

ASK THE EXPERTS WEBINAR

*COVID-19: Defining a Profitable and
Resilient Path Forward*

April 30, 2020

PRESENTERS



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



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KEY REMINDERS

- ▶ Riveron webcasts – past and upcoming
- ▶ 6 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



COVID-19 CRISIS NAVIGATION FRAMEWORK

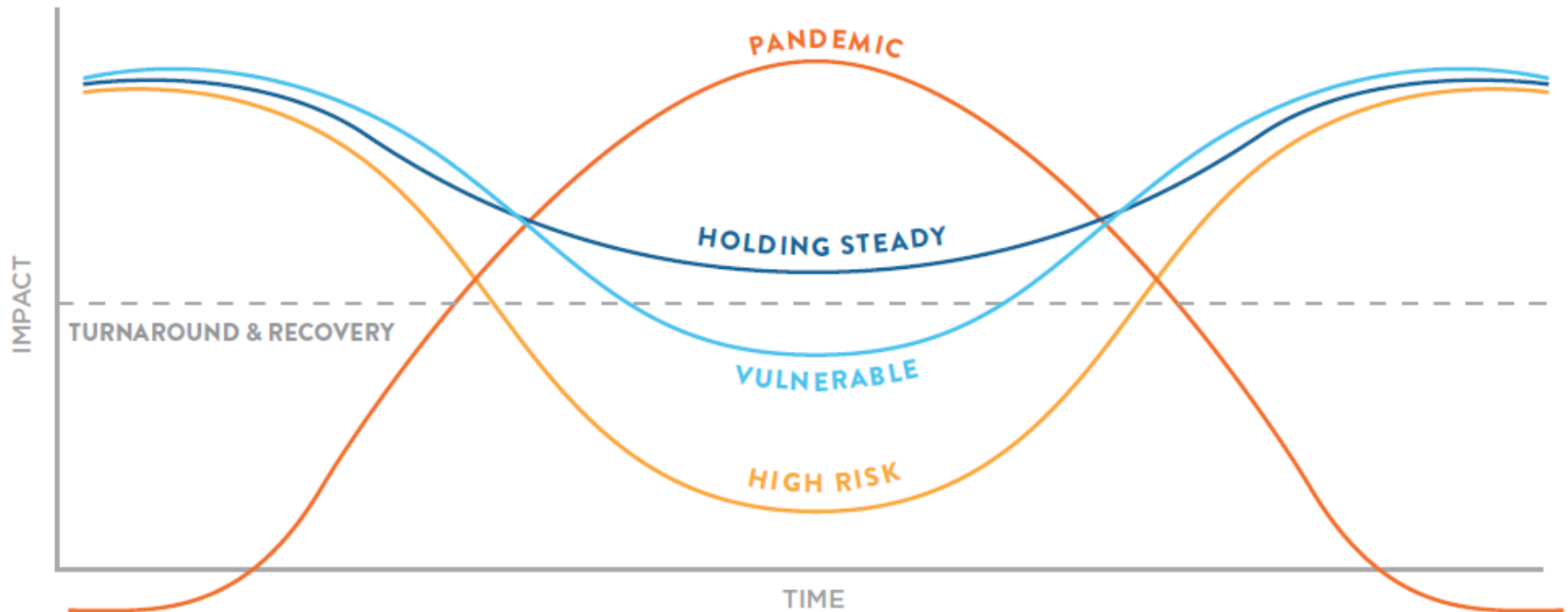
COVID-19 CRISIS NAVIGATION FRAMEWORK

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NEXT: DEFINING YOUR PATH FORWARD

Where are you in the crisis lifecycle?



Polling Question # 1

Where are you on the crisis life cycle?

