CORONA CRISIS PLAYBOOK

Capital Management

The Guide to Capital Management provides best practices for acquiring and conserving capital, so your business survives the crisis, and has the resources required to thrive during the recovery.

3 Funding Programs

There are 3 loan programs to help businesses get fast funds to survive during the crisis & thrive through the recovery.

1 Paycheck Protection Program

- PPP provides up to $10M of forgivable funds to primarily cover payroll (75%) and rent, utilities & mortgage interest (25%) during the loan period.
- To be eligible you must have been in operation on Feb 15th, 2020 or earlier, and have no more than 500 employees on payroll. (some exceptions allow up to 1500 or 500 per location)
- The loan terms don't require any personal guarantee, collateral or recourse to the borrower. The most attractive term is that loans can be fully forgiven if borrowers follow all the rules; borrower has same head count from previous year and similar compensation levels compared to previous full quarter, and proceeds are spent during loan period on approved expenses; 75% on payroll, 25% on rent, utilities and/or mortgage interest. Any portion that is not forgiven converts into a loan at 1% for 2 years. Payments are deferred for up to 6 months and there is no pre-payment penalty.
- If you have an EIDL loan already, you can roll it into a new PPP loan.
- To apply, contact your local FDIC bank or SBA lender. More details

2 Economic Injury Disaster Loan (EIDL)

- EIDL provides low-interest loans of up to $2 million for businesses that have suffered losses from some kind of disaster. The loan cannot be used for the same purpose as the PPP.
- To be eligible you must be a small businesses or private non-profit with less than 500 employees.
- The loan terms are 30 year at 3.75% interest with 12 months deferred payments while interest accrues. No personal guarantee for loans less than $200,000.
- To apply, visit SBA.gov

3 Main Street Lending Program (MSLP)

- MSLP provides low-interest loans of up to $25M - $150M to borrowers.
- To be eligible you must be a U.S. based business with up to 10,000 employees or no more than $2.5 billion in 2019 revenues.
- The loan terms are 4-year loans, up to 4% interest with 12 months deferred payments while interest accrues. All new loans are unsecured. Borrowers can get new loans for the lesser of $25M or 4x 2019 EBITDA, or extend existing loans they have through lenders for the lesser of $150M, or (i) 6X 2019 EBITDA or (ii) 30% of borrowers existing bank debt. Federal Reserve will purchase 4-year low interest loans made by banks to make it easier for lenders to lend.
- Apply at any FDIC insured bank or U.S Bank holding company

1 Create a comprehensive STRATEGY TO ACQUIRE & CONSERVE CAPITAL

Develop a plan

Given the importance of cash flow in times like this, companies should immediately develop a plan for cash management as part of their overall business risk and continuity plans. In doing so, it is essential to take a full ecosystem perspective, as the approaches you take to manage cash will have implications for your business and your customers.

Focus on the cash-to-cash conversion cycle

Under normal business conditions, companies primarily focus on the profit and losses–growing the top line while managing the bottom line. Routine back-office activities such as paying bills and turning receivables into cash are often taken for granted. In the current abnormal business conditions, smart companies are shifting their focus from the income statement to the balance sheet. Of the three elements of working capital, payables, receivables, and inventory, executives have a tendency to focus on inventory. But, in order to minimize working capital requirements during challenging times, it's important to apply a coordinated approach that addresses all three areas.

Revisit capital investment plans

With cash flow forecasts in mind, consider what's really necessary for the near term:

- What capital investments can be postponed until the situation improves?
- What capital investments should be reconsidered?
- What capital investments are required to position for the rebound and for creating competitive advantage?

Consider alternate or non-traditional revenue streams

If your scenario planning is showing pressure on your continued revenue streams, consider ways you could temporarily or maybe even permanently replace that revenue. If you have assets you use to generate revenue, how could you think differently about how those assets are used to generate alternate revenue sources? Not only could this reduce some of your top line pressures, it could also mean not having to reduce your cost lines as significantly (not to mention a potentially more diversified revenue mix in the longer term).

1 Create a comprehensive STRATEGY TO ACQUIRE & CONSERVE CAPITAL *(continued)*

Think beyond your four walls.

To maximize working capital, you can't only focus on your own operations and inventory levels: you need to think about your entire ecosystem and supply chain. The same is true for payables and receivables. It's important to carefully consider the upstream and downstream impact of your actions.

2 Leverage free and inexpensive FINANCE SOURCES TO COVER YOUR PAYROLL AND OVERHEAD

The Paycheck Protection Program, part of the $2T CARES Act, provides $350B of forgivable funding to cover operational and payroll expenses for businesses through June 30. The Paycheck Protection Program provides potentially free funds for businesses to cover payroll and other operating expenses, in the form of a loan, that will be fully forgiven if your business follows all the rules of the program.

3 Explore new finance and revenue sources to help your business ACQUIRE NEW FUNDING AND REVENUE DIVERSIFICATION

In these circumstances, don't assume the financing options you previously had available to you will continue to be available. Undertake scenario planning to better understand how much cash you'll need and for how long. Use this opportunity to actively engage with your financing partners to ensure your available lines of credit remain available, and to explore new or additional options should you require them.

4 Create a cash flow SENSITIVITY ANALYSIS

Cash flow management needs to be an integral element of a company's overall COVID-19 risk assessment and action planning in the near term. Even for companies that have not yet been adversely affected, we recommend management teams with concerns about COVID-19 actively evaluate their cash flow requirements, develop appropriate actions under various scenarios, and assess potential risks in and to their customer base and supplier network.

