Practical considerations for finance leaders as organisations aim to recover from the impact of COVID-19

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Building a better working world

Introduction

We know that disruption and volatility have been the hallmarks of the global business and economic landscape for many years. The current COVID-19 crisis has only added to the speed of change and emphasised that no organisation is immune. The initial focus for CFOs in the "resilience" phase has been protecting their business by focusing on liquidity, accessing government grants, furloughing staff, fast moving financial planning and transitioning to virtual working where possible.

Moving forward, to survive and thrive in this "new normal," organisations must think and act differently in all areas of the business, including finance. With the pace and extent of change that organisations now face, finance must provide more than a business as usual service. Finance must become increasingly agile to help respond to the new demands on their organisation. Answering that call will require fresh thinking, new approaches and more powerful technologies — in other words, a complete transformation of the finance function as we know it today.

In this paper we have asked seven practical questions that CFOs will need to address as we move into the "recovery" phase:

1. How do I adapt my workforce and organisation to the new business landscape?
2. How do I drive cost efficiencies whilst building resilience for the future?
3. How do I plan for, measure and drive performance in the future?
4. How do I maintain financial control and financial reporting compliance?
5. How do I act on the tax implications and opportunities?
6. How do I manage mergers and acquisitions activity in these turbulent times?
7. How do I optimise the management of my balance sheet?

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EY teams anticipate three phases of response to COVID-19, Now, Next and Beyond; each phase represents a different set of challenges and priorities for the CFO.

Horizon 3: BEYOND

Reframing the future for the new normal – companies and households leaning into new fundamentals and implications of customer behaviour, government interventions, economic norms and societal changes

Longer term

Resurgence

Value creation – exploit the longer term shift and economic recovery to establish capabilities, strategy and presence for long-term value creation and enterprise resiliency in the face of future crises

Horizon 2: NEXT

Embracing the recovery – once restrictions and health concerns subside, people cautiously resurface from isolation, businesses reignite and new ways of working emerge

e.g., 30–90 days

Recovery

Value preservation – igniting and understanding how to return people and business to previous operating rhythms whilst embracing new expectations to safeguard people and business

Horizon 1: NOW

Responding to immediate crisis – country governments setting unprecedented plans to protect the safety of households and earners

e.g., 0–60 days

Resilience

Protect and operate – triage short-term needs of people, society and business to ensure continuity and financial viability led through robust situation and stakeholder management

In the early part of the pandemic, and as governments began to enforce lockdowns, the priority for business leaders, including the CFO, has been to safeguard their staff, retain liquidity and maintain business continuity where possible.

Whilst the above priorities are still critical, as governments around the world start to ease lockdown measures and kick-start the economy, businesses now need to also focus on recovery and stabilisation as we enter the "next" phase. At the enterprise level, we believe businesses need to consider how they restart and adapt their business, and ensure a resilient recovery:

NEXT
Recovery

This paper focuses on some of the aspects that will now be on the CFO agenda. We believe that there are seven key questions that the CFO should consider when leading the Finance function and wider business through the "recovery" phase:

1. How do I adapt my workforce and organisation to the new business landscape?
2. How do I drive cost efficiencies whilst building resilience for the future?
3. How do I plan for, measure and drive performance in the future?
4. How do I maintain financial control and financial reporting compliance?
5. How do I act on tax implications and opportunities?
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1

How do I adapt my workforce and organisation to the new business landscape?

There will be a lasting impact on people because of the pandemic. In the “recovery” phase, finance must learn from the lockdown period and respond to the opportunities and challenges caused by changes in working practices. It should be particularly agile in adapting the finance operating model to reflect changes to the business size and shape post COVID-19.

Adapt to the way people will want to work in the future

The period of lockdown has demonstrated that finance can in most cases continue to support the business successfully through mass remote working; and though the expectation is that we will see people returning to the office to a degree once governments ease lockdown measures, the blend between home and office working may be forever rebalanced.

