Deloitte.

Addressing the financial impact of COVID-19

Managed exit solutions

With equity markets sharply down, governments and central banks are taking emergency action. A significant number of profit downgrades have already been linked to COVID-19.

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.

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.

Corporates 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.

COVID-19 impact on organizations' longer term strategic direction

- Do you have non-core or underperforming operations? The economic shock from COVID-19 is likely to expose non-core operations to closer focus from stakeholders looking to protect the core business.
- Will COVID-19 have a long-term impact? While external shocks such as COVID-19 typically have a short to medium term impact, will there be longer term changes that impact your business?
- Has COVID-19 caused a significant shift in the strategic direction of the group, such that the group now has a non-core subsidiary? Already, commentators are asking if there will be a gradual move to reduce reliance on global supply chains, and whether a step change in digital operations will follow. COVID-19 will present opportunities for many organizations to strengthen and/or diversify.
- Is capital required to fund recovery/strengthening of the core business rather than funding losses of an underperforming group subsidiary? Businesses operating in sectors or geographies under threat face a challenge post COVID-19. With limited capital & investment appetite, there will be an increased focus on core rather than non-core operations.

Factors businesses should consider

- Stabilization: Review cash flows for the next three months, and identify what mitigating actions can be taken to preserve cash in the short/medium term.
- Medium term impact assessment: Should forecasts suggest that liquidity is or will become an issue, develop medium and longer term contingency plans.
- Portfolio review: Critically appraise your business operations (divisions & locations) to assess their relevance to your longer term strategy and the capital support required in a post COVID-19 world.
- Options analysis: For non-core operations and those that are likely to drain significant capital, critically appraise your options – would a sale or closure of a non-core business benefit the core operations?
- Plan: Pro-active plans to deal with financially challenged parts of your business can improve stakeholder and market support.
- Act decisively: Cash availability will be key, use it wisely and if needed make difficult decisions to protect your business.

Why is a focus on non-core businesses important?

- The pressure on boards is already coming from many angles as a result of disruptive M&A, a shift away from more traditional operations and/or markets, and more pressure than ever on shareholder value, in part driven by activist investors.
- Unusually, this is affecting well-capitalized companies which, absent COVID-19, would be trading profitably.
- COVID-19 adds more pressure and will bring increased stakeholder focus on the underlying performance and financial strength of the business, as well as management's ability to navigate business disruption.
- There will likely be scrutiny on management's ability to react quickly to challenges, develop robust contingency plans and mitigate any longer term risks to the underlying value of the business.
- Timing matters. When boards fail to act in a timely manner, the options and opportunities to manage risk and capture financial upsides are diminished. This is especially true when management is under pressure in a rapidly changing economic and political landscape.

For more information on how to respond, recover and thrive:

- Connect to Deloitte leaders www.deloitte.com/COVID-19-leaders
- Visit www.deloitte.com/COVID-19