KPMG

ZaidIbrahim&co
a member of ZICO | law

COVID-19 Mission: Recovery
Options for distressed companies

KPMG Webinar Series

12 May 2020

—

www.kpmg.com.my

KPMG

ZaidIbrahim&co
a member of ZICO | law

Panellists & Speakers

Adrian Hong
Head of Restructuring Services,
KPMG in Malaysia

Alvin Julian
Partner,
ZICO Law

Tan Wooi Hong
Partner,
ZICO Law

Ang Siak Keng
Partner,
ZICO Law

Agenda

01

Post-MCO / COVID-19 Financial Reset

02

Rescue options available

03

Questions & Answers

KPMG

Post-MCO / COVID-19 Financial Reset

By KPMG

Sectoral expectations

High

Pace of COVID Recovery

Slow

Fast

"HARD RESET"

Industries which struggle to recover from COVID due to "permanently" lowered demand for offerings, insufficient capital to ride out extended recession

- Airlines (carriers and manufacturers)
- Brick and mortar retail
- Higher education
- Energy
- Hotels
- Restaurants
- Entertainment venues

"SURGE"

Industries which will boom post-COVID as consumer behavior that was altered during the crisis is sustained in their favour. Investors sense their growth potential and provide capital to grow aggressively during recovery.

- Online retail
- Technology/Media/ Telecommunications
- Food delivery
- Tele-medicine
- Asset management/Private Equity
- Life Sciences/Pharmaceuticals
- Interaction platforms
- Streaming media

REACT

Every firm must triage, then prepare for the likely recovery path for their sector

"TRANSFORM TO RE-EMERGE"

Industries which will recover but along a protracted path requiring reserves of capital to endure and transform operating models to emerge stronger and more in line with changed consumer priorities.

- Travel and Leisure
- Automotive (bias to electric)
- Durable goods
- Other Industrial Manufacturing
- Professional services
- Insurance
- Healthcare
- Real estate/Construction

"MODIFIED BUSINESS AS USUAL"

Industries which are seen as daily essentials will suffer effects of the consumer shutdown/recession but will recover more quickly as consumer demand returns in similar volumes.

- Banking
- Consumer goods
- Agriculture
- Transportation

Low

Degree of "Permanent" Change to Industry Economics

Financial Stress Testing and Forecasting

Financial stress testing and forecasting | Liquidity and financing | Financial crisis response and contingency planning

Short term

- Set up a robust short term cash flow (STCF) forecasts at business unit and group level, reviewing weekly against prior forecast and outturn
- Reconcile the STCF with monthly financial forecasts including P&L, balance sheet and funds flow
- Assess enterprise-wide cash flow risks to spot potential downsides to the STCF; analyse them by timing, quantum and probability
- Identify rapid, achievable ways to reduce costs and preserve cash:
  - e.g. maximising existing supplier payment terms
  - e.g. deferring capital expenditure on growth projects
  - e.g. closing or reducing operations
- Match cash mitigation initiatives to STCF risks, based on timing and quantum
- Assess the impact of cash flow scenarios on cash reserves, facility headroom and financial covenants, revisiting weekly
- Initiate early discussions with lenders or funders if necessary, supported by forecasting packages that combine monthly reports, STCF forecasts and potential risk scenarios

Medium term

- Forecast the full P&L, balance sheet and cash flow effect of hibernating then re-awakening parts or all of your business. Not only will it help you in the contingency planning exercise you should be undertaking, but your stakeholders will expect you to have done so
- Put short term cash flow on the agenda of monthly Executive or Board meetings, allocating cash flow targets outside the Finance function
- Consider early discussions with lenders and funders if forecasts predict a funding shortfall beyond the horizon of the STCF

Long term

- Assess the potential impact of short-term disruption on longer- term financial behaviour by customers and suppliers
- Reengineer customer journeys and processes to take account of altered behaviours for change of business models.

Short term

Medium term

Long term

Liquidity and Financing

Financial stress testing and forecasting | **Liquidity and financing** | Financial crisis response and contingency planning

Short term

- Draw down all existing funding lines to maximise available cash
- Take a holistic view of the full range of internal and external options to support your liquidity, including 6-month automatic deferment for all loan/financing repayments beginning April 2020
- Identify levers which can be used to accommodate different scenarios.e.g sale of redundant assets, closure of unprofitable lines. This will illustrate to lenders proactive identification of risks and steps taken to mitigate
- Assess baskets and triggers under existing financing documentation
- Evaluate funding strategies, options, markets, lenders and other sources of capital in order to meeting your funding needs in the timescale available
- Approach lenders both on financing facilities backed by the Government (where eligible), and in connection with wider lending support they may be able to offer outside of those.
- Engage with relevant stakeholders on support provided by the Government (e.g. Wage Subsidy Programme, restructuring and rescheduling of employer's EPF contribution)
- Review tax compliance processes to maximise cash, ensuring claims for all tax reliefs and incentives have been made
- Engage with other significant 3rd party creditors on payment deferral options,
- e.g. with landlords on rent
- Set up spending freezes and tighten authorisations to limit spending
- Brainstorm a 'self-help plan' to preserve and generate cash, and initiate actions in conjunction with all key functions