In the short-term there will be a need for continued social distancing to safeguard employees. Strategies such as keeping a free desk between each workstation, staggering working patterns, and the closure of common facilities such as the canteen will need to be considered. We recommend that there is a phased ramp-up of office working, so that policies and procedures can be continually tested for effectiveness and adapted as office working scales up again.

In the longer term, the expectation from staff, and management’s willingness, for home working will increase. In turn this will redefine the way office space is thought of and utilised – they will be less associated with people coming in just to do their day-to-day role, but more of a space to collaborate, innovate, and socialise.

CASE STUDY

A global consumer goods company has segregated their Global Business Services (GBS) Finance team into two groups, with each team working on a “two weeks on” and “two weeks off” basis in respect to working from the office to allow social distancing in the workplace. Teams working on business-critical activities will continue to work remotely full time to ensure business continuity.

Change the way you manage and measure your employees

The increased level of remote working will drive a shift in how employee performance is monitored and managed. With Mangers having less day-to-day visibility of what their staff are doing, there will need to be a greater reliance on team and individual outcome measures to track performance, e.g., how many vendor queries are resolved on time by each AP clerk? Technology can also help support employee management:

- Service and task management tools, which in the past have almost exclusively been utilised by Shared Services Centres (SSCs)/Global Business Services (GBS) centres, can facilitate the monitoring of workload, productivity, and cycle time.
- Process mining tools can be used to conduct deep analysis and create a data driven view on how the process works, helping to identify opportunities for improved productivity.

Revisit the finance operating model

COVID-19 has had an unprecedented impact on business and its affect across different sectors varies significantly. In many sectors, where organisations have been particularly hard hit by COVID-19, finance will need to remain agile in the short-term. Uncertainty on the level of business and consumer activity may mean that organisations need to rapidly scale back operations. As an example, there may be significantly less volume throughput of vendor invoices or customer receipts, meaning that less Purchase to Pay or Order to Cash staff are required. In addition, Financial Planning or Controlling staff may be faced with less demand by the business if wholesale parts of the company are shutdown or are radically downsized. To aid recovery, CFOs should look to resize and reshape their finance functions as quickly as possible to match the reality of new business landscapes and new baseline of activity, but with a focus on resilience and flexibility.

Longer term, as physical office location and people's proximity to their workplace becomes less important due a greater level of home working, the CFO will have an opportunity to build a Virtual finance function – sourcing of finance professionals will be less constrained by where the office is based, and more focused on getting people with the right skill set. This could mean a more dispersed finance function, but one that is potentially more skilled and connected with the frontline business. To enable this, finance will need strong interaction models between virtual teams and clarity on roles and responsibilities.

Organisations with outsourced operations have had varying experiences in respect to the level of resilience shown by their Business Process Outsourcer (BPO). There have been instances where customer contact centre staff had not had the right technology to enable home working, disrupting operations. Whilst some BPOs, particularly in finance, have adapted well and continued to provide business continuity. Either way, we suggest companies review the operational resilience of their providers to drive their future sourcing strategy. The commercial model with outsource providers may also need to be quickly revisited – if contracts are fixed cost or Full Time Equivalent (FTE) based, and volumes have dropped, these should be refreshed/renegotiated.

CASE STUDY

A global automotive company that had invested in setting up Global Business Services (GBS) centres across several locations quickly moved to a home working model at the outbreak of COVID-19. As a result of GBS functions continuing to be effective in this model, the organisation is now rethinking its operating model to include an element of virtual GBS as well as further investment in digital enabling technologies.

2

How do I drive cost efficiencies whilst building resilience for the future?

In a post-pandemic world, many organisations will find themselves under unprecedented pressure to cut operating costs. As CFOs oversee enterprise wide cost reduction programmes, finance will need to lead by example by improving its own efficiency.

