

ASK THE EXPERTS WEBINAR

*Financial Operations and Reporting in the
COVID-19 Crisis*

April 23, 2020

AGENDA

INTRO & REMINDERS

CASH FLOW DECISIONS AND YOUR
DATA

TECHNOLOGY'S ROLE IN THE NEW
NORMAL

FINANCIAL REPORTING
CONSIDERATIONS

Q&A AND CLOSE

PRESENTERS



Keith Bown

MANAGING DIRECTOR

Expertise: Management reporting and analysis, IPO readiness, business combinations, audit readiness, capital markets



Sasha Morozova

MANAGING DIRECTOR

Expertise : Carve-out and pro forma financial statements, business combination and divestiture matters, IPO readiness, GAAP change and conversions



Bill Maloney

EXECUTIVE MANAGING DIRECTOR

Expertise: Accounting for income taxes, revenue recognition, carve-out and pro forma financial statements for SEC filings



Drew Niehaus

MANAGING DIRECTOR

Expertise : Technical accounting, debt and equity transactions, business combinations, SEC reporting, SOX design



Jimmy Solis

MANAGING DIRECTOR

Expertise: Corporate performance management, Accounting and Finance system implementation, data management, forecasting, GAAP change and conversions

KEY REMINDERS

- ▶ Riveron webcasts – past and upcoming
- ▶ 4 polling questions must be answered to obtain CPE
- ▶ If you have questions, feel free to ask in Q&A option in Zoom
- ▶ Webinar evaluation form & CPE certificate will be emailed to you
- ▶ On demand video is not eligible for CPE
- ▶ You will receive a follow up email including:
 - ▶ Access to this webinar recording and deck
 - ▶ The ability to join our Webinars Mailing list to receive future invites
 - ▶ Presenter contact info

Polling Question # 1

What is your company's biggest area of focus related to cash flows monitoring and liquidity?

- A. Amending credit terms or seeking new financing
- B. Collection efforts on outstanding receivables
- C. Seeking government assistance
- D. Not applicable





CASH FLOW DECISIONS AND YOUR DATA

LIQUIDITY AND CASH FLOWS MONITORING

STRESS TEST ANALYSIS ON CASH, WORKING CAPITAL AND DEBT REQUIREMENTS

LIQUIDITY	WORKING CAPITAL	DEBT
<ul style="list-style-type: none">▶ Cash flow modeling (weekly or more frequent)<ul style="list-style-type: none">▶ Sources & uses of cash▶ Timing of recovery assumptions▶ Covenant sensitization▶ Adjustment of performance targets	<ul style="list-style-type: none">▶ Revenue and cost control<ul style="list-style-type: none">▶ Market demand impacts on customers▶ Daily tracking of receivables collections▶ Rent & mortgage concessions	<ul style="list-style-type: none">▶ Credit default trigger monitoring▶ "COVID" debt modifications▶ Debt issuance challenges▶ Auditor opinions and impairment and going concern assessments

ACTIONS DRIVEN BY CASH FLOW MONITORING

- ▶ Managing organizational uncertainty by outlining and communicating sustainability options.
- ▶ Daily cross-functional cash call to align on liquidity preservation actions
- ▶ Identify tactical working capital actions to improve cash flows:
 - ▶ Aggressively tracking collections of receivables and assessing probabilities of collection
 - ▶ Deferring or discounting payment terms / pricing relief with customer and suppliers
 - ▶ Draw down available LOC based on level of liquidity and shrinking cash flows
 - ▶ SG&A reduction considerations
- ▶ Negotiate payment relief on loans, leases, rent and other significant cash outflows

CARES ACT UPDATE: \$2+ TRILLION EMERGENCY AID BILL

SBA PAYCHECK PROTECTION PROGRAM

LOANS TO BUSINESSES

- ▶ Corporate loans and loan guarantees for large businesses
- ▶ Mid-size business loans
- ▶ SBA Programs
 - ▶ Paycheck Protection Program
 - ▶ Economic Injury Disaster
 - ▶ Payment deferrals on existing loans
- ▶ Non-profit, state and local credit

