

**COVID-19: PREPARING FOR
THE NOW, THE NEXT AND
THE NEW NORMAL**

**THE NOW: A GUIDE TO DEALING
WITH DISRUPTION**

INTRODUCTION

As the coronavirus (COVID-19) continues to spread to communities around the world, individuals and businesses alike are grappling with the short-and long-term impacts of the pandemic on their socio-economic security. To maintain business continuity and resiliency in this time of uncertainty, companies must take proactive measures to deal with the immediate disruption and prepare for what the new normal will bring. Our strategic framework is designed to help companies navigate the critical financial and operational areas that need to be addressed and includes a roadmap of recommended priorities and considerations. This guide focuses on the NOW, immediate steps that should be taken to deal with the disruption; subsequent guides will focus on the path forward and how to use this crisis as an opportunity to transform your business.

COVID-19 CRISIS NAVIGATION FRAMEWORK



THE NOW: DEALING WITH DISRUPTION

As your management works to immediately stabilize the business, four key principles should guide your decision-making process in dealing with disruption:

1 LIQUIDITY MANAGEMENT

Launch an aggressive cash triage program focused on quick wins, including deferral of all non-critical spend and working capital optimization.

- ▶ Understand near-term liquidity position
- ▶ Optimize available credit
- ▶ Pursue incremental liquidity
- ▶ Optimize working capital

2 COST CONTROL

Adopt an operator's mindset that holds your team accountable for savings—bias should shift from growth mode to "fight for survival" mode.

- ▶ Optimize supply chain costs
- ▶ Manage workforce expense
- ▶ Minimize capex
- ▶ Control technology spend
- ▶ Rationalize strategic initiatives
- ▶ Address other SG&A expense

3 OPERATIONAL CONTINUITY

Establish a crisis management team to refresh your business plan for the current crisis environment while ensuring resiliency across sales, operations, and other essential functions.

- ▶ Protect revenue
- ▶ Reforecast and refine reporting
- ▶ Expand remote work capabilities
- ▶ Execute demand planning adjustments
- ▶ Stabilize supply chain
- ▶ Strengthen operational redundancies

4 STAKEHOLDER MANAGEMENT

Communicate and align with key stakeholders, as success or failure will ultimately be driven by how management chooses to lead.

- ▶ Align with sponsor and board
- ▶ Hold leadership accountable
- ▶ Engage with lenders/creditors
- ▶ Manage external communications
- ▶ Distribute internal communications
- ▶ Encourage employee connectivity

LIQUIDITY MANAGEMENT

Launch an aggressive cash triage program focused on quick wins, including deferral of all non-critical spend and working capital optimization.

UNDERSTAND NEAR-TERM LIQUIDITY POSITION

- ▶ Establish a Crisis Liquidity Team
- ▶ Build a 13-week cash forecasting model incorporating downside assumptions
- ▶ Conduct a customer risk assessment and stress-test the impact of slow-down in customer payments
- ▶ Determine opportunities to repatriate excess cash from foreign jurisdictions
- ▶ Analyze covenant headroom under existing credit agreements, including minimum liquidity requirements

OPTIMIZE AVAILABLE CREDIT

- ▶ Draw down available lines of credit to increase flexibility
- ▶ Determine ability to upsize existing credit facility via rapid lender outreach
- ▶ Leverage supplier financing programs

PURSUE INCREMENTAL LIQUIDITY

- ▶ Explore incremental financing alternatives including sale/leaseback arrangements, equipment financing, and A/R factoring arrangements
- ▶ Review business interruption insurance policies for applicable coverage
- ▶ Assess opportunities to leverage government sponsored programs
- ▶ Monetize non-core equipment and assets, such as owned vehicles, equipment, and other production fixtures, through auction or intermediaries

KEY CONSIDERATIONS

Assume cash runway is cut in half and access to capital markets is lost given significant level of uncertainty.

Largest customers may present AR collectability problems that require contingency planning.

Future borrowing capacity may be limited where lines of credit are asset-based.



Key lender relationships may present opportunity for short-term relief options given current environment.

Aggressively building your “war chest” should be a priority given uncertainty in the capital markets.



Maintaining balance in overall cost of capital is fundamental as it may be difficult to execute near-term infusion strategies at attractive cost.

Sale of non-core assets should be evaluated as a potential source of capital.



