



Addressing Financial Impact Of COVID-19

Supply Chain Disruption And Third Party Credit Risk

Complex cross-border supply chains and financing arrangements are a significant risk for many businesses globally:

- Failure of a critical supplier can have huge financial, operational, and reputational impact on a business. Corporates that place reliance on complex cross border value chains, just-in-time deliveries, and faster production schedules are particularly vulnerable to the impact of supply chain disruption.
- Two-thirds of Chinese businesses said COVID-19's biggest impact on their company will be the inability to service customers or clients. Production in some cases has more than halved.
- Of the Fortune 1000 companies, 938 have one or more tier-two suppliers with a presence in Wuhan.
- Industries, such as automotive, technology, and pharmaceutical, that have invested in lean production lines have been hardest hit by the manufacturing closures across China and, more recently, Italy.
- However, it may be the failure of a supplier deep within the supply chain that triggers a production crisis.
- Despite China now slowly ramping up its production lines, the full impact of delays in dispatching goods and the growing effect of COVID-19 on logistics globally is yet to be felt by many companies in EMEA and the Americas. Working capital levels will be distorted for months to come.

Key Considerations For Managing Third Party Credit Risk (1/2)

- **Assess supplier resilience.** Work with key suppliers and other third parties to ascertain the flexibility in their operational models, both their ability to continue to fulfil orders (logistics, workforce agility) and also their financial resilience.
- **Illuminate your supply chain.** Gain visibility over critical corporate suppliers as quickly as possible by mapping out supply chains for tier two and beyond.

Key Considerations For Managing Third Party Credit Risk (2/2)

- **Actively monitor financial data.** Engage in active monitoring of critical third parties by setting appropriate reporting KPIs and requesting access to management accounts. Use technology to harness operational and public data to provide risk intelligence.
- **Intervene where necessary.** Draw up or refine contingency plans in the event that covenants are likely to be breached and/or management accounts show deteriorating performance. Explore options specific to the situation, and action as required.

Where A Key Supplier Is At Risk Of Failure

- Deploy turnaround expertise to deliver rapid cash and EBITDA benefits for the supplier to stabilise the situation.
- Whether customers, suppliers or strategic partners, quickly assess financial viability issues, identify a preferred action plan and support effective engagement with stakeholders to minimise disruption across your supply chain.
- Solutions may range from working capital expertise, to on-site restructuring support, to fast track M&A, to secure continuity of supply.

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

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