DIRECT RELIEF

- ▶ Household payments
- ▶ Unemployment insurance benefits
- ▶ Tax deadline deferrals
- ▶ Aid to states and localities
- ▶ Aid to hospitals and health care providers
- ▶ Airlines, cargo carriers

SUPPLEMENTAL

- ▶ Public transit
- ▶ Healthcare funding

CARES Act continues to take different forms - e.g., grants, loans, regulatory relief, forbearance and is available to a broad range of recipients including businesses, individuals and government entities

NOTE: See further details of the PPP rules in our previous webinar materials located at:

<https://riveron.com/posts/webinar-cares-act-liquidity/>

SBA PAYCHECK PROTECTION PROGRAM UPDATE

SUMMARY

- ▶ Effective April 3, 2020 and ending on June 30, 2020 (subject to available funding) eligible small businesses, non-profits and individuals operating as sole proprietors or independent contractors in existence with payroll since at least February 15, 2020 are eligible to receive a Paycheck Protection Program (“PPP”) loan from approved commercial banks if:
 - ▶ Generally less than 500 employees (including full-time, part-time or other basis) or meets existing 7(a) size eligibility rules
 - ▶ Considered hospitality and food service industries (NAICS Code 72), the employee count is measured per physical location
- ▶ Amount: The recipient is eligible for the **lesser of \$10 million or estimate of 2.5x average monthly payroll**, and loan payments can be deferred for six months to 1 year. Loans will be forgiven to the extent used for:
 - ▶ Payroll costs (broadly defined) during the 8 week period after loan origination
 - ▶ Loan forgiveness reduced to the extent employees are laid off or employee compensation cut more than 25% percent versus prior year
 - ▶ Other allowable costs during the 8 week period after loan origination:
 - ▶ Interest on mortgage debt and rent obligations
 - ▶ Utility payments (electricity, gas, water, transportation, telephone, internet)

NOTE: See further details of the PPP rules in our previous webinar materials located at:
<https://riveron.com/posts/webinar-cares-act-liquidity/> and
<https://riveron.com/posts/paycheck-protection-program/>

SBA PAYCHECK PROTECTION PROGRAM UPDATE

BANK PPP APPLICATION REVIEW CHECKLIST EXAMPLE

- ▶ Paycheck Protection Program Borrower Application Form 2483
- ▶ Complete payroll report for period starting 1/1/2020 and ending 2/29/2020
- ▶ Documentation that allows for the calculation of the average monthly payroll costs for the preceding calendar year. Examples include:
 - ▶ IRS Tax form 940, 941, 944
 - ▶ Complete year end 2019 payroll report
 - ▶ For sole proprietorship: Schedule C for 2019 or Profit and Loss
- ▶ Applicable BSA Requirements (anti money laundering considerations)
- ▶ Certificate of Good Standing (if expired the bank is not requiring an updated one so long as it was current as of 2019)
- ▶ Operating Agreement (If not available, all owners will be required to sign and provide driver's license)
- ▶ Articles of Incorporation
- ▶ Document average number of FTEs between 2/15/2019 and 6/30/2019
- ▶ Document average number of FTEs between 1/2/2020 and 2/29/2020
- ▶ PPP Loan Calculation worksheet (generally provided by bank) with cross reference to support

SBA PAYCHECK PROTECTION PROGRAM UPDATE

COMPLIANCE OVERSIGHT: PREPARING FOR LOAN FORGIVENESS

- ▶ Companies need to act fast to understand the SBA PPP rules and establish company technical positions, maintain documentation on fund allocation, usage and disbursements. Key areas of focus:
 - ▶ **Specialized rules** – Interpreting broad SBA rules. Example – for private equity fund (not hospitality or food service), proper assessment of small business definition (eligibility size) considering affiliation rules to determine aggregation and number of employees and income
 - ▶ **Tracking payroll** - Verification and monitoring of number of full time equivalent employees on payroll and pay rates including payroll tax filings reported to the IRS and state income, payroll, and unemployment insurance filings during the 8 week period
 - ▶ Allowable payroll costs do not include an individual employee’s salary and wages in excess of \$100,000 annually, employer side of FICA taxes and income taxes, and any employee’s compensation whose principal place of residence is outside the U.S
 - ▶ Tracking and excluding independent contractors (1099s vs W-2s)
 - ▶ Consider timing of payroll runs for clean cutoff to end the 8-week forgiveness period
 - ▶ **Tracking other allowable costs** - Be prepared to provide cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on mortgage obligations, rental payments and utilities (electricity, gas, water, transportation, telephone, internet)



