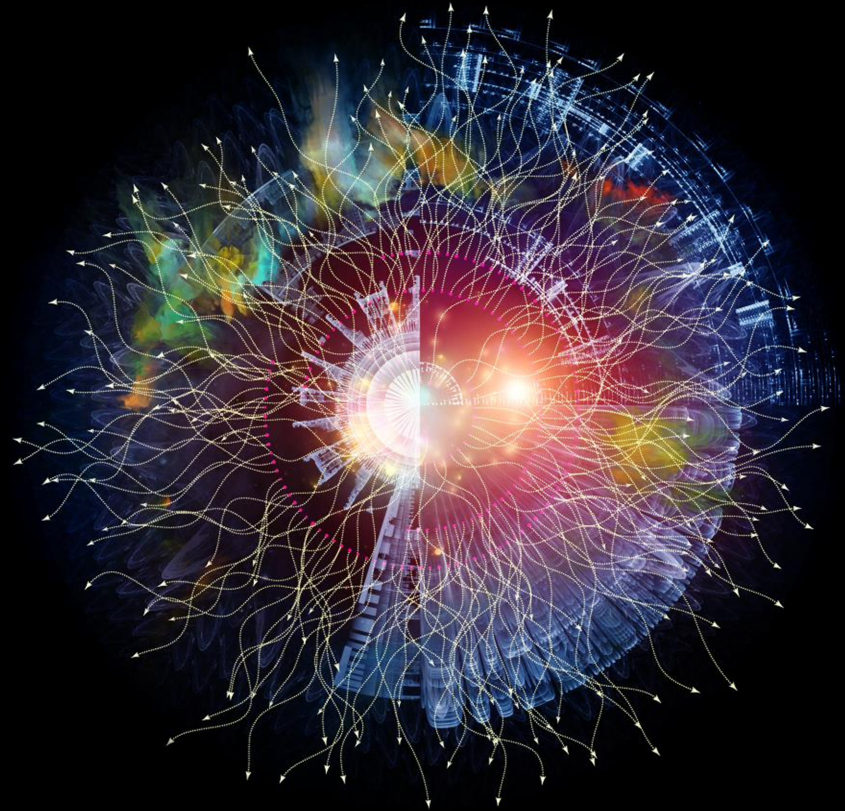
Deloitte.
Private



COVID-19

High Growth Companies Update

Practical Considerations for Founders, CEOs, CFOs of Private and Venture Backed Business

3 April 2020

MAKING AN IMPACT THAT MATTERS since 1845

Welcome

Today's agenda

Introducing our presenters

Matt Henderson
UK Deloitte Private High Growth Segment Lead Partner

Ryan Carey
Deloitte Private Tax Director, UK High Growth Companies Tax Lead

Chris Skinner
Partner, Deloitte Debt & Capital Advisory

Andrew Lilley
Partner and Head of Employment Law, Deloitte Legal

James Warwick
Employment Tax Partner, Global Employer Services

Dave Taylor
Deloitte Private Tax Associate Director, FinTech Indirect Tax Lead

Sector Update

Ryan Carey

Technology enabled businesses

What have we learnt so far?

The commercial response:

- MedTech - a number of critical NHS partnerships announced
- FinTech – use of Open Banking to provide better transaction analytics to lenders
- SaaS – resilient through March but concern B2B sales will become challenging

The regulators (predominantly FinTech)

- The PRA and FCA are beginning some “Q&A”. Initial focus on safeguarding client monies, balance sheet strength and business continuity

Technology enabled businesses

What have we learnt so far?

People & the workforce

- Remote working showing no immediate impact on culture but “fatigue” a concern.
- Cloud Technologies are working well - the move to remote has generally been better experienced than in the “older” and possibly less “tech enabled” private businesses.
- Job Retention Scheme is posing challenges. Firms just starting to access it. Fairness and equality a concern re cultural impact.
- Some evidence of exec pay cuts and a move to “non cash” reward.

Funding

- Many UK firms have moved to fully draw down term loans, overdrafts and other RCFs – this has put pressure on bank balance sheets.
- CBILS initially well received but capital release is slower than needed and lending criteria is a concern.
- Funding gap above CBILS may leave the high growth sector exposed.

Resources available

A summary of useful information available to businesses

Deloitte resources:

- Responding to COVID-19: Updates and practical steps (a series of weekly webinars chaired by Ian Stewart, Deloitte's Chief Economist).
- Government funding response to COVID-19 (a summary of UK and global funding programmes, updated daily. You can also register to receive automatic updates here).
- Tax Atlas COVID-19 Tax & Fiscal Measures (sign-up to a one-stop summary of proposed and enacted tax and fiscal measures announced globally).
- Combating COVID-19 with Resilience: How Tax departments can prepare now (Tax specific webcast in response to COVID-19. Part of a wider series of tax webcasts available here).
- COVID-19 – CHRO Virtual Forum (Webcast hosted by Deloitte's Chief HR Officer to discuss, amongst other matters, employment law aspects of recent measures introduced).