Accelerate automation

Greater levels of automation within processes can not only reduce the cost to serve, but also reduce the impact from potential human workforce disruption in the future. Whilst many finance functions were already actively working towards a greater level of automation, we will now see an acceleration of these initiatives. Companies should look to leverage an ecosystem of technologies that complement each other to achieve an end-to-end "touchless" process as much as possible. Technologies such as robotic process automation (RPA), machine learning algorithms, and chatbots can be quickly deployed with potential payback periods of just weeks or months. Developing a stronger automation capability within finance can also be scaled to the benefit of the wider organisation, for example in human resources or procurement.

A greater level of automation also intrinsically builds resilience into operations – we have seen that the finance teams that have been the most unaffected during the pandemic, are those that already had a high degree of automation and digitisation.

CASE STUDY

A global life sciences organisation reviewed all its transformation projects and decided to pause all projects except automation projects. The organisation recognised that automation will be important in supporting virtual working, creating greater resilience and enabling future transformation programmes.

Adapt your technology infrastructure

Following the rapid IT stabilisation required at the outset of the lockdown to enable remote working, organisations should now be considering their broader IT landscapes. For example, embracing cloud-based ERPs reduces the reliance on virtual private networks (VPNs) to access critical systems; and software as a service (SaaS) solutions can offer organisations real-time system upgrades and are typically cheaper to operate than on-premise solutions.

Enable virtual month-end close

The organisations we have seen struggle most to close their books and comply with their month-end timetable, are the ones with manual, spreadsheet-driven processes. For these companies, the management of the month-end close process has traditionally been reliant on emails or people walking across the office floor to keep colleagues updated on status and instigate sequential actions.

In the current environment, being able to report results on time becomes even more critical in allowing management to make timely decisions. In the first instance, we recommend a greater focus on the critical path for closing the ledger and reporting; this will minimise unnecessary activity and allow effort to be focussed on the most value-adding activities. For example, by applying materiality limits and adopting a risk-based approach to reconciliations, faster close can be achieved without impairing the quality of outcomes. Also, finance can look to spread their close activities more evenly across the month to better utilise resources at month end.

In the medium to long-term, task management solutions should also be considered to automate the month-end process; and by utilising an integrated dashboard (or a "close cockpit"), a real-time view on status and required actions can be made available for all, creating a digital and virtual enabled process for managing month-end.