TECHNOLOGY'S ROLE IN THE NEW NORMAL

ADJUSTING TO THE “NEW NORMAL”

	WORKING REMOTELY	ADJUSTING PROCESSES	GETTING THINGS DONE
What are others doing?	<ul style="list-style-type: none"> ▶ Leveraging remote work tools like MS Teams, Zoom, and WebEx ▶ Relying more on File Sharing technologies, like OneDrive ▶ Conducting virtual happy hours to stay close to their teams 	<ul style="list-style-type: none"> ▶ Changing meeting and touchpoint cadence ▶ Attempting to do more with less ▶ Emphasis on the top priorities as they change from week to week 	<ul style="list-style-type: none"> ▶ Adopting the use of Project Planning software ▶ Relying less on emails for communication and embracing chats and video conferencing ▶ Investing in new Technology
What is working?	<ul style="list-style-type: none"> ▶ Adoption and use of remote technologies has been quickly adopted and embraced ▶ Video conferencing increases sense of connectivity ▶ More interactions/communication leads to better morale and increased interactivity 	<ul style="list-style-type: none"> ▶ Increasing frequency touchpoints, meetings, and updates lead to increased productivity and focus ▶ Distributing workload across the entire team and cross training folks to ensure timely coverage ▶ Reprioritizing priorities at least once a week and communicating changes frequently 	<ul style="list-style-type: none"> ▶ Working more focused hours and minimizing distractions, which may mean shifting work schedule around a bit ▶ Setting up Agile project plans to manage critical initiatives ▶ Discussing impediments as soon as practical and coming up with collective strategies to address
What’s not working or still posing a challenge?	<ul style="list-style-type: none"> ▶ Continued reliance on email as primary communication tool ▶ Disruptions of services or provider outages; especially during peak hours <p>Weeks 1 - 2</p>	<ul style="list-style-type: none"> ▶ Some critical tasks are taking longer than expected to complete ▶ Heavy reliance on manual processes <p>Weeks 2 - 4</p>	<ul style="list-style-type: none"> ▶ Project coordination and completing tasks timely ▶ Working with an increased amount of data variety and unique data aggregations <p>Weeks 3 +</p>

GETTING MORE DONE – IN THE SHORT TERM

ADOPTING AND EMBRACING TECHNOLOGY CAN MAKE THINGS RUN SMOOTHER AND POSITIVELY IMPACT WORKER PRODUCTIVITY

- ▶ Look for Quick Win opportunities to improve overall efficiency. These “quick wins” can be as simple as eliminating non-critical steps in a process or re-distributing work loads
- ▶ Learn to use the technology at your disposal
 - ▶ Use Project Management software like Smartsheet and Microsoft Teams to facilitate team coordination, task management, and communication
 - ▶ Create standard reports and data extracts out of your existing systems and develop repeatable data processing steps to highlight potential issues sooner
 - ▶ Tools such as Alteryx can automate/streamline data processing that is manually intensive in Excel
- ▶ Stay vigilant and look for opportunities to eliminate non value-add activities