- A. Holding steady
- B. Vulnerable
- C. High Risk
- D. I would rather not say



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STRATEGY REALIGNMENT

OVERVIEW OF OUR APPROACH TO STRATEGY REALIGNMENT

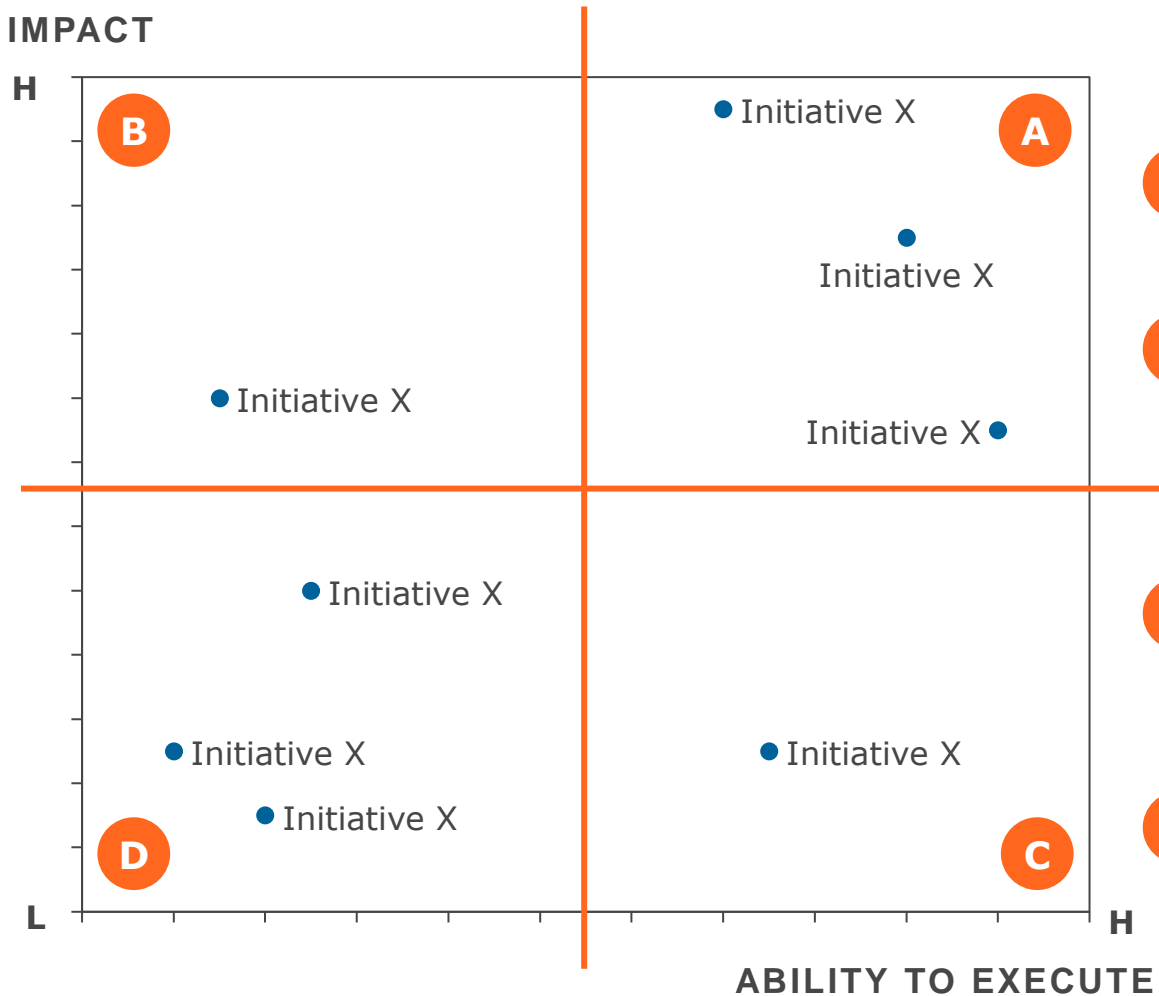


1

EVALUATE CURRENT & PROPOSED INITIATIVES

Criteria	Criteria Ranking* (10 points)	Key Factors	Scoring Key	Score
IMPACT				
Near-term profit impact	X	<ul style="list-style-type: none">▶ Line of sight to specific revenue opportunities▶ Key dependencies that must be addressed▶ Pace that costs can be eliminated/ exited from organization	10 High 1 Low	1-10
Foundational – closes a tactical competitive gap	X	<ul style="list-style-type: none">▶ Mid-term gap closing with competitors▶ Diversifying sales channels, supply chain, with incremental impact to customer base	10 High 1 Low	1-10
Transformational – clearly differentiates vs. peers	X	<ul style="list-style-type: none">▶ Establishes sustainable source of differentiation▶ New service, new product, new offering	10 High 1 Low	1-10
10		TOTAL		
ABILITY TO EXECUTE				
Time to Implement	X	<ul style="list-style-type: none">▶ Length of time needed to implement initiative▶ Risk & complexity involved with realization	10 Quick 1 Lengthy	1-10
Organizational Readiness	X	<ul style="list-style-type: none">▶ Ability of current team to execute required change▶ Plan for cross functional/company alignment	10 Ready 1 Not Ready	1-10
Investment required	X	<ul style="list-style-type: none">▶ Amount that can be covered with internal resourcing/ existing expense▶ Required 3rd party support to close gaps	10 Low-cost 1 Significant	1-10
10		TOTAL		

***Note:** Criteria should be weighted using a total of 10 points for both impact and ability to execute. The same weighting should be utilized for each initiative. Total score for each initiative is the sumproduct of ranking & impact scores



TAKEAWAYS

- A** Focus for top-right initiatives should be maximizing speed of impact
- B** Where overall size justifies prioritization, top-left initiatives likely require strongest resourcing & leadership
- C** Selectively prioritize bottom-right initiatives where sizable impact can be realized with limited resource bandwidth
- D** Bottom-left initiatives should likely be shut down

DEFINE ACCOUNTABILITIES & GOVERNANCE: KEY DECISION POINTS & PERFORMANCE MANAGEMENT CONSIDERATIONS

IMPORTANT CONSIDERATIONS

ORG DESIGN

- ▶ Design choices range from separate initiative org to line ownership on top of existing responsibilities – hybrid model is typically most effective
- ▶ Primary, cross-functional resourcing should view initiative success as top personal objective

STAKEHOLDER ENGAGEMENT

- ▶ Critical to ensure sufficient dedicated resourcing while also continuously incorporating input from operating & function leaders
- ▶ Each initiative should have senior company leadership accountable for initiative results

METRICS

- ▶ Identify most relevant & impactful metrics for each initiative – typically involves a combination of activity & outcome based KPIs
- ▶ In addition to overall initiative objectives, need to establish near-term & mid-term milestones for each KPI to serve as early warning indicators
- ▶ Performance against budget should be included as a metric

GOVERNANCE

- ▶ Priority initiatives require C-level review cadence combined with more frequent initiative-specific SteerCo reviews
- ▶ Helpful to establish standard initiative reporting up front while incorporating sufficient flexibility to address changing conditions

Polling Question #2

How many corporate initiatives does your company currently have?

