face business underperformance throughout the duration of the COVID-19 crisis. These companies will experience disruption to their supply chain and production commitments, as well as significant shifts in consumer demands and behavior impacting several sectors such as consumer and retail, manufacturing, life sciences and automotive.

To help address these challenges, companies will want to:

- ▶ **Evaluate short-term liquidity.** Companies will want to instill short-term cash flow monitoring discipline that allows them to predict cash flow pressures and intervene in a timely manner. They'll also want to maintain strict discipline on working capital, particularly around collecting receivables and managing inventory buildup. Additionally, it's important to be creative and proactively intervene to lighten the working capital cycle. Throughout the crisis, companies will want to maintain regular contact with suppliers to identify any potential risks.
- ▶ **Assess financial and operational risks and respond quickly.** Companies will need to monitor direct cost escalations and their impact on overall product margins, intervening and renegotiating, where necessary. Companies that are slow to react or unable to renegotiate new terms and conditions may be vulnerable to financial stress that could carry long-term implications. Just as companies need to monitor their in-house vulnerabilities, they also will need to monitor the pressures that may be impacting some of their customers, suppliers, contractors or alliance partners. In particular, companies will want

to stress-test any tier one and tier two suppliers that may be impacted. This is especially important for sectors such as automotive and pharmaceutical, which are highly dependent on third-party suppliers. Finally, be aware of covenant breaches with banking facilities and other financial institutions relating to impairment risks in asset values, which may impact the health of the overall balance sheet.

- ▶ **Consider debt modifications and loan covenants.** Companies may experience cash flow challenges as a result of disruptions in their operations, higher operating costs or lost revenues. They may need to obtain additional financing, amend the terms of existing debt agreements or obtain waivers if they no longer satisfy debt covenants.
- ▶ **Consider alternative supply chain options.** Companies that source parts or materials from suppliers in areas significantly impacted by COVID-19 will want to look for alternatives. Companies that have arrangements with agile manufacturing facilities to make spot buying decisions, or have loose contractual arrangements with various service providers and logistics providers, should consider the initial disruption as well as post-crisis scenarios given the potential for demand spikes.
- ▶ **Determine how the COVID-19 crisis affects budgets and business plans.** Companies will want to stress-test financial plans for multiple scenarios and increase the frequency of budget reviews to understand the potential impact on financial performance and assess how long the impact may continue. If the impact is material and former budget assumptions and business plans are no longer relevant, companies should revise them to remain agile. Where the business is significantly impacted, companies will need to consider minimum operating requirements, including key dependencies of workforce, vendors, location and technology. There is also the issue of short-term capital demands for continuous business operations. Based on the outcome of the assessment, companies may need to look at near-term capital raising,

debt refinancing or additional credit support from banks or investors, or policy supports from the government. At the same time, companies will need to review overall operating costs and consider slowing down or curtailing all non-essential expenses.

3

Communicate with relevant stakeholders

Clear, transparent and timely communications are necessary when creating a platform to reshape the business and to secure ongoing support from customers, employees, suppliers, creditors, investors and regulatory authorities.

- ▶ **Customers.** Companies will want to keep customers apprised of any impacts to product or service delivery. If contractual obligations cannot be met as a result of supplier or production disruption, it is important to maintain open lines of communication to revisit timelines or invoke “force majeure” or “act of God” clauses. Such proactive action will help to mitigate punitive damages or liabilities associated with disrupted customer obligations.
- ▶ **Employees.** For employees, communications plans should try to find the balance between caution and maintaining a business-as-usual mindset.
- ▶ **Suppliers.** Companies need to maintain regular contact with suppliers regarding their capability to deliver goods and services during the COVID-19 crisis and their recovery plans, so that the company can consider alternative supply chain options in a timely manner.

4

Maximize the use of government support policies

The Administration, Federal Reserve and Congress are rapidly developing new measures to address the economic challenges faced by industries, companies and employees.

Some of the measures already available include delayed tax payments, small business loans from the Small Business Association, tax credits for sick leave and family leave for companies under 500 employees, and other measures intended to ease the challenges created by COVID-19.

As new measures are developed, companies should work to track regulatory and legislative changes, analyze how the policies apply to their businesses, share economic concerns and policy proposals with your regulators and legislators, and communicate available new benefits to employees.

- ▶ **Creditors and investors.** Companies will want to review terms and conditions on loan contracts to identify sensitive debts and avoid vital technical debt breaches. These reviews will have the added benefit of giving companies a chance to proactively manage the dialogue and communications with creditors regarding any necessary amendments to existing terms or refinancing arrangements.
- ▶ **Government and regulators.** When communicating with relevant stakeholders, companies will want to consult with their legal teams for advice on potential liabilities and with their business units regarding how to manage communications around ongoing breaches and collection of proof, if any.

5

Build resilience in preparation for the new normal

Once companies have solidified strategies based on stress tests and communicated any new directions with relevant stakeholders, they will need to execute based on revised plans while monitoring what continues to be a fluid situation. Senior management should report any material deviation from the plan in a timely manner so that their companies can take additional action to avoid further negative impact.

Once the COVID-19 outbreak is controlled, companies will want to review and renew business continuity plans (BCPs). They'll want to assess how existing BCPs are working. If there are deficiencies, companies will want to identify root causes, whether they involve timeliness of action, lack of infrastructure, labor shortages, or external environment issues. Companies will then want to consider putting new internal guidelines in place based on lessons learned, as well as solid contingency plans to build resilience and better respond to future crises.

Plan for recovery now, not later

Although there are lessons to learn after the fact, companies should be making decisions during the crisis with recovery in mind.

As a black swan event, the COVID-19 crisis is impossible to predict with conventional wisdom and forecasting tools. However, there are many lessons companies can learn and carry forward once the crisis has passed and they've had a chance to analyze their response.

In the meantime, companies should be making decisions and taking actions during the crisis with recovery in mind. When the crisis is over, it will be clear which companies have the resilience and agility to reshape their business strategy to thrive in the future.

Longer term, companies will need to consider how robust their business, management team and initiatives were in facing the crisis. It will also be important to consider and reset the business assumptions that underpin the supply chain and other concentrations that many businesses have been exposed to over time.

One of the biggest lessons companies will learn when planning for recovery is the importance of their business relationships in the most affected areas. For example, as a market of approximately one and a half billion people and the world's second-largest economy, China remains relevant to any business that has global ambitions.

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