Reprioritise effort and resources

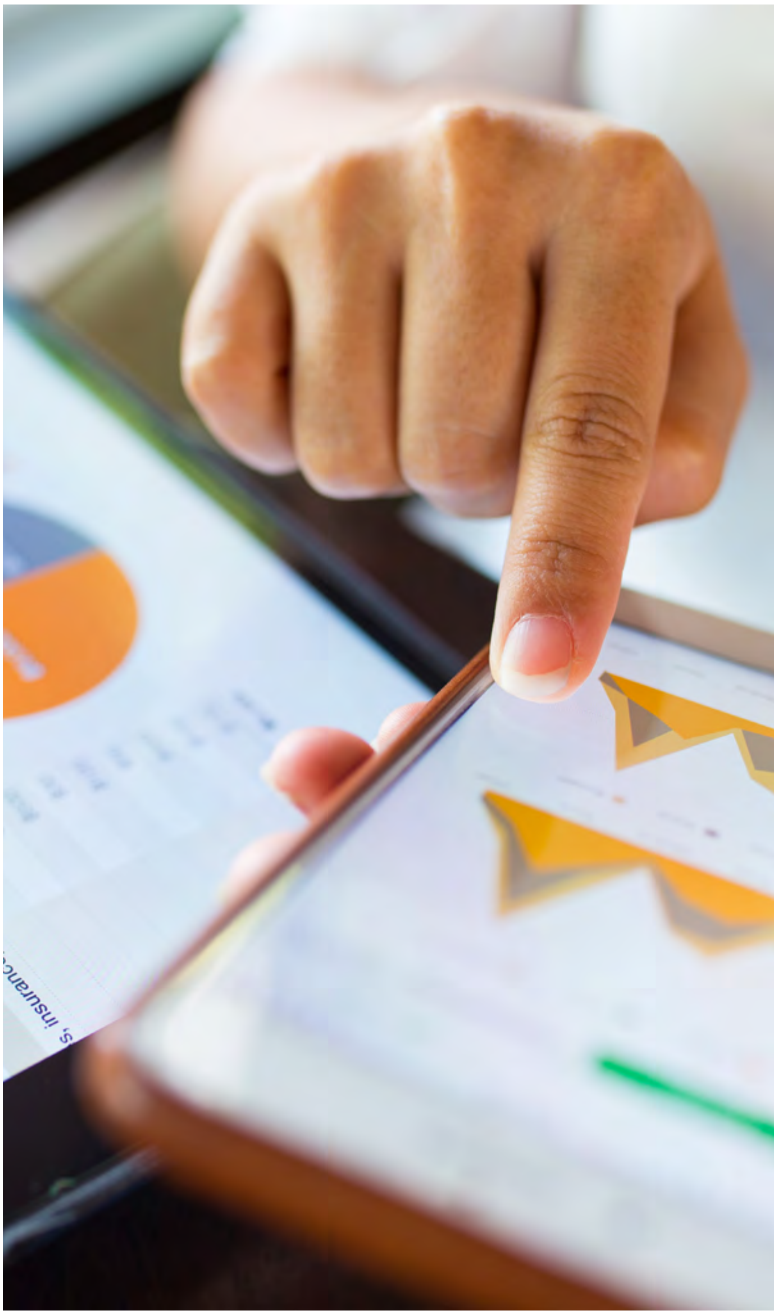
Where finance teams have experienced a short-term constraint on resources, many finance teams have had to reprioritise activities; the cadence of processes that were being performed every week or month pre-pandemic are now being reconsidered to ensure a focus on high priority activities. We suggest finance functions conduct a review of the impact that stopping activities has had on the business and make decisions accordingly on what needs to be reinitiated in the longer term versus what is not required.

CASE STUDY

We've seen finance functions produce only a fraction of their usual reports during the lockdown and this having little or no impact on managing their business; and whilst management expect this percentage to rebound to a degree, they will continue with significantly less than their pre-COVID volume of reporting.

Protect revenue and margin

In addition to cost reduction, the business should also focus on protecting revenue and margin. Finance business partners should support the company in conducting financial modelling to optimise the product, customer, and channel mix for on-going business demands and profitability. There may also be new revenue opportunities, for which finance need to rapidly develop the business cases, and support decisions on aspects such as investment and pricing.



3

How do I plan for, measure and drive performance in the future?

Shareholders are taking a more holistic view when considering what business success looks like. It is critical not to take a "wait-and-see" approach to financial planning; finance should support the business in planning for both short-term tactical requirements and long-term strategic growth, by driving valuable insight and optimising the decision-making process.

Change the way you plan and forecast

For many organisations, both short-term and long-term planning will be difficult – with many open questions about the future of the economy, customer behaviours, and the company's ability to rely on its supply chain. CFOs should consider how to rapidly adapt the organisation's current approach to planning and measuring performance to support the organisation in navigating the uncertainty. Practically, an organisation may consider:

- Taking a more dynamic approach to planning by running and maintaining multiple scenarios at the same time, rather than focussing on the worst-case scenario. Adopting monthly or quarterly rolling forecasts, supported by real time scenario modelling represents a more agile way for the organisation to plan, measure and adapt, than a budgeting process which may take months to develop and be obsolete by the time it is approved.
- Utilising deep analytical and statistical tools/techniques (e.g., Monte Carlo analysis) to take a risk-based view on the possible scenarios, and developing appropriate action plans as required.
- Simplifying the planning process, including planning at higher levels and only revising for material drivers and variances – the speed at which plans and forecasts can be produced and made available to leadership will be more important than trying to achieve a perfectly accurate view in these dynamic times.
- Implementing a more integrated planning process with customer and suppliers.
- Leveraging cloud-based forecasting and scenario modelling tools to enable rapid planning. Many agile and scalable tools are available today, which can quickly be integrated with ERPs and consolidation systems to deliver a seamless view.