- A. None
- B. One to Five
- C. Six to Ten
- D. More than 10





OPERATIONAL EFFECTIVENESS

OPERATIONAL EFFECTIVENESS

Drive meaningful and sustainable improvements in profitability and cash generation by focusing on quick decision making and execution across key revenue and levers.

- ▶ Optimize commercial strategy
- ▶ Focus on driving operational excellence
- ▶ Execute “no-regrets” actions
- ▶ Systematically assess organizational third party risk exposure

OPERATIONAL EFFECTIVENESS IN THE “NEXT” REQUIRES A HOLISTIC APPROACH AND A BIAS TO ACTION

MEANINGFUL AREAS OF OPPORTUNITY

Top-Line Improvement

Portfolio Restructuring

Purchasing Optimization

Production Optimization

Supply Chain Optimization

Overhead/SG&A Reduction

Headcount Reduction

1 STRUCTURED APPROACH

Set the baseline

- ▶ Thorough cost and operational baseline
- ▶ Clear understanding where money is made and lost

Define and prioritize measures

- ▶ Identification and detailing of measures in joint teams
- ▶ Preparation of actual implementation

Implementation

- ▶ P&L effective implementation
- ▶ Change management to ensure sustainability

Quick wins

- ▶ Fast-tracking of immediate improvement actions
- ▶ Short term stabilization of financials and performance

Program management and controlling

- ▶ Diligent management of program activities, risks and results
- ▶ Detailed tracking of results to prove P&L effect
- ▶ Removal of roadblocks and issues

2 CLEAR RESULTS FOCUS

Revenue Growth

Focus on improvement of financial results:

- ▶ Revenue increase
- ▶ Margin increase
- ▶ Cost reduction

Cost Reduction

Gross Profit

Operating Cost

COGS

Sales & Marketing and G&A

R&D

Manufacturing & Distribution

COMMERCIAL STRATEGY OPTIMIZATION IN THE “NEXT” WILL REQUIRE YOU TO REDEFINE SUCCESS

Ask the right questions...

...and identify opportunities by analyzing the business...

...to improve top-line

Key questions to derive a hypothesis for top-line improvements...

?

How and where is your company really **earning** its money and profits?

?

How can this be **expanded**, i.e. do more of what you do well?

?

Where does your company loose or **leak** revenues and margin?

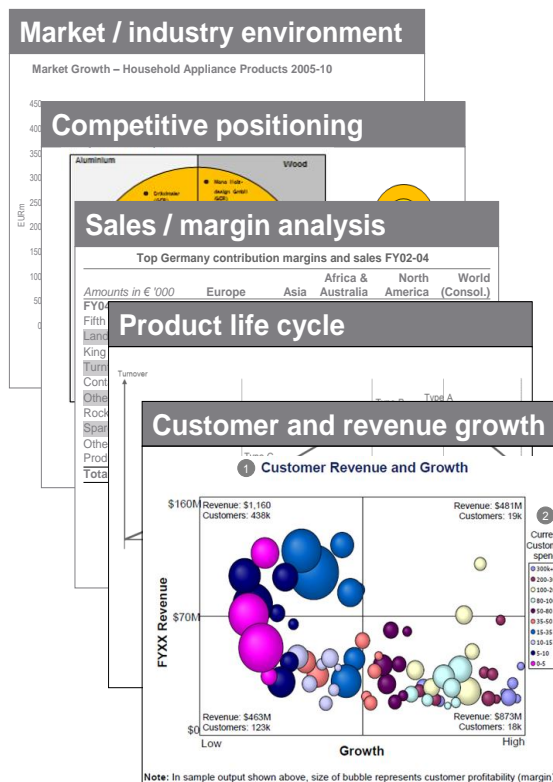
?

Where can you **accelerate** your revenue generation?

?

How can **M&A** help to boost your top line and margins?

Opportunities can be identified using efficient analyses, such as...



PORTFOLIO RESTRUCTURING

- ▶ Divestiture/ rationalization of low margin/ low growth volume
- ▶ Enhance service portfolio for added value
- ▶ Revisit discount policies based upon new customer purchasing patterns
- ▶ Analyze customer contracts to determine exposure for rationalization actions

SALES FORCE EFFECTIVENESS

- ▶ Rationalize geographical and segment sales coverage
- ▶ Recalibrate incentive systems based on margin enhancement
- ▶ Leverage technology enhancements to improve OTC

INNOVATION PERFORMANCE

- ▶ Rationalize new product development projects according to success probability, time-to-market and cost-to-complete
- ▶ Reassess M&A strategy for profitable growth
- ▶ Speed-up time-to-market of promising new product developments

THERE IS SIGNIFICANT RISK FOR MEANINGFUL SUPPLY CHAIN DISRUPTION AS WE EMBARK ON THE “NEXT” PHASE

Ask the right questions...

