



SCHNEIDER DOWNS

Big Thinking. Personal Focus.

Business Operations During COVID-19

March 25, 2020

Big Thinking. Personal Focus.

Welcome and Introduction

- Welcome to Schneider Downs Business Operations During COVID-19 Panel
- Housekeeping
 - Webinar is being recorded
 - Slides will be sent to attendees
 - We will try to identify speakers
 - Send questions to questions box on your dashboard
- Agenda
 - Introduction
 - Panelist Bios
 - Panelist Presentations
 - Moderated Questions – Submit to Questions Box
 - Wrap-up

Today's Panel

- Introduction
 - Purpose
 - Covered Subjects
 - Operations and Cash Flows
 - Financing, capitalization and M&A
 - Fraud and Claims
 - Not Covered - Taxes
 - Additional Resources - <https://www.schneiderdowns.com/our-thoughts-on/category/Coronavirus>
 - Tax Provisions of the various Laws
 - Financial Relief provisions
 - SBA resources and provisions
 - Operating and cash flow articles
 - Today's Moderator and Panelists
 - Joel Rosenthal CPA, CVA, CM&AA -Shareholder – Business Advisory Services
 - Mike Von Lehman CTP – Director – Schneider Downs Meridian Services
 - Peter Lieberman CEO – Schneider Downs Corporate Finance
 - Tom Pratt CPA, ABV, CFF, CVA – Shareholder – Business Advisory Services

Professional Profiles

Joel M. Rosenthal, CPA, CVA, CM&AA
Shareholder
Business Advisory Services



Joel
Rosenthal

Joel is responsible for providing specialized business advisory services. Over his 30-year career, he has earned a reputation as an insightful consultant in multiple service areas, including buy side and sell side transaction advisory services, financial modeling, forensic investigations, business valuation, inventory management, fraud prevention and business planning. Joel's extensive experience as an advisor in business transactions, forensic analysis, valuation and business strategy provides our clients with exceptional business advice.

Joel's experience includes participating in and advising over 250 business transactions on both the buy and sell side. He has also led forensic investigations for commercial, nonprofit and governmental entities. The forensic investigations involved misappropriation of assets, financial statement fraud and corruption and bribery. In addition, Joel has significant experience in auditing.

Joel performs valuations for businesses for mergers and acquisitions, financial reporting, and for other purposes such as gift and estate tax.

Prior to joining Schneider Downs, Joel served as a consultant, accounting and audit shareholder, as well as the director of a manufacturing services group, for a regional accounting firm. He also has experience working for a national accounting firm.

Contact Joel at (412) 697-5387 or jrosenthal@schneiderdowns.com.

Professional Profiles

Michael T. Von Lehman, CTP

Director

Schneider Downs Meridian

Michael is a Director with Schneider Downs Meridian, joining the Schneider Downs in 2015 with its acquisition of The Meridian Group. During his career, he has worked with scores of companies from many industries, providing each client with in-depth analyses and consultation in order to become more efficient and profitable. Key industries where Michael's guidance has led to financial rejuvenation are manufacturing, distribution, construction and real estate.

Michael has guided clients through a variety of financial issues including working capital shortfalls, cash crunches, over advanced borrowing positions, liquidity concerns and poorly built debt structures. His advice has enabled many companies to return to profitability and restructure/refinance borrowing facilities to better meet the needs of the businesses.

In addition, Michael regularly provides consulting services for parties within the bankruptcy arena such as trustees, examiners and unsecured creditor committees.

Contact Michael at (412) 697-5248 or mvonlehman@schneiderdowns.com.



**Michael
Von Lehman**

Professional Profiles

Peter J. Lieberman

Chief Executive Officer

Schneider Downs Corporate Finance, LP

As Chief Executive Officer, Pete is responsible for managing transaction and business development activities for Schneider Downs Corporate Finance's middle-market mergers and acquisitions, and the real estate investment banking practice.

Since Pete joined in 2006, SDCF has completed more than 50 mergers and acquisitions and capital raising transactions, establishing its growing real estate equity practice and cemented its position as a leading regional middle-market investment banking practice. Over the course of Pete's 20-year investment banking career, he has advised clients ranging from multinational public companies to individuals seeking to acquire their first business. This work has spanned numerous industries, with particular emphasis on engineered industrial products manufacturing, real estate, energy services, building products, metals, business services, consumer products and food processing.