Other resources:

- OECD country-response tracker.

Government Financing

Chris Skinner

Responding to COVID-19: Government support available

Summary of schemes available

Business	People	Tax	Grants and other
Coronavirus Business Interruption Loan scheme	Coronavirus job retention scheme	Time to pay	Grant to support the elderly, vulnerable and self-isolating
COVID-19 Corporate Finance Facility	Statutory sick pay	Deferral of VAT	Self-employed Income Support Scheme (SEISS)
Insolvency legislation		Income Tax payment deferral	
Grants for retail, hospitality and leisure businesses			
Rates relief			
Support for businesses that pay little or no business rates			
Ban on evictions for commercial tenants			

CBILS

What is the CBILS scheme and how might I consider an application

Coronavirus Business Interruption Loan Scheme (CBILS)

- Currently established for businesses with a group turnover of **up to £45m**, the scheme opened on 23rd March 2020.
- The scheme allows for loans of between **£1,000 and £5m per** business.
- The first **12 months** of these loans will be **interest free**, as the Government will cover these payments.
- Finance terms are from three months up to 6 years for term loans and asset finance and up to three years for revolving facilities and invoice finance.
- The scheme provides a lender with a government-backed guarantee against 80% of the loan balance.
- Prospective borrowers will apply to an accredited lender as they would for any loan. **The borrower always remains 100% liable for the debt.**
- **The scheme is now open to ALL business** that meet the eligibility criteria – not just those that can't secure commercial financing.
- Personal guarantees are now prohibited for loans under £250,000. For loans over £250,000 personal guarantees are limited to 20% of amounts outstanding after recoveries of other assets and cannot be on principal homes.

Considerations in applying for the scheme

1 Eligibility

Assess your eligibility against the key criteria of the scheme

2 Funding requirement

Assess the funding required to support the business through the period of impact from Covid-19

3 Lender specific needs

Most companies are likely to access the scheme through their current lender, review their application process and any specific information you may need for your application

4 Application

Prepare your application:
For CBILs we anticipate specific emphasis on:

- Sustainability of the loan excluding the impact of Covid-19
- Demonstrating the loan will support the business through the short-to-medium term impact of Covid-19

CBILS

Items to consider when applying for CBILs (pg. 1 of 2)

CBILs example application considerations

- Specific information requirements and loan application process will vary based on the nature of the individual business and the processes of the lender approached. However we have put below some general considerations, based on our experience, of the key items a prospective borrower may need to demonstrate to their lender when applying for a CBILS loan.
- These will vary based on the size of business, scale of loan and nature of your existing banking relationship, as such this is intended as a guide only.

1. Eligibility

- Review your eligibility against the key criteria of the scheme:
  - The application must be for business purposes.
  - You must be a UK based SME with annual turnover up to £45m (N.B. this will be assessed on a group basis).
  - Your business must generate more than 50% of its turnover from trading.
  - Your CBILs facility must primarily be used to support trading in the UK.
  - The maximum loan value under the scheme is £5m.
- There are a small number of sectors that are ineligible, specifically:
  - Banks and building societies
  - Insurers and reinsurers (but not insurance brokers)
  - Public-sector organisations, including state-funded primary and secondary schools
  - Employer, professional, religious or political membership organisations
  - Trade unions

2. Funding Requirement

- Establish the funding requirement to support the business through the short-to-medium term impact of Covid-19
- The plan should consider all aspects of potential funding and liquidity for example:
  - Assessing terms with customers and suppliers
  - Eliminating discretionary spend
  - Review business critical payments – what costs are truly business critical in the current environment
  - Minimising capex
  - Review staffing including considering support available
  - Leverage all Government support available
  - Engage with all business stakeholders including (where applicable) equity holders on potential funding / support

3. Lender specific needs

- You can apply for the scheme through any of the c.40 accredited lenders listed on the British Business Bank website
- However, where you have an existing relationship with an accredited lender, this is likely to be the quickest route to accessing funding
- Review the CBILs guidance published on their website (most accredited lenders have now published details of what they are making available under the scheme and how to apply)
- Consider the information requirements and how you can fulfil them as specifically / directly as possible

CBILS

Items to consider when applying for CBILs (pg. 2 of 2)

CBILs example application considerations (continued)

