



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. Business in China has been severely impacted. Shopping malls and restaurants are deserted, whilst travel and tourism revenues in China have collapsed. The return to work after the Chinese New Year has been slow and people are being encouraged, where possible, to work from home. Moreover, as the outbreak and growth of Covid-19 has been centred around the key manufacturing hub of Wuhan, global supply chains are being severely affected. Automotive plants in Japan and Korea have already closed due to a lack of parts. You can't assemble a car with 99% of the parts. **It is possible that Covid-19 may burn out as temperatures start to rise during Spring and into Summer in the northern hemisphere, but at this point nobody knows. 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 Chinese demand may experience overstocking that could persist until production reduced or demand picks up.
 - Chinese customers likely to delay payments to preserve cash, whilst Chinese 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 China 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

- **China**
 - **Heavily impacted** (almost all sectors impacted): Airlines, Hotels, Restaurants, Hospitality, Retail, Manufacturers – particularly those with complex supply chains: Automotive, Technology etc.
- **Rest of Asia Pacific**
 - Exporters, specifically from Japan & Korea, with a significant exposure to the Chinese market.
 - Business dependent on Chinese tourists: Hotels, luxury goods retailers.
 - Transportation: Airlines, Cruise operators, Shipping companies.
 - Manufacturers dependent on parts from China, notably Automotive and Technology.
 - Oil & Gas and Mining & Metals due to fall in both demand and commodity prices.
 - Agriculture and related businesses, including Ports and Shipping and their working capital financiers.
 - Education: Dependent on Chinese students.
- **EMEA and Americas**
 - Business dependent on Chinese tourists: Hotels, some Airlines, luxury goods Traders & Retailers.
 - Manufacturers dependent on parts from China, notably Automotive and Technology.
 - Oil & Gas and Mining & Metals due to fall in both demand and commodity prices.



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