Contact Pete at (412) 697-5364 or plieberman@schneiderdowns.com.

*Schneider Downs Corporate Finance, LP is a registered broker/dealer.
Member FINRA/SIPC.*



**Pete
Lieberman**

Professional Profiles

Thomas D. Pratt, CPA, ABV, CFF, CVA

Shareholder

Business Advisory Services

Tom has more than 35 years of experience in public accounting and business consulting providing forensic accounting, litigation support, business valuation and financial reorganization services to a diverse client base. His clients have ranged from large publicly-traded companies to middle market and small, closely-held businesses. His clients also have included numerous governmental entities and not-for-profit organizations. Tom works with clients from a wide variety of industries including construction, manufacturing, retail, energy, professional services, healthcare, technology and financial services.

Tom has led hundreds of consulting engagements during his career, including internal investigations of allegations of fraud and misconduct, analysis of Ponzi and other fraud schemes, business and fraud risk evaluation, shareholder and partner disputes, commercial damages, economic losses and business interruption claims. He has also performed business and intellectual property valuations for litigation, financial reporting and other purposes such as estate, gift tax and ESOPs.

Tom has extensive experience in the presentation of complex financial and accounting analyses to business executives, boards of directors and government officials. He has testified as an expert in both federal and state courts and arbitration proceedings on accounting and valuation matters, and has served as a neutral mediator in financial disputes.

Contact Tom at (412) 697-5615 or tpratt@schneiderdowns.com.



**Tom
Pratt**

Actions to Take - Operations

Develop COVID Task Force – This small group should be meeting frequently, particularly during this time of constantly changing dynamics. Should include different representatives from different areas and ranks of the Company.

Communicate - Current information about your market and industry is pivotal. Reach out to customers, suppliers and competitors to understand their assessment. Determine how their business will affect your business.

- Are customers thinking about canceling orders?
- Are your suppliers overly reliant on affected regions?
- Can customers/vendors survive a downturn?

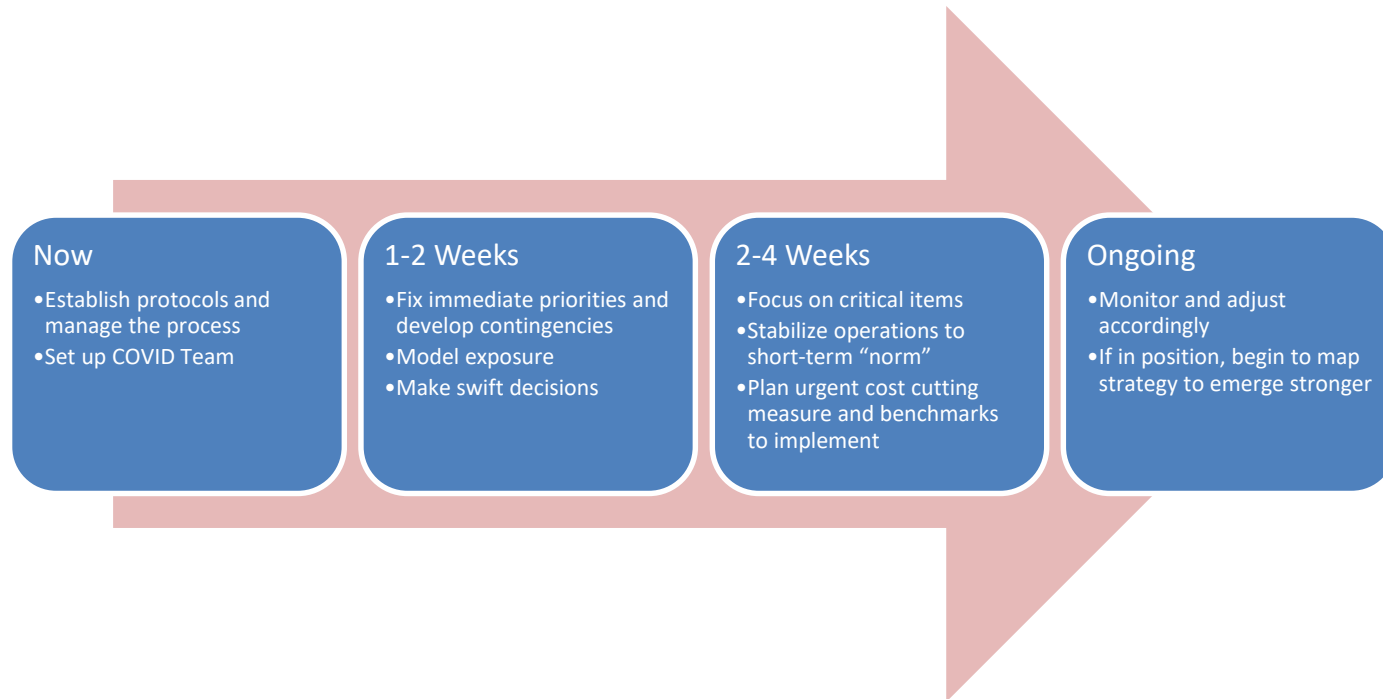
In addition, communicate to your bank often and openly so it understands the anticipated financial impact and the resulting potential borrowing needs. You may need to alter terms, covenants, limits or even reporting dates (e.g., year-end financials may not be available by April 30). In addition, while leadership is top-down, information in a crisis flows bottom-up. Make sure you are listening to employees.