...and identify opportunities by analyzing the business...

...to drive profit improvement

Key questions to derive a hypothesis for top-line improvements...

?

How **global** and advanced is your sourcing strategy?

?

How advanced is your **category** management?

?

What is your balance between transactional procurement and **strategic sourcing**?

?

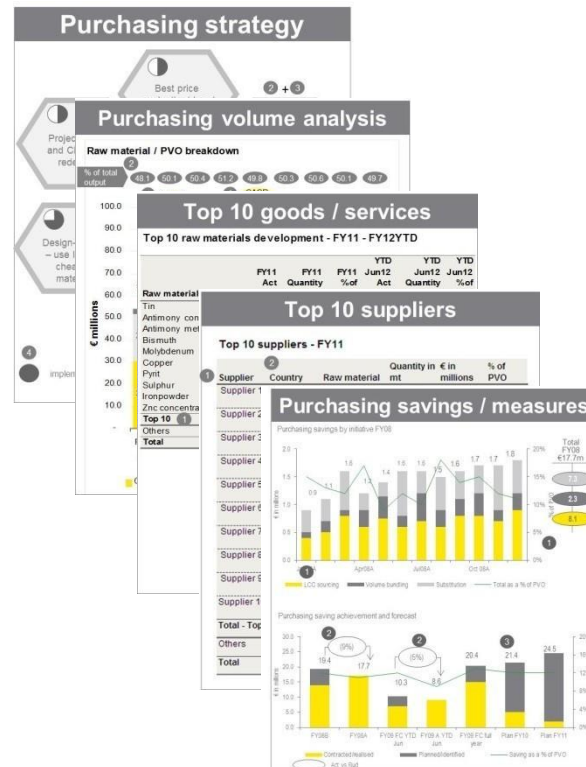
Where can you reduce **dependency**?

?

Where can you **take out cost**?

Opportunities can be identified using efficient analyses, such as...

Potential opportunities could be...



SHORT-TERM

- ▶ Renegotiate pricing and terms
- ▶ Challenge scope of purchased services
- ▶ Rationalize for changes in demand
- ▶ Establish spend transparency

MID-TERM

- ▶ Focus on best-in-class demand management
- ▶ Ensure daily alignment with S&OP
- ▶ Optimize purchasing processes, introduce proper category management
- ▶ Establish (global) spend transparency

LONG-TERM

- ▶ Standardize goods and services and assess make-or-buy
- ▶ Implement design cost reduction opportunities
- ▶ Restructure relationship with key, high-dependency suppliers

THE “NEXT” WILL REQUIRE A RAPID RATIONALIZATION OF CAPACITY AND STEP-CHANGE IMPROVEMENTS IN MANUFACTURING PRODUCTIVITY

Comprehensive rationalization utilization at plant level

- ▶ Product portfolio and volume assessment
- ▶ Segments, technology, processes, machines
- ▶ Rapid rationalization/mothballing of excess machine/process capacity

Design of process optimization measures

- ▶ Develop measures to sustainably increase equipment utilization (change over, down times, speed losses, material supply)
- ▶ Eliminating non-value adding activities/reorganizing value-add activities
- ▶ Prioritization of improvement opportunities

Workforce management

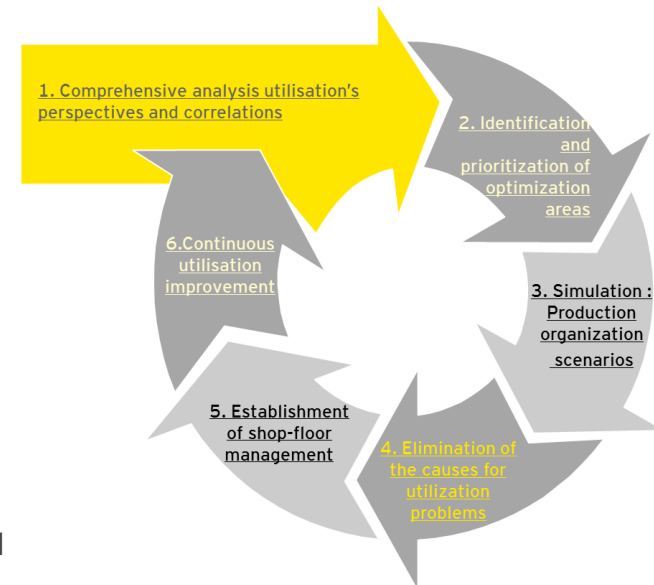
- ▶ Proactively plan and control resource utilization and productivity by correlating expected production volume and standard process times
- ▶ Integrate into performance review cycle to make proactive decisions and improve operational efficiency, on-time performance and resource utilization

Productivity management

- ▶ Measuring and managing variability by establishing a performance measurement system on the shop floor
- ▶ Continuous improvement through delta tracking, identification of root-causes and implementation of countermeasures

Shop floor management

- ▶ Establish daily performance review meetings with representatives from all involved manufacturing areas
- ▶ Introduce continuous improvement process at shop floor level