CASE STUDY

A global consumer goods organisation has started to build its revenue planning capabilities to focus on margin improvement opportunities in the current economic landscape. Organisations in every sector are moving away from Excel-based forecasts, which provide little flexibility and accuracy of information, and implementing cloud-based planning and reporting solutions.

Refocus the way you manage performance in the short-term

Finance needs to understand the measures which are critical to their business in the short-term and adapt key performance measures accordingly. Companies should also consider measuring performance on a more regular basis — moving away from just a monthly view, and instead tracking performance on a weekly or even daily basis depending on the sector in which they operate.

Performance measures need to be tracked in real-time, on-demand and should allow regular revisions of underlying decisions. As an example, what happens if a scenario has changed? What is the cross-functional impact? How should we track the change? How can we help the leadership team make decisions based on the new scenario, instead of focusing on obsolete metrics?

CASE STUDY

Many private equity owned organisations have been released from their debt-to-income (DTI) ratio requirements, and are now being measured on aspects such as short-term liquidity and cost reduction targets to monitor survival and recovery in the coming months.

Rethink what drives long-term value

The pandemic has demonstrated to companies, and in particular large blue chip organisations, that stakeholders (including shareholders) are taking a more holistic view when considering what business success look like. Large, cash rich, organisations who have taken advantage of government support schemes (e.g., furloughing staff) have seen backlash from both within and outside of the company. In the long-term, the CFO can build a sustainable advantage by considering a broader set of stakeholders. They should take a more balanced view of what derives long-term value, including aspects such as social responsibility and sustainability.

4

How do I maintain financial control and financial reporting compliance?

Now more than ever, maintaining financial control and providing confidence on the company's income statement, balance sheet and cash flow statement to shareholders, banks and regulatory bodies is critical. CFOs should ensure financial controls are fit for purpose and maintain financial reporting compliance when the company is potentially entering unprecedented territory.

Enhance financial control

Many organisations are now finding themselves in a position where their controls framework no longer reflects new "normal' working practices. Where manual, physical controls could be previously relied upon, these controls are no longer feasible. Finance should work with its Internal Controls team to rapidly review its controls framework and ensure it is fit-for-purpose. The business should engage with outsource service providers to provide assurance over their key control environment.

In particular, the COVID-19 crisis means that there may be situations where there is a greater risk of fraud. Just by the nature of home working, some employees may feel more confident in attempting fraudulent activities, particularly if some controls are relaxed to enable business operations to continue. Companies should aim to put in more preemptive and system-based controls, as well as increasing the level of automation to help mitigate such risks.

CASE STUDY

Whilst performing Sarbanes Oxley (SOX) testing, a large pharmaceutical company realised that they no longer had access to supporting documentation relating from January to March when working from home. They modified the SOX testing approach so that they would no longer cover that time period, but they would pick up samples from those months when they later enter the normalisation process.

Ensure you have considered all accounting and IFRS implications

The COVID-19 pandemic has resulted in significant volatility in the financial and commodities markets worldwide. Various governments have announced measures to provide both financial and non-financial assistance to the disrupted industry sectors and the affected business organisations. Many companies have had to both change the way they operate and (in many instances, for the first time in their history) rely on some form of government support. In this time of turbulence, there are several items that need to be considered when reporting under IFRS. The following, whilst by no means exhaustive, highlights certain areas that the CFO may need to consider to ensure both IFRS compliance and the provision of useful financial information to stakeholders:

