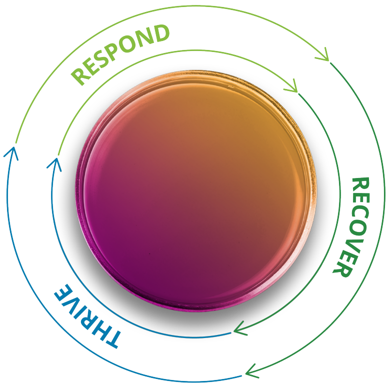

Addressing the financial impact of COVID-19

Considerations for lenders whose customers have stressed or distressed refinancing requirements

COVID-19 and the stay-at-home measures that governments had to implement to ensure the safety of their citizens, resulted in significant operational and financial disruption, including liquidity challenges, for many companies. Customer and employee quarantine, supply chain failures, stranded and/or unavailable inventory, and sudden customer demand reductions are creating serious issues for companies across a far wider range of sectors than initially anticipated. The revenue lost represents a permanent loss rather than a temporary difference and is placing sudden, unanticipated pressure on working capital lines and liquidity. Lenders will need to play an integral role in the short and medium-term as customers seek to arrange larger facilities, relax covenants, extend due dates and defer payments. Although lenders have risen to the occasion, the reality stands that lenders will need to critically assess each request on a case-by-case basis and the customers must therefore present a well-thought out and viable set of scenarios.

At a minimum, lenders should expect to receive:

The "ask": What type of financial relief is being requested and when is it needed by (e.g. payment deferrals, fee waivers, interest rate reductions, refinancing, new loan, covenant renegotiations)? Furthermore, who else is assisting? Have grants and government schemes been applied for? What injections are equity holders making?

Historical operating results: Borrowers should provide a summary of their financial operating results (3-5 years) with important commentary on key historical relationships and pre-COVID-19 challenges.

Business impact assessment: Plans presented should critically assess the impact of COVID-19 on sales, production and other aspects of the business. How are cash flows expected to service debt in the short and medium terms? Are COVID-19 breaches imminent? By when is a solution required?

Financial projections: Cash flow projections (3-5 years) will help quantify financing needs; help assess the borrowers' ability to repay funds; show how/when facilities will be repaid; and, determine whether borrowers are bankable under the proposed terms.

Borrowing capacity: What is the forecast revised debt service capacity and what existing or new collateral is available to support the total commitments (including third party debt)? Will additional security or guarantees be made available to the lender?

Other useful information for lenders

Financial model: An integrated financial model will be useful for sensitivity testing and scenario analysis.

Scenario analyses or stress tests: Better and worse case scenarios; and, outcome of 'What if the "ask" is denied?'

How Deloitte can assist…

- **Independent Advisor to lenders:** Review and assess borrowers' submissions.
- **Review borrowers' trading/cash flows**: Test, challenge key assumptions; assist with scenario modelling and cash flow forecasting.
- **Review borrowers' existing facilities**: Assess borrowing capacity and sufficiency of existing and new collateral.
- **Assist customers with financing proposal**: Assist with preparation of financing proposal in line with lenders' expectations.
- **Assess the loan portfolio**: Use analytical tools to critically assess potential vulnerabilities in the loan book to assist with proactive mitigation of pending risks.

Be proactive:
Approach key customers now. Follow up on large accounts or customers in distressed industries.

Monitor breaches:
Identify and address breaches of financial and reporting covenants, missed payments, excessive requests, etc.

Avoid unnecessary risk:
Concessions granted should be within prudent guidelines.

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