Supply Chain Management - It's not too late to start to diversify. The pandemic will not affect every place simultaneously, so consider location in the analysis.

Actions to Take - Operations

Build Contingency Plans – Develop immediate and short-term actions based on performance/benchmarks and stick to those plans. Nothing should be off the table.

Assess Labor Force – Be flexible and transparent. There is no roadmap for black swan events. Recovery could be months away or longer, so take duration into account when making labor decisions.



Actions to Take – Financial & Legal

Model Financial Impact - Develop financial models – specifically a cash flow projection – and analyze scenarios ranging from best case to worst case over the next six months. Areas to consider include delaying CAPEX spending, renegotiating contract terms and conditions, cutting expenses and leveling staff. Make sure you understand extreme downside scenarios.

Increase Reporting - Implement rapid reporting cycles on business performance. Iteratively update contingency plans to prioritize critical needs of the business, and address where mitigation is required.

Hoard Cash – This is not to say refuse to pay vendors, but be mindful of the uncertainty moving forward and treat cash as a precious commodity.

- Speak with your bank about 90-180 days of interest only.
- Defer/cancel dividends or distributions.
- Delay bonuses
- Seek government funds

Legal Review - Immediately evaluate insurance claim options and understand what documentation will be required. Contact legal counsel if necessary and develop a plan to maximize recovery. In addition, have lawyers review contracts for force majeure and other clauses that could come into effect.

Short-term Liquidity Strategies

- Preserve/Generate Cash from Internal Sources
 - Existing Credit Facilities
 - Draw down lines of credit to extent possible
 - Communicate early and often with lenders regarding required debt service payments
 - Review vendors/creditor
 - Determine who can be stretched or deferred either partially or in full
 - Capital call from owners/investors

Emergency SBA Loans

- 7(a) Loan Program – Contemplated for expansion under CARES legislation currently under negotiation
 - Traditional SBA loan program available to for-profit business, expanded to include not-for-profit organizations, each with less than 500 employees
 - Up to \$10mm loans, increased from \$5mm
 - Eligible uses expanded to include payroll support (including paid sick or medical leave), employee salaries, mortgage payments, insurance premiums and any other debt obligations.
 - Prior eligible uses related to expanding a business: acquire land, buy/expand/renovate buildings, buy equipment or inventory, acquire a business, working capital; Terms vary and are determined by lenders, within SBA guidelines
 - One year of payment deferment for 7(a) loans

ALL MODIFICATIONS TO PROGRAM SUBJECT TO FINAL LEGISLATION

- SBA Economic Injury Disaster Loan Program
 - Up to \$2mm
 - Available to businesses that have suffered substantial economic injury in a declared disaster area
 - Eligible uses included payroll, A/P, other debt service
 - Up to 30 year term, interest rate no more than 4%
 - Size restrictions based on industry – criteria either revenue or number of employees