LIQUIDITY MANAGEMENT, CONTINUED

Launch an aggressive cash triage program focused on quick wins, including deferral of all non-critical spend and working capital optimization.

OPTIMIZE WORKING CAPITAL

- ▶ Conduct rapid review of purchasing agreements to identify immediate savings opportunities
- ▶ Analyze customer and supplier terms to identify “get cash now” opportunities
- ▶ Establish centralized controls over AP disbursements and consider end of accumulation period terms
- ▶ Conduct a customer risk assessment to quantify likely revenue deterioration and at-risk accounts receivable

KEY CONSIDERATIONS

Crisis position can drive mindset and behavior changes in collections and payables efforts.

Aggressively negotiate with major suppliers now in context of longer-term win-win arrangements.

Working capital KPIs should be prioritized to drive results and accountability.



COST CONTROL

Adopt an operator's mindset that holds your team accountable for savings—bias should shift from growth mode to "fight for survival" mode.

OPTIMIZE SUPPLY CHAIN COSTS

- ▶ Reduce safety stock levels at each stage of the manufacturing process and pressure test assumed levels to optimize inventory
- ▶ Identify opportunities for immediate vendor consolidation, including payment term concessions
- ▶ Revise optimum production levels and identify available logistics capacity
- ▶ Move to zero-based budgeting for contractors and service providers

MANAGE WORKFORCE EXPENSE

- ▶ Identify opportunities to reduce and variabilize all non-essential workforce expense
- ▶ Consider alternative workforce arrangements such as furloughs, part-time work, or rolling shifts
- ▶ Proactively develop a list of low performers based on performance evaluations to accelerate allocation of individuals to various workforce cost reduction options

MINIMIZE CAPEX

- ▶ Disaggregate capex based on criticality to operations and require CFO approval for discretionary capex
- ▶ Scale down capital maintenance program and associated outflows
- ▶ Assess opportunities to extend asset lives and reduce near-term growth capex

KEY CONSIDERATIONS

Consider slowing or halting production to accurately measure inventory, reconcile demand planning, and adjust production to optimal levels to reduce inventory investment and operating expense.



Supplier management programs to mitigate disruptions—including aggressive timelines to de-risk high supplier concentration—are central to cost-control success.

WARN Act must be considered when contemplating the expense and cash impact of workforce reductions.



If retention bonuses for top talent are necessary, alternative incentives, such as equity grants over cash awards, are preferable.

Eliminating or deferring capex investments may have customer, employee, and operational implications.



Assessing operational and customer risks that stem from reduced maintenance spend is critical.

COST CONTROL, CONTINUED

Adopt an operator's mindset that holds your team accountable for savings—bias should shift from growth mode to "fight for survival" mode.

CONTROL TECHNOLOGY SPEND

- ▶ Rationalize software licenses and reduce technology asset purchases
- ▶ Freeze investment spend on infrastructure enhancements, staff and projects
- ▶ Outsource or automate repetitive, high-touch processes
- ▶ Adopt cloud-based solutions where feasible to minimize owned facility and on-site dependence as well as providing elasticity in cost and scalability

RATIONALIZE STRATEGIC INITIATIVES

- ▶ Pause initiatives that are not directly generating near-term cash
- ▶ Revise management objectives to focus on the most critical cash-generation efforts
- ▶ Redeploy or eliminate internal project resourcing not tied to customer operations

ADDRESS OTHER SG&A EXPENSE

- ▶ Eliminate non-mission critical T&E and other overhead expense
- ▶ Negotiate rent reductions or alternative payment terms for any real estate
- ▶ Determine ability to recoup or avoid advertising and marketing expenses, including event spend
- ▶ Ensure optimization of utility expenses given shutdown of most offices

KEY CONSIDERATIONS

While large-scale cloud migrations take several months, migration of select non-critical workloads can be executed rapidly.



Third-party service providers may be engaged with little or no upfront cost in exchange for multi-year contracts.

Corporate initiatives may be taking the time of high-performers that should be reallocated to near-term operating and cash-flow management and improvement efforts.



Near-term benefits of SG&A savings may not always outweigh the incremental expense potentially required to reestablish the related services later.



OPERATIONAL CONTINUITY

Establish a crisis management team to refresh your business plan for the current crisis environment while ensuring resiliency across sales, operations, and other essential functions.