AS WE BEGIN TO REOPEN DURING THE “NEXT” PHASE, STRINGENT PLANNING WILL BE REQUIRED TO MINIMIZE OPERATIONAL DISRUPTIONS

COMMON PITFALLS

- ▶ Ramp-up curves are over or underestimated, likely resulting in lower delivery performance
- ▶ Necessary “operational buffers” are planned wrongly or neglected all together (such as safety stock in case of production delays)
- ▶ Lead times for required special equipment is underestimated – PPE in the current environment
- ▶ Inadequate training plans
- ▶ Headcount ramp-up not properly aligned with production/service demand
- ▶ “Getting lost in Detail”

ADEQUATE PLANNING OF:

INFRASTRUCTURE	RAMP-UP CURVES	HR AND TRAINING	TECHNICAL DOCUMENTATION
<ul style="list-style-type: none"> ▶ Production equipment ▶ Plant characteristics (safety requirements, social distancing.) ▶ IT (hardware and software) ▶ Logistics and warehousing 	<ul style="list-style-type: none"> ▶ Ramp-down (plant to be divested): Which assets need to be transferred, which (safety) stock is required ▶ Ramp-up (plant to be invested): Ramp-up phase, buffers, lead times, etc. 	<ul style="list-style-type: none"> ▶ Required job profiles and skillsets need to be understood ▶ Transfer is supported by key employees of the plant which is to be divested ▶ Necessary costs are taken into account 	<ul style="list-style-type: none"> ▶ All technical documents are available and aligned between the old and new plant ▶ This includes production techniques and processes, QA/QM, commissioning, maintenance, etc.
Site is “technically ready” to start production	Continuous delivery capability is secured during the transition	New employees are capable of producing the new products efficiently	Required know-how is documented and available

Polling Question #3

What do you view as the biggest risk to your business once we begin to “reopen” the economy?

- A. Supply chain disruptions
- B. Rationalization of labor
- C. Meeting pent up demand
- D. Ensuring sufficient working capital





SG&A RATIONALIZATION

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Optimize overhead structure by variabilizing your cost targets to drive greater alignment between revenue generating activities and support functions.

- ▶ Baseline current costs and identify key value drivers
- ▶ Continue expense reduction measures and controls
- ▶ Expedite human capital management and review
- ▶ Implement optimization efforts

SG&A OPTIMIZATION IS A PROCESS, AND DIFFERENT FOCUS AREAS ARE APPROPRIATE DEPENDING UPON YOUR GOALS

What has your company achieved and where is the focus?

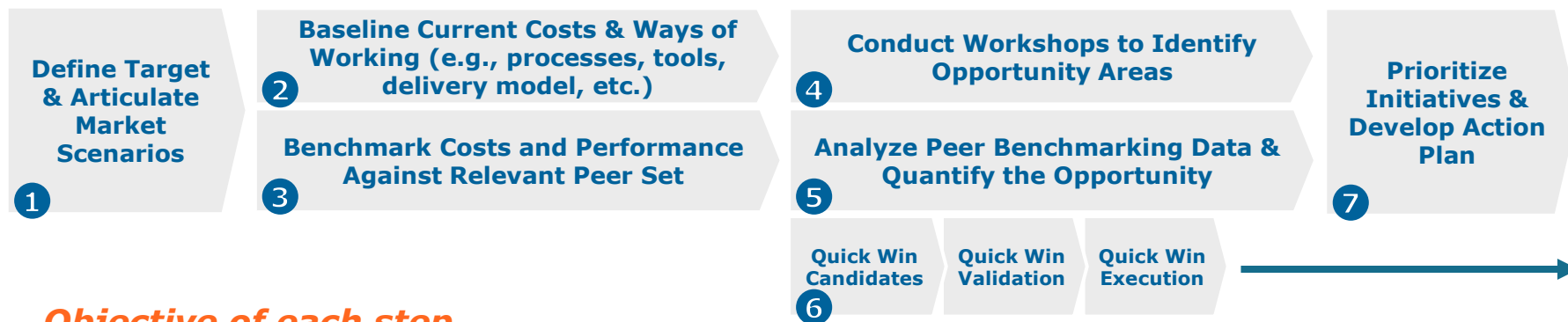
	Level 1	Level 2	Level 3	Level 4	Level 5
Focus:	Basic Cost Management & Control	Near-Term Workforce Management	Activity & Org. Rationalization	Optimize the Business	Fundamental Change to the Model
Activities:	<ul style="list-style-type: none"> ▶ Discretionary spend reductions (travel, incidentals, training, etc...) ▶ Modify spending authority and approval levels ▶ Contractor management (3rd party spend reductions) ▶ Spend accountability 	<ul style="list-style-type: none"> ▶ Perform overdue personnel actions ▶ Eliminate redundancies ▶ Exercise early retirement ▶ Don't fill vacancies/curtail recruitment ▶ Compensation and benefits cuts ▶ Employee furloughs 	<ul style="list-style-type: none"> ▶ Eliminate all non-core, non-essential activities (down to the "must haves") ▶ Reduce service levels (time, detail, etc.) & require more self service ▶ Reduce levels of management / spans & layers 	<ul style="list-style-type: none"> ▶ Implement new operating models (e.g., outsourcing, shared services) ▶ Deploy core process improvements ▶ Leverage technology enablement ▶ Enhance internal capabilities 	<ul style="list-style-type: none"> ▶ Define new organizational construct to streamline overhead ▶ Reset operating norms & expectations ▶ Adopt new business model (e.g., inside vs. outside sales)
Challenges:	<ul style="list-style-type: none"> ▶ Vendor and relationship management ▶ Cost reporting & visibility 	<ul style="list-style-type: none"> ▶ Managing workloads ▶ Employee morale ▶ Loss of institutional knowledge 	<ul style="list-style-type: none"> ▶ Making self service a reality ▶ Sharing the pain across the org. ▶ Resource hoarding 	<ul style="list-style-type: none"> ▶ Addressing root causes versus symptoms ▶ More disruptive ▶ Understanding capabilities 	<ul style="list-style-type: none"> ▶ Market/brand identity ▶ Inhibiting future growth