Apply at <https://disasterloan.sba.gov/>

Pros	Challenges
Cheap	Programs not fully baked
Payments can be spread up to 30-years	May need first position on assets
Potential for less stringent financial review	Size restricted
Expanded criteria and federal guarantee	Could take 30-days or more to get cash

Non-bank Lenders

Second-lien Lenders

- Debt funds and other non-bank lenders that take a 2nd position on corporate assets
 - High interest rate/other fees typical
 - Can move quickly

Pros	Challenges
Fast	Very expensive
No first-lien on assets needed	
Potential for less stringent financial review	

Non-Traditional Asset-Based Lenders

- Debt funds and other non-bank lenders that take a 1st lien on inventory, receivables and other corporate assets
 - Less expensive than 2nd lien lenders, but require more stringent review of assets

Pros	Challenges
Cheaper than other quick sources	May require physical inspection of assets
Not dependent on past earnings/leverage	If leveraging inventory, requires appraisal
Potential for less stringent financial review	30-45 day close

Non-bank Lenders (cont.)

Factoring Receivables

- Sale or assignment of receivables to factoring company that pays a discount
 - Discount based on a number of factors but can be as high as 20% and sale may exclude certain receivables
 - Non-recourse financing

Pros	Challenges
Fast – can be done in days	A/R can't be pledged to anyone else
	Expensive (12%-20% rate)
	May require notification to customer

M&A Strategy: Short- and Long-term

Potential Sellers

- Preserve the Enterprise
 - Key customers
 - Key employees
 - Assets & Facilities
- Keep track of disaster related losses
 - Identify potential addbacks for adjustments to financial reporting to buyers
- If possible, invest in areas where weaknesses/challenges to corporate sustainability are exposed
 - Supply chain
 - Management/IT infrastructure

Potential Buyers

- Preserve the Enterprise
- Maintain relationships with financing sources
- Identify potential targets
- If you have capital today, start reaching out

Fraud In The Current Environment

- Remember the three factors that drive fraud:
 - Need / pressure
 - Rationalization
 - Opportunity

- Don't be a victim
 - Internal
 - Disbursement or purchasing schemes
 - External
 - Spike in data security incidents

Control What You Can Control

- Anti-fraud controls do reduce losses
 - Proactive data monitoring and analysis
 - Employee support programs
 - Management review
- Adapt controls to changing circumstances
 - Keep your guard up
- Don't be a perpetrator

Integrity of Financial Information

- It may go without saying, but:
 - The accuracy and integrity of financial information and reporting is critical
 - It is important to be transparent with all stakeholders
 - Bankers
 - Vendors
 - Customers
 - Minority shareholders and partners

Financial Impact Claims

- Obvious substantial financial impacts of current situation
 - Lost revenue
 - Lost profits
 - Lost value of business
- Impacts should be linked to COVID 19
- COVID 19 is not an excuse for poor decisions
 - Also not an excuse for market trends that were already occurring

Types of Impact claims

- Insurance Recovery
 - Business interruption
 - Disaster
 - Other
- Contract
 - Breaches
- Government
 - Yet to be determined

Common Elements of Claims

- Lost revenue
 - Duration

- Costs
 - Variable
 - Fixed
 - Ongoing

- Mitigation

Important Information for Claims

- Budgets and business plans prepared in the ordinary course
 - Prior to March 2020
 - Recovery plans
- Accurate capture of actual experience
 - Importance of complete, timely and accurate accounting data
 - Past performance compared to budget / plan
 - Segregation of impacts
 - Revenue
 - Costs



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Panel Discussion

Submit any unanswered questions in the Questions box on your dashboard.

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Panel Discussion - Submit questions on your dashboard



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Wrap Up

- Summary and Observations
 - Mike Von Lehman
 - Pete Lieberman
 - Tom Pratt
- Additional Resources to be added to our website as information becomes available at
 - <https://www.schneiderdowns.com/our-thoughts-on/category/Coronavirus>
- See our Bios if you would like to reach out
- Thank you