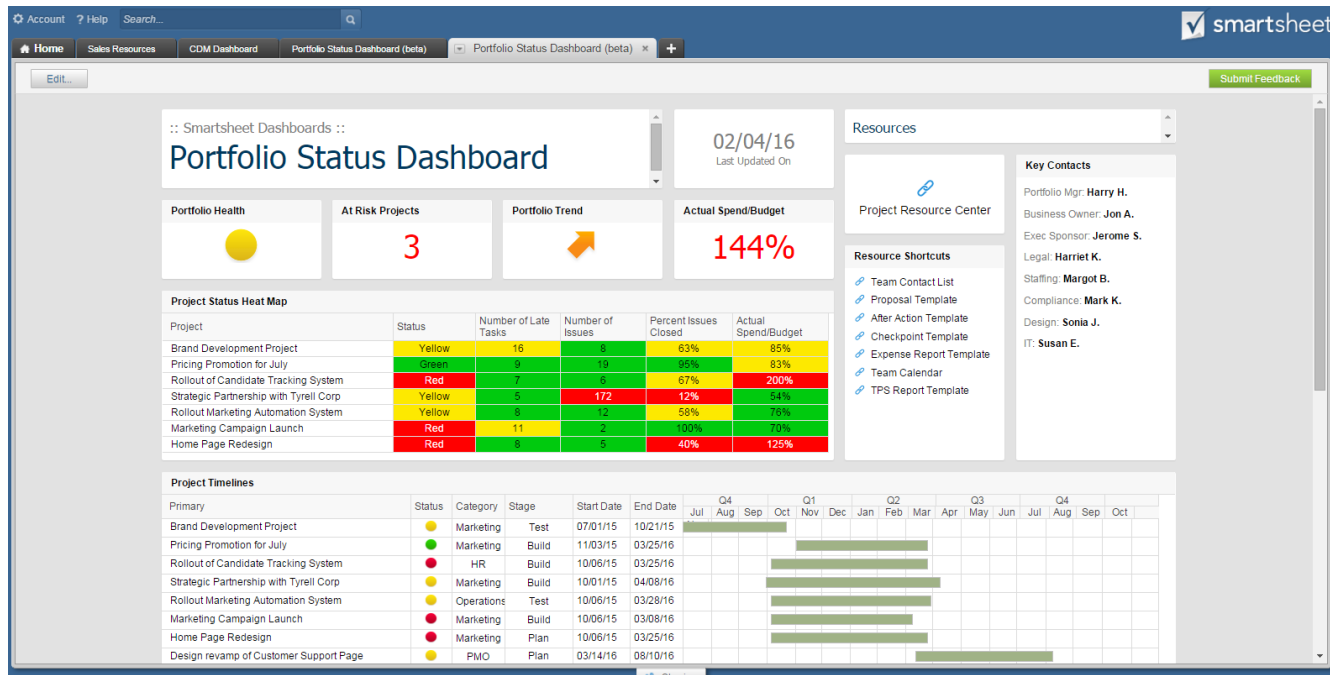
DON'T FORGET TO:

- ▶ Slow down and make note of the challenges impacting your organization; especially as it relates to processes, technology, and data

WHAT IS SMARTSHEET ?

INTRODUCTION

Smartsheet is a leading cloud-based platform for work execution, enabling teams and organizations to plan, capture, manage, automate, and report on work at scale, resulting in more efficient processes and better business outcomes.



EXAMPLE OF A LIVE DYNAMIC DASHBOARD CREATED FROM DATA SHEETS

Polling Question # 2

Which manual activity have you found yourself spending the most time on recently?