- **Going concern** – under IFRS, management is required to assess a company's ability to continue as a going concern, and whether the going concern assumption is appropriate. Disclosures are required when management is aware of, in making their assessment, material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern. In practice, this means a requirement to perform this analysis considering at least twelve months from the date on which the financial statements are issued.
- **Asset impairment and valuations** – with higher levels of uncertainty and market volatility, additional attention will be required when considering whether certain assets including property, plant and equipment, may be impaired, or whether changes are required to expected credit loss models for financial receivables. Finance teams will need to revisit existing models to assess if these are fit for purpose. Where fair value is used, assistance may be required from external valuation specialists to ensure the use of up to date market data and appropriate valuation techniques.
- **Government grants** – due to the severe impact on many companies' business activities, governments, agents or similar bodies have introduced assistance measures. However, not all these measures are considered government grants under IFRS. Entities should evaluate any measures or subsidies carefully and determine which standards should govern the respective accounting.
- **Revenue recognition** – companies may need to use significant judgement to determine the effect of uncertainties related to COVID-19 on revenue accounting, e.g., estimates of variable consideration (including the constraint) and provide appropriate disclosures. Decisions made in response to the outbreak (e.g., modifying contracts, transacting with customers during collectability concerns, revising pricing) may also have an effect on the accounting and disclosures for ongoing and future contracts.
- **Reporting financial performance** – companies need to consider the magnitude of the disruption caused by the outbreak to their businesses and adequately disclose the information about those assets and liabilities that are subject to significant estimation uncertainty, in order to provide users with a better understanding of the financial impact. Increasing focus is also being given to the disclosure and definition of alternative performance measures (APMs) by both regulators and stakeholders as companies look to better explain their business performance during this period.

The EY separate publication, *Applying IFRS: Accounting considerations for the coronavirus outbreak* provides further insights on these and other topics relevant for CFOs to consider in this area.

The EY *COVID-19 Acid test* also looks at what boards should consider when communicating the impact of the COVID-19 crisis and the company's response as part of their narrative reporting. Financial reporting will play an important part in the communication between companies and their stakeholders in this turbulent period.

5

How do I act on tax implications and opportunities?

The financial costs of COVID-19 could well create tax losses and other tax attributes, and not necessarily in the jurisdictions in which recovery will happen first and not always in a form that can be used immediately. At the same time, COVID-19 is likely to reduce the EBITDA levels of most businesses in the short and medium term, which means tax deduction rules that benchmark interest against EBITDA are likely to hurt.

COVID-19 is also likely to result in many groups adapting their supply chains to be better placed to deal with the new challenges that they face. Changes to working arrangements may lead to new tax obligations such as taxable permanent establishments in different tax jurisdictions whilst new contractual and product flows could trigger issues across transfer pricing, customs duties, withholding tax and VAT.

Identify the tax implications of your planned business actions

During the recovery phase finance should be considering the following:

- The impact of changes to the intercompany debt structure on the availability of future tax deductions and the tax cost if any, that could arise on a buyback, capitalisation, or waiver of existing debt.
- The structural tax aspects of new capital arrangements (withholding tax on future dividend and interest flows possibly mitigated by double tax treaties, the creation of new, or the disposal of old, permanent establishments and the monetisation of tax attributes arising during COVID-19).
- The transfer pricing and indirect tax costs of changes to group structure, changes to the supply chain and any changes to decision-making. The tax profile, intercompany arrangements, and tax compliance obligations will need to be reviewed.
- Investment and acquisition opportunities (factoring in the impact of new businesses and assets into the answers to the first three questions)
- The potential for new taxes introduced at various levels in response to COVID-19 – early identification may give the chance to pass on some of these costs or to assess the commercial viability of some of the new steps that are planned.
- The potential for technology to reshape the finance and tax function and deliver the information you need to plan in real time.
- New ways of dealing with tax authorities around the world as they adopt new technologies themselves and increase the sharing of information.
- Management of stakeholders and the need for a public tax strategy – the pressure on companies to behave responsibly in paying tax and contributing to the general recovery from COVID-19 is likely to grow.

6

How do I manage mergers and acquisitions activity in these turbulent times?

M&A will continue to play a critical role in supporting companies' strategies, with a stronger focus on business fundamentals rather than short-term asset valuation. Organisations should reassess ongoing M&A activity to ensure that the original investment thesis is still valid. Opportunistic deals could accelerate in the short-term, supported by low asset valuations and speculative strategies.

