COVID-19: Key financing and cash considerations

COVID-19
14 April 2020

The COVID-19 outbreak is having far reaching implications for the global economy whilst organisations are experiencing significant operational and financial issues. It has never been more important to have clear visibility on liquidity, options to conserve cash and financing options. We have set out some key activities businesses should be considering during this period over the following pages.

Cash forecasting and cash conservation

Forecasting

- Immediate 13 week cash flow forecast development or review to understand current position
- Perform sensitivity analysis, modelling worst case scenarios and downsides
- Challenge input assumptions and if they are incorporating additional data sources e.g. WHO and Government guidance

Cash conservation

- Prevent the commitment to further expenditure across the business
- Challenge all uncommitted spend and the value it actually will deliver
- Immediately review all delegated authority spend levels
- Daily cash calls to challenge at a devolved level and hold business units accountable
- Consider offering early payment discounts to customers
- Assess trade off between delayed payment, service delivery and supplier relationships
- Move from a daily to weekly payment run
- Consider surge resources (internal/external) to support cash generation/preserving activities

Assessing covenants

- Assess headroom under COVID-19 downside scenarios and potential timing of any covenant pressure
- Review options vs. time available and consents needed – cure, waiver, reset, forbearance, deferral of test?
- Assess implications of any covenant default – cross financing defaults, audit going concern, market announcements, contractual defaults
- Dialogue with lenders – timing, lender information requirements
- Assess and monitor minimum liquidity covenant
- Review material adverse change (“MAC”) clauses and implications if lenders call a MAC

Minimising cost

- Challenge all uncommitted spend and the value it actually will deliver
- Build functions back up from a zero base, based on what the short term business needs are
- Eliminate or reduce all non-value add activity i.e. reduce cost through improved efficiency
- Consider temporary cuts that can be made to operations e.g mothballing
- Implement changes to employee T&Cs, reduced hours / temporary lay-off, notice to take leave

Financing options

- Draw down on existing unutilised facilities – understanding reps. and potential MAC implications of COVID-19, timing of drawdown and whether dialogue with lenders is needed
- Assess what uncommitted facilities exist – ability to utilise, risk of withdrawal, cross holdings
- Review baskets in debt documents for new money (if needed)
- Review flexibility for interest payments – change interest periods, PIK toggle
- Review flexibility on amortisation payments and timing
- Consider ability to finance existing assets – receivables, property, inventory etc
- Assess who may provide new money – existing lenders, alternative funding providers
- Consents needed to implement options
- Access to Govt. funding schemes (UK) – Time to Pay, COVID-19 Corporate Financing Facility, Coronavirus Business Interruption Loan Scheme, rates holiday, Job Retention Scheme

Managing financial stakeholders

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Directors' responsibilities

- Consider whether professional advice is needed, especially if there is a risk of insolvency
- Establish clear view of cash flow, alongside balance sheet position and trading performance
- Maintain evidence of decision making process – ensure all material decisions and the associated considerations are documented in detail
- Consider appropriateness to continue to trade

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Mitie Design RITM2884431 (04/20)