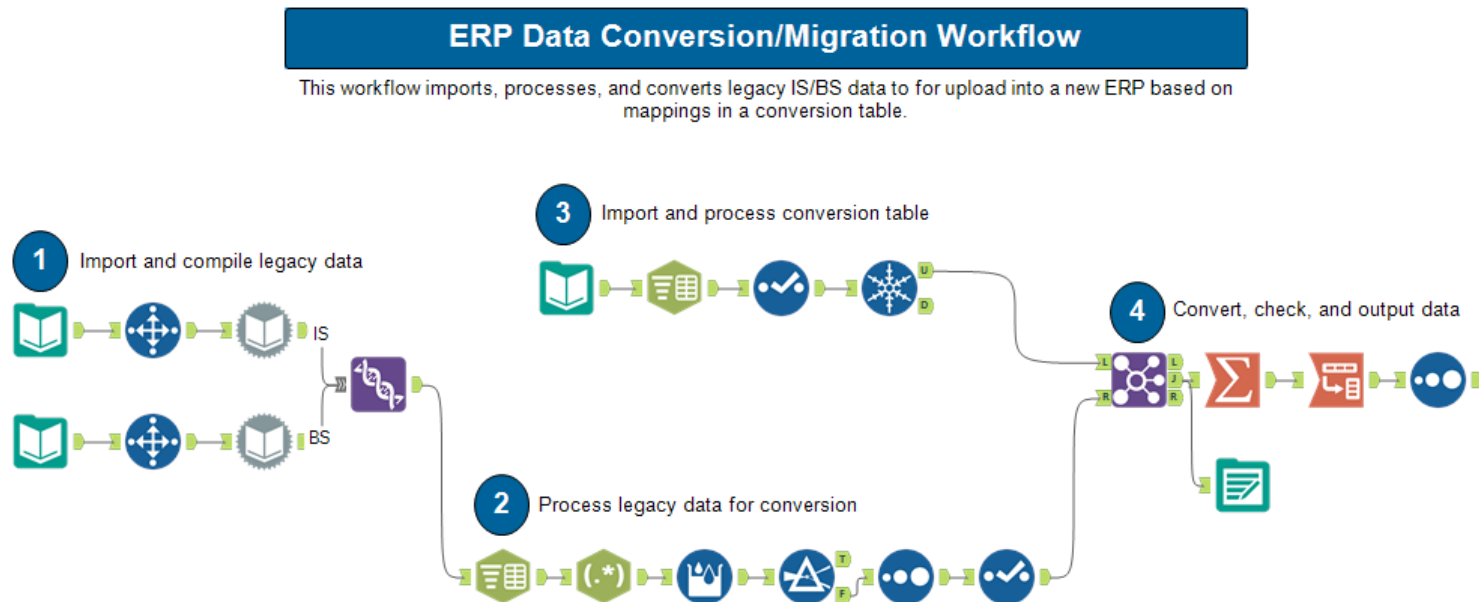
- A. Pulling together data from multiple sources
- B. Combining multiple spreadsheets into one
- C. Manipulating or formatting data
- D. Fixing errors in the data
- E. Researching data anomalies



WHAT IS ALTERYX ?

INTRODUCTION & PROCESS FLOW

- ▶ Alteryx is an analyst friendly ETL (Extract Transform & Load) tool with analytics capability to meet complex business requirements
- ▶ Using standardized data extracts, makes automating data processing with Alteryx simple and more repeatable