5 Accelerate accounts receivable and EXTEND PAYABLES, INTELLIGENTLY

Accounts Receivable

Companies tend to get lax about receivables when the economy is booming, interest rates are relatively low, and cash flow is not a concern. But, as supply chains are affected and managing cash flow becomes more important, it's worth taking a hard look at how your receivables are being managed. In the point below, we mention the strategy of delaying payments to your suppliers; don't be surprised if your customers are thinking about doing the same thing to you. That's why it's important to improve the rigor of your collection processes. Focus on customer-specific payment performance and identify companies that may be changing their payment practices. Also, get the basics right, such as timely and accurate invoicing. Any errors in your billing process can lead to costly delays in receiving payment.

Accounts Payable

One way to preserve working capital is to take longer to pay your suppliers. Some companies may unilaterally decide to delay their payments and force the extension on their suppliers, especially when stuck with inventory they can't deliver into impacted margins. Of course, such an approach is likely to damage your supply relationships. Even worse, it might deprive supply chain partners of the cash they need to maintain their operations, which could lead to late deliveries and quality problems, never mind the added strain to supply relationships. We recommend working with suppliers to establish an agreement that both of you can live with. There might even be situations where you need to accelerate payables for a critical supplier that is on the brink of failure in order to preserve the integrity of your supply chain and prevent a critical disruption.

5 Accelerate accounts receivable and EXTEND PAYABLES, INTELLIGENTLY

(continued)

Audit payables and receivables transactions

Make sure you're paying the right amount for the goods and services you procure and collecting the right amount for goods and services you sell. Also, if you have the cash flow to support it, make sure you're taking full advantage of all available discounts. On the receivables side, look for situations where unearned discounts were applied and then aggressively pursue the proper payment.

Consider alternate financing options

Depending on what your cash flow scenario planning reveals, you may also need to consider tactics to generate faster cash flow from your receivables. Aggressive techniques such as factoring your receivables, although relatively expensive, may be your best option to improve cash flow quickly. You may also consider working with your customers to offer dynamic discounting solutions for those that are able to pay more quickly (for example, discount terms can be defined in advance, and the customer calculates the appropriate discount based on a defined payment schedule). With this technique, you are essentially paying customers to provide you with short-term financing. But the cost may be substantial: a conventional "2% net 10" early payment discount translates into a 36% APR. However, if government loans or bank credits are not available, this might be one of your only options.

6 Convert fixed costs to VARIABLE COSTS, WHERE POSSIBLE

Revisit your variable costs

In times of uncertainty, it's generally a good idea to swap fixed costs for variable costs wherever you can–preserving your core business while increasing your flexibility on the fringes. Reducing your variable costs is often a quicker way to immediately reduce your cash outflows than focusing on your fixed costs. Of course, there are the typical variable cost-reduction levers, such as imposing travel bans and non-essential meeting restrictions (which might already be in place as a way to manage employee safety), imposing hiring freezes, and placing restrictions on discretionary spend like entertainment and training. When labor is a significant cost line in your business, consider avenues that might help reduce spend to avoid getting to a situation where layoffs are required. For example, look for opportunities to reduce contract labor and re-distribute work to your permanent workforce. Encourage employees to take available leave balances to reduce liabilities on the balance sheet. And, if necessary, consider offering voluntary, or even in- voluntary, leave without pay to preserve cash.

7 Review insurance policies & BUSINESS INTERRUPTION COVERAGE

Companies should understand existing business insurance policies and the coverage they have in the event of a significant business disruption. Such insurance generally covers losses arising from disruptions to a business's customers or suppliers. However, the breadth of coverage can vary significantly by insurer policy, industry sector, and geography. In addition, due to the insurance losses from the SARS epidemic, some insurers have included specific exclusions for losses arising from epidemics and pandemics, which you'll need to understand if this is the case in your policy.

8 Leverage new TAX CREDITS & EMPLOYER BENEFITS

Leverage all the new tax and employer benefits to conserve cash and receive tax credits for employees who are on sick/medical/family leave. In addition to the forgivable loans available to businesses, the CARES Act provides many significant tax and unemployment benefits that will help businesses and their employees during the crisis.

10 Capital Management
ACTION PLAN

Action	Who	When
Review Stimulus Programs and customize the action plan in each of the funding programs playbooks.		
Create coordinated approach to focus on cash that addresses payables, receivables, and inventory		
Determine what capital investments are necessary for the near term based on cash forecasts		
Identify alternate financing options		
Explore how your existing assets could be used to generate alternate revenue sources		
Apply for Paycheck Protection Program. Review Paycheck Protection Action Plan		
Contact your financing partners to ensure your available lines of credit remain available, and to explore additional finance options		
Create cash flow sensitivity analysis		
Review receivable collection process and focus on customer -specific payments		
Establish an agreement with your suppliers if you need to delay payment		
Audit payables and receivables transactions to manage cash flow		
Identify where you can convert fixed costs to variable costs		
Review insurance policies & business interruption coverage		
Research legislation regarding all the new tax credits and employer benefits		

11 Capital Management RESOURCES

- Paycheck Protection Playbook
- Economic Injury Disaster Funds Playbook
- Main Street Lending Program Playbook
- Guide to PPP - Overview
- Video Tutorial of PPP
- Corona Calculator
- Guide to PPP - Applying for a Loan
- Guide to PPP - Calculating Max Loan Amount
- Guide to PPP - Loan Forgiveness
- Guide to PPP - Action Plan
- Ten New Benefits for Small Businesses
- U.S. Treasury Coronavirus Actions Page
- IRS Coronavirus Page
- U.S. Department of Labor Coronavirus Page
- US Chamber of Commerce Payroll Protection Program Summary
- Small Business Administration (SBA) Paycheck Protection Page
- Small Business Administration (SBA): Small Business Guidance & Loan Resources
- Goldman Sachs
- NADA