Reassess ongoing M&A processes

Typically, M&A activities are reduced considerably during periods of crisis, because of the uncertainty around asset valuations and financing options. Reassessing ongoing processes is therefore necessary to ensure that the original investment thesis is still valid. Companies and investors are taking different steps to protect their businesses, while pursuing on-going M&A opportunities:

- **Review business cases** – financial and operational plans need to be reviewed under different market scenarios, factoring in the current market uncertainty and potential future market and business model configurations. Uncertainty around demand trends, competitive landscape, operations, supply chain and financing structures could pose significant challenges in progressing on-going deals.
- **Renegotiate preliminary agreements** – it may be of mutual interest among the involved parties to review the terms of the preliminary agreement, seeking protection from unforeseeable risks while progressing the initiated process. Assessing opportunities and constraints could result in a more favourable outcome than an unsettling interruption of the process.
- **Suspend on-going processes** – the balance between onerous termination clauses and business uncertainty may justify a temporary or permanent suspension of an on-going process. While involved parties may engage in contentious discussions, this may be the preferred option to reduce risks and to protect availability of financial resources.

CASE STUDY

Multiple deals have been delayed until further notice during this period of protracted market uncertainty. When deals have been completed, they typically included significant risk protection clause within the deal structuring or performance driven payments. Investors who completed sizeable deals shortly before the current crisis have actively explored opportunities to reduce their exposure and implement alternative financing solutions.

Review opportunistic deals

Crisis can sometime offer unique investment opportunities, often triggered by distressed situations. Availability of significant financial resources and comparatively high-risk propensity may create opportunities for investors aiming to leverage market situations. Valuations for these deals are typically dictated by the urgency of the deal. Contrarian and activist investors, sovereign wealth funds, and other hedge funds are typically exploring opportunities for distressed investments.

Industry consolidation among players facing significant overcapacity could be considered as an opportunistic action, triggered by the necessity of complementary players to achieve higher level of efficiency in order to compete more effectively on the market.

While these deals typically focus on short-term return and rarely enable industry transformation, they can offer significant return for investors and may be an attractive solution for involved parties who may otherwise face existential challenges to their business.

CASE STUDY

Sovereign Wealth Funds have built significant investment portfolios during crisis time, leveraging depressed asset valuations, cash availability and relatively concentrated decision authority. Companies are often considering such investments as alternative to other financing options, which may bring more stringent governance and financial conditions.

Invest in fundamentals

In the long-term M&A will continue to be a significant lever for organisations in implementing their strategy. Companies will continue to pursue opportunities for improvement and transformation through deals. While assessing a potential deal, companies and investors will focus their attention on business fundamentals, which will underpin the success of the beyond in as many scenarios as possible, mitigating the impact of further uncertainty.

Purpose and long-term value may play an increasing role in shaping investors' and companies' strategies and goals, shifting the attention toward a more sustainable level of return and taking into consideration the evolving needs of a broader set of stakeholders. As such, the M&A process of the future may consider dimensions that currently are marginally considered, in order to protect the potential value creation of any given deal. For example, environmental sustainability, data privacy and employee satisfaction may contribute to the success of a deal as well as its financial projections.

Equity stories will have to reflect this broader perspective, engaging effectively with broader communities of stakeholders beyond shareholders, but involving customers, employees, suppliers and Government organisations, among others.

CASE STUDY

Several investment funds are redefining their purpose to embrace a broader definition of return, which better aligns with their evolving investors' needs and priorities. Environmental, societal and governance standards are being included in investment decisions, together with financial return. Funds dedicated to sustainable investing are growing at a fast pace, offering alternative investment strategies to institutional and retail investors.

7

How do I optimise the management of my balance sheet?

As the impacts from the COVID-19 pandemic continue to be realised and understood by organisations, finance leaders should consider the multiple levers that can be pulled to protect the balance sheet now, and through future uncertainty.