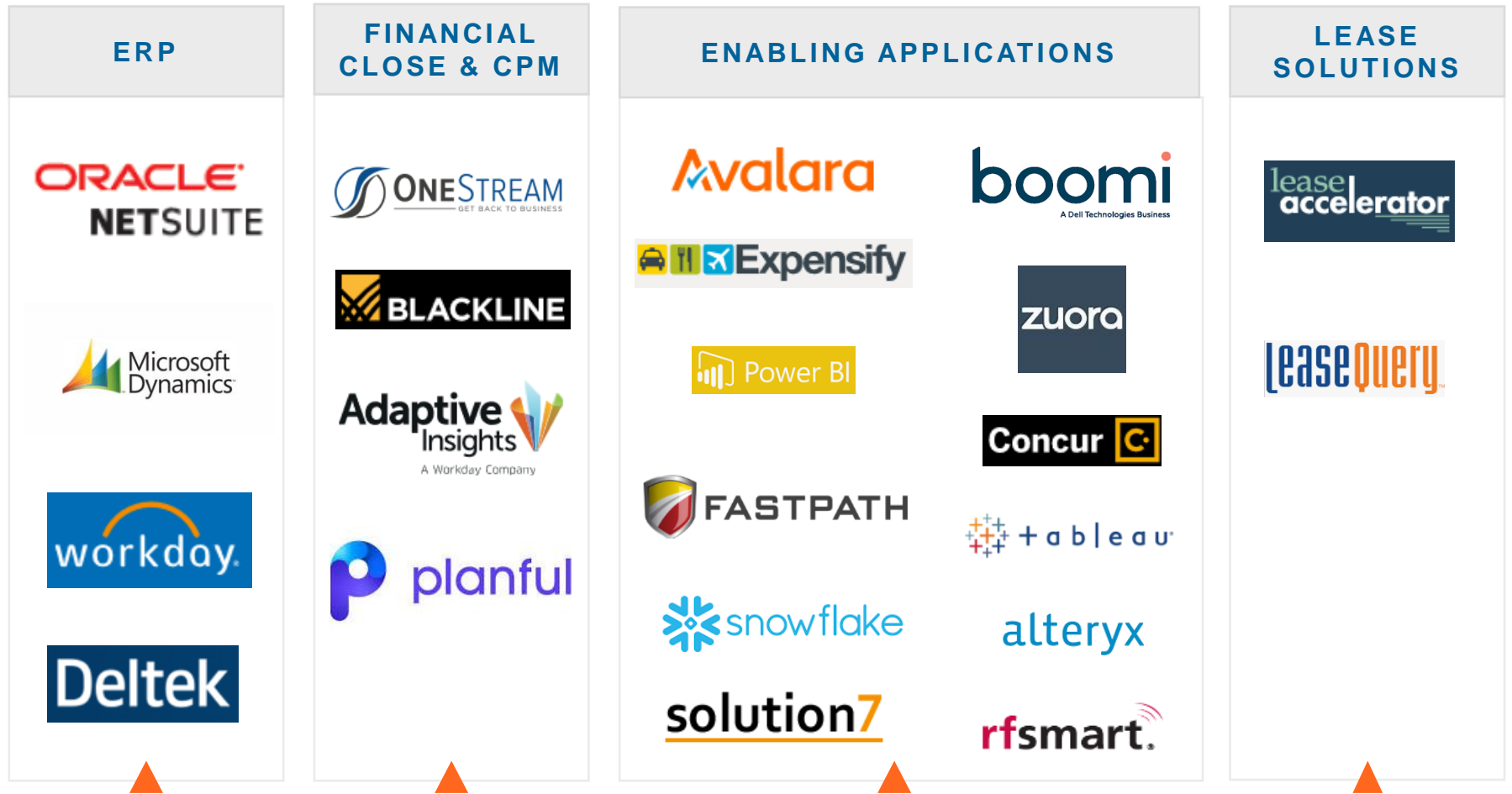
THIS IS THE WORKFLOW CANVAS IN ALTERYX WHERE DATA IS PROCESSED

GETTING MORE DONE – IN THE LONG TERM

FOCUSING ON THE “NOW” ADDRESSES IMMEDIATE PAIN POINTS BUT DOES NOT MITIGATE POTENTIAL RISKS OR RESOLVE FUNDAMENTAL ISSUES PERMANENTLY

- ▶ On occasion, review the complete list of documented Quick Wins and Challenges your organization faced during this pivotal moment in time
 - ▶ What lessons learned can be applied to rest of the organization?
 - ▶ What system and data challenges were experienced?
 - ▶ How easily was raw data turned into meaningful insights?
- ▶ Given the challenges you face, ask yourself are the systems and technology my organization uses hindering our ability to be more efficient/effective?
 - ▶ If so, start researching technology solutions that can help address your company's needs. To maximize your ROI, prioritize platforms that can address multiple pain points/needs.
 - ▶ As an example, an Enterprise Performance Management platform like OneStream can automate key financial close processes like consolidations, reconciliations, and Journal Entry approvals while enhancing reporting and process visibility.

GETTING MORE DONE – WITH MODERN PLATFORMS





FINANCIAL REPORTING CONSIDERATIONS

IMPAIRMENT CONSIDERATIONS BY ASSET TYPE

Asset Type	Considerations
Goodwill and Indefinite Lived Intangibles	<ul style="list-style-type: none">▶ The markets response to the COVID-19 pandemic is likely creating quantitative triggering events.▶ Assumptions used in goodwill impairment analysis should be consistent with those used in the impairment analysis related to all other assets.▶ Consider whether an indefinite life for intangibles continue to remain accurate
Long Lived Assets	<ul style="list-style-type: none">▶ The pandemic impacts may call into question a company's operating structure and ability to generate cashflow at the asset level, which will impact asset group determination.▶ If net carrying value < undiscounted cash flows, no impairment required even if the net carrying value exceeds the fair value.
Leases	<ul style="list-style-type: none">▶ An impairment triggering event may or may not also trigger a lease reassessment under ASC 842. A reassessment triggering event must be a significant event or change in circumstance within the lessee's control.
Inventory	<ul style="list-style-type: none">▶ Determining the appropriate time to write-down inventory▶ Documentation around the factors considered to determine timing of the write down
Accounts Receivable	<ul style="list-style-type: none">▶ Auditors will require robust analysis for Q1 2020 and beyond.▶ If an entity has adopted CECL, they should challenge assumptions used in their credit model(s) to determine if they need to be adjusted.▶ If an entity has not adopted the new CECL standard, ASC 310 guidance related to remeasurement should be followed.