4. Application		
What are you trying to prove to the lender	**Example information to consider including in you application**	**Key messages you are trying to convey to the lender**
1. **That you meet the CBILs eligibility criteria**	• Run through each of the loan criteria and provide evidence that you meet the criteria (in some instances this will be a statement of fact)	• The CBILS scheme is relevant for your business
2. **Were it not for the Covid-19 pandemic, the business and borrowing proposition would be viable.** • We expect lenders to assess financial strength / leverage capacity on the grounds of any commercial loan application – but on the basis of a pre-Covid-19 impact. i.e. Prior to 1st March 2020, including: • Assessment of historical financial performance (last three years, where available) • Review of business plans (pre Covid-19) impact • This would be used to assess the "normal" debt capacity of the Company absent the Covid-19 impact.	• Management accounts / LTM trading information prior to Covid-19 impact. Ideally last three years, P&L, cash flow and balance sheet • Forecast for 1 – 3 years (depending on info available) **EXCLUDING** the Covid-19 impact • Update on core business strategy and purpose • Summary of existing borrowings/ schedules of debt repayment/ net debt and asset base that may be considered for security purposes	• Demonstrate your proposed debt request would have been affordable / credible pre Covid-19 (in particular illustrating that interest and capital payments could be supported by cash flows) • Give a clear picture of the business model, strategy and strengths before Covid-19
3. **The provision of finance will enable the business to trade out of any short to medium term difficulty:** • We expect the element of the credit assessment will be on the amended business plan • The new business plan would include proposed funding and other levers / measures taken by the business to manage liquidity • Bar set is whether the bank reasonably believe that the finance will help the business trade-out of any short-to-medium term cash flow difficulty – based on the revised plan and actions being taken by management	• Overview of the impact of Covid-19 on the business model: • Income reduction, Operational challenges, Cash flow impact of customer difficulties (bad debt) • Sensitised plan showing impact of Covid-19 to include both P&L and cash flow for at least 18 months. Include all planned approaches to manage liquidity / mitigate impact on the business • All forecasts should be accompanied by a simple and transparent Assumptions table (Area/ Assumption/ P&L impact/ Cash flow impact) • Illustrate how the proposed loan would address any shortfall • Outline risk factors and proposed mitigations • The plan should go through to the point where the business is once more able to service the proposed additional debt	• Stress test your forecast to the extent possible to illustrate how the loan addresses any shortfall

CBILS

Resources

Resources available

- Please see below for a selection of resources to access further information on government support and the CBILS scheme

Institution	What's covered	Link
British Business Bank	Details of the scheme, including a list of approved lenders and FAQs covering key application and eligibility topics	https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/
UK Government	UK Government summary on support schemes available to businesses	https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses
Deloitte	Deloitte summary of UK Government measures and how to access – updated regularly	https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-government-funding-response.html?nc=1

Hot off the press…

Coronavirus **Large** Business Interruption Loan Scheme (CLBILS)

CLBILS – what has been announced

- New scheme for Companies with turnover of **£45-500m**
- Loans **of up to £25m** backed by 80% Government guarantee
- Loans backed by a guarantee under CLBILS will be offered at commercial rates of interest
- Further details of the scheme will be announced later this month
- Given the nature of the scheme we would anticipate this being administered by the banks and therefore shadowing a lot of the process and approach of CBILS, but this is yet to be confirmed

Reward and Employment Law

James Warwick & Andrew Lilley

Job Retention Scheme

What we know so far

The policy objective is to minimise job destruction

A grant designed to give employers up to 80% of an employees salary

Funding will be capped at £2,500/month but an additional amount will be paid to cover employers NI

It applies to UK employers who have a PAYE scheme on 28 February 2020

Employees need to be furloughed for a minimum of 3 weeks

Individuals off sick cannot switch to being furloughed

The government anticipate that employers may still need to make redundancies once the scheme ends

Employers will have to calculate the amounts themselves

Job Retention Scheme

Employer considerations

Start planning – what does this mean for your organisation? Will you now decide to furlough employees instead of putting them on reduced hours?

Keep accurate records – i.e. when someone stops working and when they start being furloughed.

Payroll – Payroll teams can start gathering data as employers will need to calculate the grant amounts.

Tax

Ryan Carey & Dave Taylor

Corporate tax

Increasing, utilising and maintaining cash reserves

Increasing cash reserves

- Expedited R&D claims and other claims (e.g. Capital Allowances)
  - The Government is seeking **to accelerate relief for R&D**. As of 24 March, HMRC were processing claims submitted by 19 February 2020

Utilising group cash reserves – groups looking to get cash on the right balance sheet

- Accessing regulatory capital – in regulated subsidiaries
- Repatriating funds from overseas subsidiaries – dividend or upstream loans
  - WHT consequences
  - Transfer pricing considerations for balances left outstanding
- Modifying / delaying settlement of inter company charges to keep cash where needed

Maintaining cash reserves

- HMRC **time to pay –** General theme is that HMRC are open for conversations on significant **deferrals of tax** (instalments over 3-12 months) for companies who can evidence cash flow issues
  - Contact HMRC's coronavirus helpline on 0800 024 1222
- Businesses should explore utilising unforeseen losses arising during this period, including options to move losses around the group or to carry them back to earlier periods

Share Incentives

Time to incentivise?

