



Re-evaluate Your Forecast

MIDDLE MARKET BUSINESSES NEED A PLAN TO WEATHER THE COVID-19 CRISIS

The highly contagious novel coronavirus has endangered countless lives and forced millions of people into self-isolation at home. This public health crisis has also shuttered non-essential businesses and upended economic activity across the country and around the world. These unprecedented challenges have negatively altered the daily patterns of families, communities and businesses alike.

Businesses in most industries must take the steps necessary to ride out this disruption, as the expected scope and duration of the COVID-19 pandemic remains unclear. Businesses suddenly face sinking revenues, which will likely lead to significant cash flow challenges. There are concrete steps that organizations can take to assess their needs, formulate a realistic cashflow forecast for the coming months and take the necessary steps to stem business losses and sustain operations.

Note: On April 9, the Federal Reserve announced details of a new loan facility, the Main Street Lending Program. For more information on this, [see our Insight here](#).



SYMPTOMS OF DISTRESS

Many middle market companies will face significant headwinds due to COVID-19. But you don't need to weather the storm alone. BDO's Restructuring and Turnaround Services team has a wealth of experience advising clients and sharing best practices for devising a plan to sustain your business. Key signs of distress to look for include:

Tight Liquidity

- ▶ Business deemed non-essential and forced to close or limit business offerings
- ▶ Insufficient cash on hand
- ▶ Inability to obtain new financing for the business
- ▶ Held checks and increasing payables
- ▶ Slower turning inventory
- ▶ Inability to pay debts as they come due
- ▶ Inability to continue investing in the business

Fully Drawn on Credit Facilities

- ▶ Covenant violations lower borrowing base availability
- ▶ Reliance on "amendments" and/or forbearance agreements to remain compliant with loan documents
- ▶ Deteriorating relationship with lenders

Declining Profitability

- ▶ Business deemed non-essential and forced to close or limit business offerings
- ▶ Significant decreases in revenue, cash flow, and EBITDA
- ▶ Industry challenges magnified by COVID-19 impact and regulations (e.g., retail, restaurants, hospitality, leisure, nonprofits, oil and gas, et al.)

Debt in Excess of Book Value of Assets

- ▶ Current and long-term debt exceeds value of assets (excluding goodwill or other intangibles)
- ▶ Significant near-term debt maturities

Other Signs of Distress

- ▶ Loss of key customers and vendors
- ▶ Layoffs, product line reductions, etc.
- ▶ Service lapses
- ▶ Wide disparity in performance by location

AN ACTION PLAN FOR COMPANIES EXPERIENCING DISTRESS

All organizations should be proactive in assessing their current financial health, and they need to develop an understanding of their future capital requirements to help ensure business continuity throughout these challenging times. There are three crucial steps to take now that provide the framework required to make informed decisions that create a meaningful action plan.

1. Take stock of the immediate impacts

First, examine where the business stands today.

What initial impact has COVID-19 had on business revenue so far? What interruptions to the supply chain and workforce have hindered the ability to generate revenue? Is the business able to negotiate to defer the payment of rent during the crisis? Has the business needed to make emergency expenditures to continue operations? Are there any credit facilities, SBA loans or other government funds available to draw from?

Government Relief for Qualifying Businesses under the CARES Act

Businesses can evaluate the options available to them through the **Small Business Administration** relief measures and government borrowing programs for economic stabilization in the wake of COVID-19. For example, the congressional stimulus package includes a Small Business Interruption Loan program designed to help businesses that satisfy industry-specific qualifications make ends meet on essential business continuity costs, such as payroll, rent, mortgage and utilities payments. Employers are incentivized to retain staff, with more 7(a) loan forgiveness available to those who do not reduce headcount.

2. Project the near-term cash flow needed to sustain through the downturn

Some businesses felt a sudden impact from COVID-19. Restaurants, bars and retailers were forced to shutter their doors in compliance with social distancing. Others may feel the impact over time as they run low on inventory or see customers tighten purse strings due to rising unemployment and economic turmoil.

Businesses should put together a realistic and detailed cash flow forecast for the next three to six months to get a full picture of what liquidity needs are likely going to be during this period. This will give leadership the necessary perspective on where to cut costs in the short term to try to minimize losses. Consider: What is the expected trajectory of COVID-19 within the business footprint? Does the business anticipate continued revenue reductions due to reduced demand or an inability to manufacture products, procure inventory or render services? How will the business respond if members of the workforce get sick?

3. Evaluate your options to ensure business continuity

Companies negatively impacted by COVID-19 need to take action to mitigate risk in this difficult climate. Those options may include:

- ▶ Pivoting the business model to ensure revenue generation during this time (e.g., restaurants offering new delivery and take-out services, or retail stores moving to direct-to-consumer e-commerce models)
- ▶ Reducing outflows by delaying rent payments, deferring state and federal taxes, and reducing headcount or furloughing workers
- ▶ Reallocating resources to produce personal protective equipment
- ▶ Applying for loans made available through the CARES Act stimulus package
- ▶ Reaching out to lenders to tap into revolving credit, ask for leniency or additional loans
- ▶ Seeking applicable refunds (i.e., tax refunds, or refunds on prepaid workers comp policies)

Once your business has assessed its current state and projected cash flow needs, you can proactively engage with current lenders to seek some level of covenant relief, support and, in some cases, additional liquidity. With the Treasury Department providing support to financial institutions, lenders may be willing to work with existing customers to help them through these pivotal months.

Business leaders should also be prepared to offer what they can do to help the situation, such as bringing in money from ownership, offering additional collateral or implementing a plan to reduce expenses and conserve value.

With the recent expansion of social distancing and other guidelines from the Centers for Disease Control and Prevention that impact the business landscape throughout the U.S., it is never too soon to develop an action plan to mitigate risks and continued losses. [BDO's Restructuring and Turnaround Services](#) (BRS) team is continually monitoring this rapidly evolving situation, and are committed to providing updated guidance as our clients assess financial needs and take the steps to survive this challenging period. As we navigate this time of uncertainty together, our BRS team is here to help.

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