SG&A OPTIMIZATION CAN HELP TRANSFORM THE BUSINESS AND MAKE IT STRONGER

Areas of Differentiation	TRADITIONAL APPROACHES TO COST-CUTTING...	TOP PERFORMERS...
	Reactive to market volatility and cash flow needs	Evaluate longer-term market scenarios for a sustainable organization
	Driven by external pressure	Drive an internal culture of continuous improvement
	Focus only on cost cutting	Focus on capability building and performance improvement
	May cut too much ... or not enough	Use activity as the basis for resource decisions
	Share the pain equally	Reinvest in a few priority capabilities and aggressively cut waste
	Fail to change “what we do” & “how we do it”	Focus on working differently to improve efficiency and effectiveness
	Follow industry benchmarks blindly	Tailor to the specific needs of the organization
	Lead to costs creeping back over time	Provide sustainable plans to monitor and manage costs
	Result: Temporary Improvement	Result: Competitive Advantage

INITIAL DIAGNOSTIC SHOULD DEFINE THE TARGET THEN IDENTIFY AND QUANTIFY SPECIFIC OPPORTUNITY AREAS

How to get started with a cost optimization diagnostic...



Objective of each step...

1	Define targets (e.g., 20% reduction in SG&A) and articulate a set of market conditions/scenarios that will define how you operate (e.g., expected activity levels, expected capital spend, etc.)
2	Understanding of how the organization operates and what is core v. non-core (e.g., activities, processes, spend, tools, delivery model, etc.)
3	Quantitative cost and headcount benchmarking (tailored to specific company situation)
4	Series of workshops with operational and functional leadership to challenge every cost/activity, determine what is truly required, and identify optimization opportunities (Activity, headcount, and 3 rd party spend)
5	Analysis of quantitative and qualitative data to quantify the opportunity (e.g., business case)
6	Fast-tracked implementation of agreed-upon quick win opportunities
7	Prioritized initiative set and plan to achieve defined targets

ACHIEVING A SUSTAINABLE LOWER COST STRUCTURE TYPICALLY REQUIRES TAKING ACTION IN MULTIPLE AREAS

NON-EXHAUSTIVE

Sample Actions	Examples
Eliminate / Reduce “Nice to Have” Activities	<ul style="list-style-type: none"> ▶ Eliminate non-value added work as well as work where the cost to serve outweighs the value, this will help reduce overall G&A spend ▶ Define variable activity levels based on market scenarios then operationalize
Standardize, Simplify & Automate Activities & End-to-End Processes	<ul style="list-style-type: none"> ▶ Standardize non customer/partner facing processes across businesses/regions reserving no more than a few instances for customization to remove shadow processes and improve FTE efficiency ▶ Leverage existing technology or augment technology to automate/digitize processes
Adopt Low Touch Delivery (Centralize, Self Service, Outsource)	<ul style="list-style-type: none"> ▶ Pool and centralize like work to drive scale economies to improve FTE efficiency ▶ Shift from in-person support to digital, contact center or remote delivery ▶ Use low-cost shared service hubs & outsource low value, routine transaction processing activities
Delayer and De-Level (Spans & Layers)	<ul style="list-style-type: none"> ▶ Minimize org layers between CEO to front line; average span of control should typically be 7-9 ▶ Salaries and titles rationalized based on size of departments and tenure ▶ Use variable compensation, equity, and rapid advancement to encourage performance
Use Low Cost Labor	<ul style="list-style-type: none"> ▶ Migrate routine, rules-based work into low cost locations through shared service hubs and/or outsourcing to improve FTE cost efficiency
Modify Policies and Behaviors to Reduce Demand	<ul style="list-style-type: none"> ▶ Change policies to dis-incentivize consumption of high cost service or reduce demand for all services ▶ Evolve cultural norms that drive need for highly customized services
Invest in Differentiating Capabilities	<ul style="list-style-type: none"> ▶ Continue to invest more than peers in differentiated capabilities that generate value ▶ Potential areas include product development, top performing salesforce, MD&A, shared services leadership, talent management

Polling Question #4

What level of SG&A focus does your company have?