Maintain cash discipline

During this crisis time, organisations are tightening their cash management practices to mitigate the impact of any further uncertainty. We have identified five main components for strong cash discipline:

- **Cash controls** – bringing cash under central control protects the business from inefficient usage of financial resources and prepares it for cash shortages as a result of any future shocks.
- **Short-term cash flow forecasting** – rigour and accuracy are critical in understanding real-time cash-flow and enabling quick decision-making.
- **Cash flow initiatives** – leveraging the lessons learnt during the crisis time, organisations should identify, build and sequence a portfolio of cash improvement actions to enhance their cash flow management.
- **Strategic funding** – organisations need to develop scenarios that demonstrate continued financial viability to various stakeholders in alternative, and potentially extreme, scenarios.
- **Cash war room** – while temporary structures aimed at managing the peak of the emergency may be dismissed during the "recovery" phase, organisations should adopt a governance system that ensures cash considerations are a continued focus in business decisions.

Mange the availability of credit facilities

Organisations need to ensure the availability of credit facilities to support them during periods of prolonged uncertainty. Having a good understanding of credit requirements is an important starting point, but mobilising credit facilities have proven a challenging process during the crisis and may continue to be so in the medium-term.

Banks and funds have been overwhelmed with the volume of funding requests for COVID-19 support. Therefore, to ensure a quick response and maximise the prospect of support from lenders, organisations should ensure they have a clearly articulated lending request. When approaching lenders, finance leaders will need to:

- Have all the supporting information available.
- Articulate what support is already received from shareholders and existing lenders.
- Be clear on how they will repay the new debt in addition to any other existing debt.
- Prove the business was a viable lending proposition before COVID-19.
- Lay out what self-help measures have been taken so far to minimise the impact of COVID-19.
- Show how COVID-19 has impacted the business.
- Demonstrate a credible recovery plan after COVID-19.

Explore other balance sheet optimisation "levers"

While the actions discussed above play a critical role in optimising the balance sheet during the "recovery" phase, finance should consider a wider portfolio of actions that may also include:

- **Expenditure prioritisation and liquidity planning** – businesses should continuously perform the following actions in order to manage their liquidity position during the "recovery" phase:
  - Clarify "recovery" objectives and plans, balancing potential trade-offs between short-term performance and long-term business sustainability.
  - Ensure sufficient liquidity to support recovery, to mitigate impact of potential risks.
  - Take advantage of opportunities to permanently reduce cost base, and eventually evolve the operating model in order to mitigate the exposure to significant fluctuations in demand or supply.
  - Identify opportunities to acquire distressed assets and/or protect its own position, to strengthen its competitive advantage and transform its business.
- **Government support review** – given the critical role played by governments and related organisations, businesses should continue to actively manage the support available to protect the interest of its stakeholders. Overtime, businesses should review the appropriateness of the continued utilisation of government support (including any imposed conditions) against perceptions, needs and objectives of other stakeholders.
- **Pension schemes review** – trustees and sponsors of defined benefit pension schemes should be acting now to take measured approaches to mitigate the potential risks.
- **Contracts and disputes management** – businesses should review and actively manage their contractual obligations to ensure liquidity planning and cost reductions can be legally achieved, and prepare for increased disputes.

CASE STUDY

During the "resilience" phase many private equity owned companies stopped all investment (capex and opex) spend to protect cash, including the deferral of major transformation programmes. However, as they now enter the "recovery" phase, they have begun to allow investment in initiatives that offer a positive cash return within the year.

The EY Digital Finance team brings together a comprehensive set of service offerings to help finance functions respond to increasing demands, build resilience and deliver outcomes that optimise and protect our clients' businesses through the "recovery" phase and transform for "resurgence".

The team focusses on practical solutions to help our clients to protect profit, deliver efficiencies, build future resilience, improve enterprise performance management insight to deliver outcomes in an uncertain world, and enhance the value they can add to their organisation.

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