PROTECT REVENUE

- ▶ Analyze customer contracts to determine exposure if cancellations or deferrals occur
- ▶ Develop individualized retention strategies for key accounts
- ▶ Identify alternative demand opportunities and determine go-to-market approach

REFORECAST AND REFINE REPORTING

- ▶ Build driver-based financial forecasts, including conservative, moderate, and aggressive scenario planning
- ▶ Deploy war-time KPIs and reporting cadence
- ▶ Establish required system feeds and identify constraints

EXPAND REMOTE WORK CAPABILITIES

- ▶ Pressure-test remote work capabilities and impacted processes
- ▶ Assess remote accessibility, redundancy, capacity, and security protocols of key data
- ▶ Identify any technology or logistics gaps; leverage third parties as required

EXECUTE DEMAND PLANNING ADJUSTMENTS

- ▶ Model range of supply and demand variables to understand implications of sustained disruption
- ▶ Develop revised expense budgets with enhanced controls and thresholds
- ▶ Establish plan for 3-4 months of constrained demand while maintaining flexibility to address sharp increase as pandemic subsides

KEY CONSIDERATIONS

The largest accounts are often not the highest risk accounts, which is where retention efforts should be focused.



Products or services may need to be expanded or repositioned in order to capitalize on near-term opportunities.

Balancing repeatability of reporting against granularity of information is critical; metrics that require manual effort are not sustainable.



Enterprise-wide views of modeling and planning should be prioritized over functionally isolated lenses.

Key operational metrics may need to be adjusted to better understand and manage productivity.



Robust training on available tools and remote work best practices can increase productivity and efficiency.

A wide range of outcomes should be anticipated given significant level of uncertainty.



Integrating the planning process across FP&A and S&OP functions increases consistency in efforts.

OPERATIONAL CONTINUITY, CONTINUED

Establish a crisis management team to refresh your business plan for the current crisis environment while ensuring resiliency across sales, operations, and other essential functions.

STABILIZE SUPPLY CHAIN

- ▶ Conduct an operational impact assessment and establish SKU-level demand signals
- ▶ Estimate extent and duration of supply chain exposure within supplier tiers as well as inventory levels, considering multiple potential scenarios
- ▶ Coordinate contingency plans with additional vendors to address heightened disruptions
- ▶ Identify alternative routes for inbound supplies and outbound shipments

STRENGTHEN OPERATIONAL REDUNDANCIES

- ▶ Execute and revise business continuity plans based on current and worsening conditions
- ▶ Expand third-party contractor and outsourcing agreements to address near-term workforce disruptions, including on-site support
- ▶ Align on most critical near-term roles and assess succession options

KEY CONSIDERATIONS

After revising forecasts, be sure to identify critical parts and optimal locations to manage inventory.

Geographical diversification of supply base and reduction in vendor concentration are integral to stabilizing the supply chain.



Accelerating third-party onboarding protocols can further mitigate disruptions.

Minimizing overlap in individuals identified on succession plans maximizes operational efficiency.



STAKEHOLDER MANAGEMENT

Communicate and align with key stakeholders, as success or failure will ultimately be driven by how management chooses to lead.

ALIGN WITH SPONSOR AND BOARD

- ▶ Ensure Private Equity Sponsor and Board buy-in on planned actions, critical assumptions, and strategic initiatives
- ▶ Articulate accountability and incentives for management tied to specific outcomes
- ▶ Determine implications for any externally communicated targets or commitments

HOLD LEADERSHIP ACCOUNTABLE

- ▶ Assign a crisis management team leader, or chief transformation officer, to ensure coordination, manage initiatives, and drive accountability
- ▶ Define governance cadence to manage expected progress and impact of initiatives
- ▶ Assign each outcome or deliverable of key initiatives to a senior executive
- ▶ Cascade responsibility for operational priorities through management layers

ENGAGE WITH LENDERS/CREDITORS

- ▶ Refresh the strategic business plan to stress test compliance with all financial covenants
- ▶ Engage lenders to garner support for business plan and capital needs
- ▶ Proactively approach lenders to understand the short-term relief available under existing credit agreements
- ▶ Detail near-term “asks” of lenders/creditors to allow for the organized response and sequencing of discussions with key stakeholders

KEY CONSIDERATIONS

It is critical to understand and articulate near-term rationale as well as long-term implications of each proposed action.



Management incentives should strike a balance between near-term triage and overall long-term company health.

Receiving early buy-in of relevant functional business leaders on action plans significantly accelerates time to impact.