- A. Basic cost controls & near-term workforce management
- B. Rationalize overhead spend
- C. Fundamentally change SG&A org & operating model
- D. Yet to be determined



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TECHNOLOGY OPTIMIZATION

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Leverage existing tools and platforms to reduce costs while also preparing for new ways of working and dynamic growth in the future.

Enhance business continuity – The unthinkable is reality

- ▶ Beyond “disaster recovery” for IT, companies are positioning to continue to operate in case of waves of Covid-19, geo-political actions and natural disasters affection a region or the globe

Assess processes involving technology

- ▶ Many business processes are under automated and overspecialized, creating less flexibility for the business and diverting human capital from high value activities

Leverage existing tools and platforms

- ▶ Evaluating existing IT assets to see what functionality can be repurposed to meet near term needs, avoid new capex/opex spend

Optimize and reduce IT spend

- ▶ A thoughtful approach to spend reductions and redirection, avoiding cuts that reduce corporate agility and eliminate strategic opportunities

TECHNOLOGY OPTIMIZATION HIGHLIGHTS

Enhance Business Continuity

- ▶ Do you understand your global exposure to supply, revenue, manufacturing, etc? How “brittle” are you?
- ▶ Current WFH arrangements are likely not long term solutions
 - ▶ WFH strategies as a long term model to meet employee desires for more flexibility, as well as reducing real estate costs and supporting ESG objectives.
 - ▶ IT must provide end user support and meet security, privacy and compliance mandates irrespective of service delivery location
- ▶ Many companies acting on “Instinct” instead of Information
 - ▶ Companies lack a real understanding of their cash position, supply/demand issues, facility access implications, etc.
 - ▶ Without an enterprise view of activities, continuity cannot be managed

Assess Process Efficiency

- ▶ Can you enhance automation?
 - ▶ Quick application of Robotic Process Automation to enable non-stop process execution (e.g. bank recs, AR/AP) and volume management (IT and HR self service)
 - ▶ Revisit automated workflows and consider “triggers” for manual processing, etc.
 - ▶ Look at current customers/vendors... is a small set responsible for the manual load? Target them for attention and increase the “no touch” processing elsewhere
- ▶ Can current processes keep up with the rate of change?
 - ▶ Supply chain processes designed for a dedicated single source with a bias (e.g. fulfillment in a time windows)
 - ▶ Quote-Cash with an implicit available to promise window

TECHNOLOGY OPTIMIZATION HIGHLIGHTS

Leverage What You Own

- ▶ Many companies own software capabilities they are not using
- ▶ Examples include:
 - ▶ Collaboration – Microsoft Office 365 Teams, Yammer, Groups
 - ▶ Workflow – ERP workflow configurations, Microsoft FLOW
 - ▶ Analytics – Excel w/Power Pivot, PowerBI, ERP embedded analytics package, “Smartview” (Hyperion/Essbase)
- ▶ Cloud vendor platform capabilities can also be extended
 - ▶ Selective new licenses on O365 tools and extended capabilities
 - ▶ “Add on” capacity to existing Snowflake DB platforms

Address Spend Strategically

- ▶ Evaluate SW licenses for reduction
- ▶ Evaluate and renegotiate contracts. Vendors can’t afford to lose customers.
- ▶ Get creative... it is not just discounts. For example, reduce license count but extend the term of the contract, create a “step up” in licenses costs when additions are made
- ▶ Consolidate Relationships. Where you have multiple providers trade volume for pricing
- ▶ Explore “onshoring”. Offshore was cheaper, but the business risk unappreciated. Explore domestic/hemisphere based providers
- ▶ Look for “disruptive” technologies that deliver step change advantage in the reemerging market.
- ▶ Use a “portfolio management” approach to understanding IT spend, benefit and strategic impact

TECHNOLOGY ENABLEMENT - FUTURE FORWARD

Market Theme

- ▶ **Business Agility:** Highly optimized processes are brittle, impede business agility in adverse or changing market and geopolitical conditions. "Elasticity" of infrastructure and "Variability" of cost.
- ▶ **Data Driven Organizations:** Moving from operating on Instinct to Information. Broad data intake from inside and outside the enterprise.
- ▶ **Hyper Automation:** "You can see the computer age everywhere but in the productivity statistics." (Robert Salow, 1987). Software robotics, continuous automated processing and "learning" workflows focus Human Capital on innovation, engagement and exceptions.
- ▶ **Autonomous Operations:** From the data center to the shop floor and dispatch desk, self monitoring systems adjust and optimize outcomes based on fast changing contexts without human intervention
- ▶ **Dynamic Work Environment:** Responding to changing workforce demands, ESG pressures and facilities cost management opportunities companies can adjust traditional work style expectations

Possible Initiatives

- ▶ **Integrated Business Planning.** Beyond "FP&A" and making decisions based on a holistic, near time view of business performance.
- ▶ **Beyond Reporting.** Machine Learning, Augmented Intelligence, Knowledge Graphs, "IOT" and sensor data analytics refocus human capital
- ▶ **Cloud Services Migration/Adoption.** Elasticity of cost and scale as well as reduction in risk of facility or key employee loss
- ▶ **"Robotic Process Automation"** (e.g. AR, AP, Txn Matching, IT Help Desk, HR self service, Customer Inquiry)
- ▶ **Revenue and Customer Solutions.** Focus on multi-channel engagement, mobility.
- ▶ **HR/HCM solutions** enabling new employee engagement and support initiatives, new "work" models, cross training
- ▶ **Business-Systems Architecture.** Rethinking IT Governance and architecture to make sure investments are aligned to changing tactical needs and enabling strategic objectives.