- Deferrals of cash pay are being considered. A few firms looking to replace cash pay with an equity incentive (can be structured "cash free" on grant)
- Valuations may support improved terms - generally the viability of many equity schemes are dependent on an increase in company value, a current fall in valuation could provide short term opportunity
- There may also be short windows of opportunity to access EMI (subject to £30m gross assets test)

VAT

COVID-19 priorities

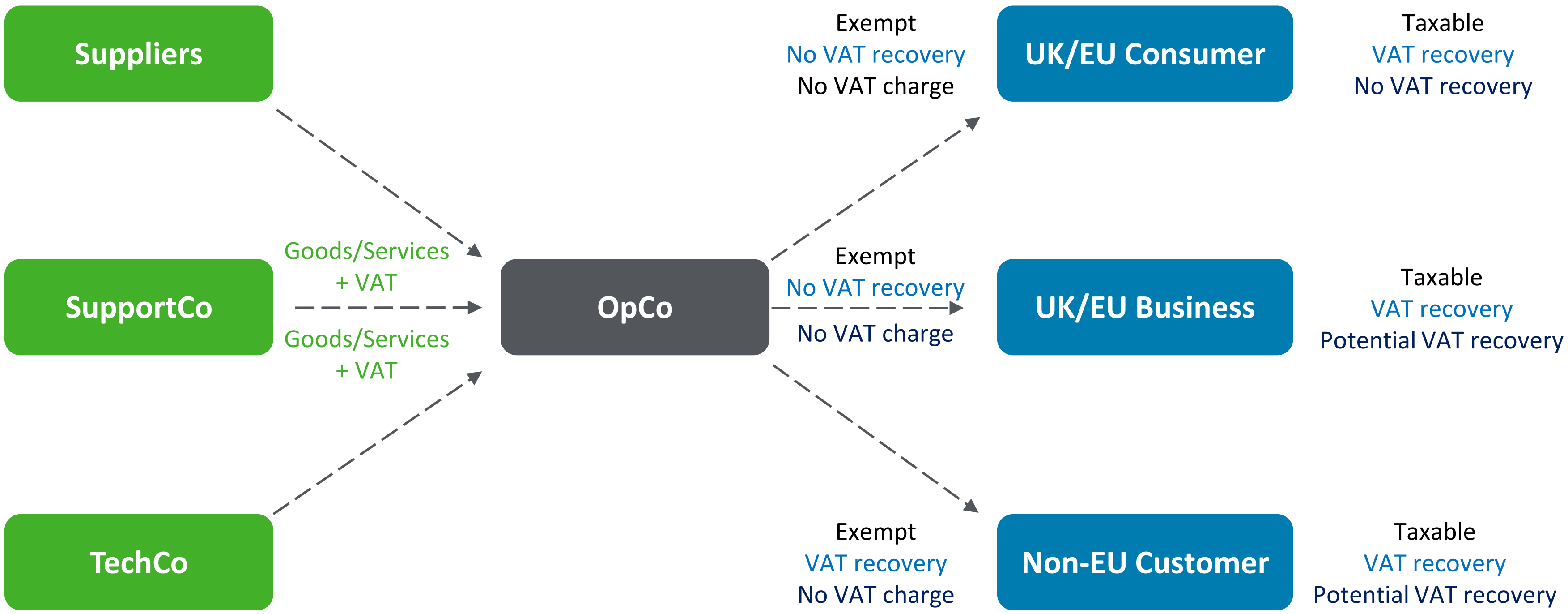
- VAT deferral programme
  - **Any UK VAT payment due between 20 March 2020 and 30 June 2020**
  - Includes Payments on Account and Annual VAT Accounting
  - Excludes MOSS and import VAT
  - Interest and penalties will not be charged on amounts deferred
  - VAT returns must continue to be submitted to HMRC on time
  - Deferred VAT must be paid by 31 March 2021
  - No requirement to inform HMRC
  - Direct Debits must be cancelled with banks directly
  - From 1 July, VAT due as normal (e.g. May VAT returns due for 7 July). At this point, Time To Pay arrangements should be considered if required

- VAT as a cash asset
  - Customer/supplier invoicing
  - Realising blocked VAT (employee expenses, AP errors)
  - VAT staggers
  - Import VAT deferral
  - Overseas VAT

VAT

Operating model considerations

- What are the liability of your supplies to customers? Is there an alternative model that might present a more commercial opportunity?
- How is your organisation structured? Are you creating VAT costs on supplies between connected companies?
- On what basis are you reclaiming input VAT? Is there an alternative method that might suit your business model better based on future intention?



Questions

Deloitte.