Pockets of disconnected departmental efforts can be avoided through clear communication of functional initiatives and consolidating leadership accountability.

Including covenant triggers within all financial models and establishing a frequent update cadence will accelerate risk identification.



Proactively engaging with key lenders can provide an understanding of their motivations and help identify allies.

STAKEHOLDER MANAGEMENT, CONTINUED

Communicate and align with key stakeholders, as success or failure will ultimately be driven by how management chooses to lead.

MANAGE EXTERNAL COMMUNICATIONS

- ▶ Distill policy changes and implications into communications tailored for each stakeholder group (e.g., sponsors, customers, vendors, employees)
- ▶ Proactively engage with most critical suppliers and customers, maintaining transparency about impact to demand and fulfillment capabilities
- ▶ Ensure all external communications are distributed through organization, especially sales and procurement

DISTRIBUTE INTERNAL COMMUNICATIONS

- ▶ Establish a crisis management communications team with assigned resourcing to develop and deploy key messaging
- ▶ Ensure each organization and location has a point person for upward and downward communications
- ▶ Leverage omni-channel communications including email, video, calls, text, and intranet

ENCOURAGE EMPLOYEE CONNECTIVITY

- ▶ Emphasize employee engagement as a core workstream of communications team
- ▶ Develop concise, simple messages communicating actions being taken, rationale, and tie-in to overall company strategy and objectives
- ▶ Ensure HR has capabilities and resourcing to effectively support the workforce through disruption
- ▶ Identify and develop resources that aid employees through crisis (e.g., teledoc, childcare services)
- ▶ Create alternative forums for employee engagement (e.g., virtual town halls, Microsoft Teams sites)

KEY CONSIDERATIONS

Anticipating questions by external parties about business performance allows for consistent messaging.

External parties are likely struggling with similar aspects of their business, which often creates an easier negotiating platform.

Certain communications are better sent from individuals vs at the company or executive level.



A central repository of cleared communications ensures consistency and ease of access.

Collecting communications feedback can allow for continuous improvement and tailoring.



Additional leadership engagement (e.g., C-level virtual town-halls) can reiterate the case for change and key messaging.

Communications should be appropriately empathetic with diversified content to highlight non-policy related topics (e.g., employee wellness, success stories).



HOW WE CAN HELP

With our deep industry expertise and experience guiding clients through stressful situations, our team is well-positioned to help you address the immediate disruption of COVID-19 by focusing on liquidity management, cost control, operational continuity, and stakeholder management. We will partner with you to assess and take immediate action, as well as provide the financial and operational resources you require to meet your business' most pressing needs.

1 RAPID RESPONSE

Help stabilize the business

- ▶ Fast-turn engagement led by a hands-on executive with a small, focused team
- ▶ Actionable analysis and plan focused on liquidity, cost reduction, operational continuity, and supply chain
- ▶ Improvements and recommendations made in real-time

2 STOPGAP SOLUTIONS

Provide critical interim resources or financial modeling expertise

INTERIM MANAGEMENT

- ▶ Crisis management and transformation office
- ▶ Turnaround and recovery management
- ▶ Interim CRO/CFO

BUSINESS CONTINUITY

- ▶ Close and audit support
- ▶ Financial and operational back-office transition
- ▶ Technology enablement

FINANCIAL MODELING

- ▶ Reforecasting
- ▶ 13-week cash flow
- ▶ Scenario analysis
- ▶ Financing and capital alternatives

For more information:

Reach out to your account lead or [contact us](#) for more information. For additional thought leadership related to the COVID-19 crisis, please visit our latest articles [here](#).

WHY PARTNER WITH US?



CRISIS MANAGEMENT EXPERIENCE

We have years of experience working with companies during periods of distress, transition, separation, and restructuring to deliver meaningful change that enhances business.



HANDS ON APPROACH

Beyond giving advice, we implement practical solutions that make an immediate impact while also looking ahead to prepare for lasting change.



AGILE TEAMS

We adapt our approach to meet our clients' dynamic needs, scaling teams throughout an engagement to stabilize, optimize, and help transform.



DEEP INDUSTRY EXPERTISE

Our teams are led by former operators, chief executives, and staff-level analysts from a broad range of industries. Our leaders can run everything ranging from hospitals, to automotive plants, to oilfield services companies.



BLENDING OF SKILLSETS

Our integrated teams bring a depth of knowledge and experience across finance, accounting, technology, operations, and M&A to achieve impactful results.