Polling Question #5

What technology investment seems most helpful at this time?

- A. None, just keeping on the lights
- B. Automation & Headcount reduction
- C. Near time Financial and Operational reporting capabilities
- D. IT cost and capabilities “rethink”



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CAPITAL MARKETS ALTERNATIVES

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Asset based lending has grown in popularity as a source of capital and can be an attractive funding strategy for businesses with limited cash generation

- ▶ Cash flow lender assess debt capacity by focusing on cash flow generated
- ▶ An ABL provider takes a high level of comfort from assets securitizing the loan
- ▶ The borrower reports asset levels to the ABL provider on a regular basis
- ▶ Provider makes a fluctuating line of credit available

Advantages

Provides a stable funding base while company focuses on increasing liquidity

Funding availability flexes with changes working capital

Once on recovery track, provides platform to fund growth

CAPITAL MARKETS ALTERNATIVES

Private debt offerings under SEC Rule 144A offer companies access to capital of sophisticated investors with limited SEC filing and reporting requirements

Advantages	Disadvantages
Speed. There is no SEC review process.	May result in higher interest rate due to less liquidity for investors
Flexibility. Financial information requirements can be dispensed if not useful	Investor base is limited to qualified institutional buyers (QIBs)
Typically requires 2 years of audited financials instead of 3	QIBs often expect public company level information, regardless of Rule 144A requirements
Funds are raised immediately; public company reporting obligations are deferred	Costs could increase due to preparation of offering materials plus registration statement later



ACCOUNTING & TAX CONSIDERATIONS

ACCOUNTING AND TAX CONSIDERATIONS

Proactively address challenging accounting, financial reporting, and tax regulatory issues to ensure critical external reporting to stakeholders that fosters timely and informed decision making.

Identify covenant violations

Assess debt modifications

Look for impairment triggers

Reevaluate costs related to idle capacity

Assess likelihood of revenue collectability

Revisit estimates of variable consideration in revenue

Reevaluate the likelihood of hedged transactions

Evaluate rent concessions

Reassess net operating losses

Leverage increased business interest expense limitations

Understand accelerated usage of AMT credits

Use qualified improvement property technical correction

ACCOUNTING AND TAX CONSIDERATIONS

U.S. corporations have spent the past decade taking on more debt than ever, borrowers have been of decreasing credit quality. An economic downturn is likely to result in higher default rates than we've seen in previous recessions.

- ▶ Debt covenant violations
 - ▶ Common covenants
 - ▶ What to consider if you have a violation at the balance sheet date
 - ▶ What to consider if you have a violation after the balance sheet date
- ▶ Subjective acceleration clauses
 - ▶ Language is not standard, and determination can be subject to judgment
 - ▶ Evaluating a material adverse change in the business
 - ▶ Making a probability assessment

ACCOUNTING AND TAX CONSIDERATIONS

Evaluating whether debt modifications represent troubled debt restructuring and classifying changes resulting from related party debt restructuring are likely uncommon tasks for many accounting and finance teams.

- ▶ Troubled debt restructuring
 - ▶ Is the borrower experiencing financial difficulty?
 - ▶ Has the lender granted the borrower a concession?
 - ▶ Compare the carrying value of the original debt to the future undiscounted cash flows of the modified debt
- ▶ Related party debt restructuring
 - ▶ Should any extinguishment gain be treated as a capital contribution or income?
 - ▶ Do all debt holders have equity interests in the company?
 - ▶ If not, what is the level of investment the equity holders have?

ACCOUNTING AND TAX CONSIDERATIONS

Changes in cash management strategy, operational decisions, and pre-tax accounting conclusions can all have a downstream tax impact. Additionally, tax strategy continues to be an effective means by which companies can manage cash.

- ▶ Consider tax impact of repatriated earnings
 - ▶ How were the funds previously designated?
 - ▶ Consider deferred taxes related to previously unrecognized CTA
- ▶ Reassess net operating losses
 - ▶ Reassess valuation allowances for existing deferred tax assets
 - ▶ CARES Act eliminated taxable income limitation; allows 5 year carryback
- ▶ Leverage the increased business interest expense limitations
- ▶ Understand the accelerated usage of alternative minimum tax credits
- ▶ Take advantage of qualified improvement property technical correction

Polling Question #6

Which of the following have you used to manage capital and liquidity?

- A. Draw on existing lines of credit
- B. Modify or restructure existing debt
- C. Obtain new debt or use government assistance programs
- D. Multiple, other, not applicable



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Q&A

ADDITIONAL RESOURCES

Related Thought Leadership

Preparing for the Now, the Next and the New Normal:

- [*The NOW: A Guide to Dealing With Disruption*](#)
- [*The NEXT: A Guide to Defining a Path Forward*](#)

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