IMPAIRMENTS: RECENT TRENDS

NAVIGATING IMPAIRMENT ASSESSMENTS IN COVID-19 ENVIRONMENT WILL REQUIRE SIGNIFICANT JUDGEMENTS AND ESTIMATES

- ▶ Absence of sufficient information- Not having enough information to make an estimate will not withstand SEC or auditor's scrutiny. Reasonable judgments and good faith estimates will have to be made.
- ▶ Control premium- The larger control premium percentage the greater level of documentation and support is needed to support it. Prior market transactions may not be a good benchmark to evaluate control premium in current environment.
- ▶ Fair value/valuation- Some industries may see a lag in impairment charges. Consider using multiple valuation techniques.
- ▶ Discount rate- Consider various probability-weighted scenarios to mitigate the increased risk and uncertainty.

Polling Question # 3

Which of your assets will most likely be at risk of impairment during current reporting cycle?

- A. Goodwill and other intangible assets
- B. Long-lived assets
- C. Inventory
- D. Accounts receivable
- E. None



GOING CONCERN

COMPANIES ARE REQUIRED TO ASSESS WHETHER THERE IS SUBSTANTIAL DOUBT ABOUT ITS ABILITY TO CONTINUE AS A GOING CONCERN

- ▶ This assessment is a complex task that likely involves the interaction of a variety of factors
- ▶ Given the unprecedented economic environment, not documenting an analysis would be an exceptional circumstance
- ▶ Increased area of focus of external auditors
- ▶ The methodology applied and precision required in the analysis will vary by circumstance.

What is the impact of these changes...	...on these liquidity factors
Supply chain disruption	Cash runway
Restructuring workforce	Debt covenants
Production stoppage	Refinancings and capital raises
Customer contract modifications	
Store closures	

GOING CONCERN

ENSURE THE GOING CONCERN ANALYSIS REFLECTS THE COMPLEX NEW REALITY

- ▶ Establish a base case, supported by specific assumptions and forecast drivers
- ▶ Document external data sources used to forecast macroeconomic assumptions
- ▶ Reference industry or business-specific reactions to specific change drivers
- ▶ Prepare a reconciliation of the forecast to most recent budget
- ▶ Prepare sensitivity analysis / evaluate multiple scenarios that could prove to become reality within the following 12 months
- ▶ Communicate base case assumptions across management teams

Key considerations

Credit profiles of significant customers	Likelihood of price drops
Granular read of debt covenants	Equity cures available from investors
Revised debt agreements / creditor's waiving right to collect	Governmental financial assistance

GOING CONCERN

PROPER DISCLOSURES SHOULD INCLUDE THE FOLLOWING WHEN IT IS PROBABLE THAT MANAGEMENT'S PLANS WILL MITIGATE THE CONDITIONS

- ▶ What are the conditions and circumstances that raised substantial doubt
- ▶ How does management consider the significance of each condition
- ▶ What are management's plans to alleviate and mitigate those conditions

DISCLOSURE OF MANAGEMENT'S PLANS SHOULD BE SUFFICIENTLY DETAILED AND CONSIDER BOTH THE ABILITY AND THE INTENT OF THE COMPANY TO EXECUTE

- ▶ Plans to dispose assets
- ▶ Plans to borrow money
- ▶ Plans to reduce or delay expenditures

If substantial doubt is not alleviated after implementation of management's plans, it is required to include a statement that there is substantial doubt about the company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Polling Question # 4

Have you discussed going concern analysis with your auditor?

- A. Yes
- B. No
- C. N/A



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Q&A

ADDITIONAL RESOURCES

Related Thought Leadership

[COVID-19 Impairment Guide: Navigating the Testing Process](#)

View additional COVID-19 insights [HERE](#)

Additional Resources

[Preparing for the Now, the Next and the New Normal](#)
[The NOW: A Guide to Dealing With Disruption](#)

Contact Us

REQUEST TO SPEAK WITH ONE OF OUR EXPERTS