Medium term

- Establish a cash-focused culture across the business, valuing cash over profit (Cash is King!)
- Develop financing and lender
- engagement strategies to support the business with the funding or flexibility to trade through and out of the
- COVID-19 crisis
- Engage with lenders or alternative funding providers to maximise total available headroom, if required
- Set up a central cash management team (or individual) responsible for embedding cash maximisation
- processes
- Establish an Executive level cash committee
- Work with suppliers to understand their funding pressures and how they may impact your operations
- Keep abreast of any developments in the form of new / enhanced tax
- incentives and economic stimulus measures

Long term

- Embed robust short term and annual cash flow forecasts into budgetary and financial management cycles
- Consider ways to optimise funding arrangements for a less certain future
- Establish a sustainable strategic working capital programme to ensure that liquidity is optimised under
- normal and stressed conditions
- Put in place long term financing to support a return to normalised trading conditions, including investment and growth
- Negotiate debt repayment schedule & debt covenants with lenders

Short term

Medium term

Long term

Financial Crisis Response & Contingency Planning

Financial stress testing and forecasting | Liquidity and financing | Financial crisis response and contingency planning

Short term

- Consider solvent financial/corporate restructuring, which entails the following:
  - Review current business model to achieve an optimum business model considering possible disposals, joint venture, joint business arrangements, etc.
  - Review current corporate and capital structure and consider if further capital funding is required from the existing shareholders or new investors
  - Engage with lenders on possible restructuring of current borrowings and eligibility for new financing
  - Review existing projects' viability, where relevant, and consider whether there are gaps in the financial projections (incorporating business outlook)/cash flow capacity vs. the existing financial obligations of the companies
  - Review existing tax structures and maximise tax benefits where possible
  - Consider mode of rescue (SoA, JM,CVA, CDRC, informal restructuring)
- If insolvency looks unavoidable, carry out contingency planning to decide on the most feasible strategy (i.e. exit planning and liquidation) to protect value for creditors. Get legal advice on insolvency options.
- Directors should consider their duties in a financially distressed situation, for example:
  - The duties owed by directors' shift from shareholders to creditors
  - Personal liability and disqualification risks should be considered
  - Wrongful trading or 'trading irresponsibly', a civil offence, should be avoided
  - The duty to ensure employee health and safety continues, including taking reasonable steps to control the spread of COVID-19

Medium and Long term

- Not applicable

Short term | Medium term | Long term

Financial Reset

	Financial stress testing & planning	Liquidity & financing	Financial crisis response & contingency planning
Challenges and concerns	• Lack of clarity on future financial requirements • Customers are hoarding cash while suppliers are seeking faster payment • Disruption is slowing revenue generation while fixed costs remain high	• Uncertainty over demand and supply leading to liquidity pressure • Difficult access to funding to meet liquidity requirements • Quick cash burnout, leading to breach in financial covenants	• Existing business is showing imminent funding shortfalls • Other refinancing options with lenders are becoming limited or will take time to arrange, or may already have been exhausted
How KPMG can help?	• Implement robust short term cash flow forecast, • Perform stress testing and sensitivity analysis; • Perform financial planning based on current cash flow status / requirement	• Funding requirement / refinancing / deferment options analysis • Debt / corporate restructuring assistance • Liquidity planning • Working capital management	• Implementing solvent financial/corporate restructuring plan with key stakeholders' support • Contingency scenario analysis (liquidation scenario, base case projected cash flow and sensitivity stress testing)
Expected outcome	• Better clarity on future financial position and performance • Identified cash flow shortfalls and ramifications • Identified opportunities for cost reduction and cash preservation • Understand possible scenarios (baselines vs. worse-case) and implementation of action plans	• More certain cash flow projections with additional source of funding / financial buffer • Negotiated debt repayment schedule & debt covenants • Improved working capital management and cash conversion cycle	• Reviving the business via a successful financial / corporate restructuring plan • Identified feasible corporate restructuring / recovery strategies (e.g. informal restructuring, corporate rescue mechanism, scheme of arrangement, liquidation, etc.) • Negotiated financial haircut and restructuring • Exit planning and liquidation

KPMG

Rescue options available

By ZICO

Rescue options that a company can consider

01

Corporate Debt Restructuring Committee (CDRC)

02

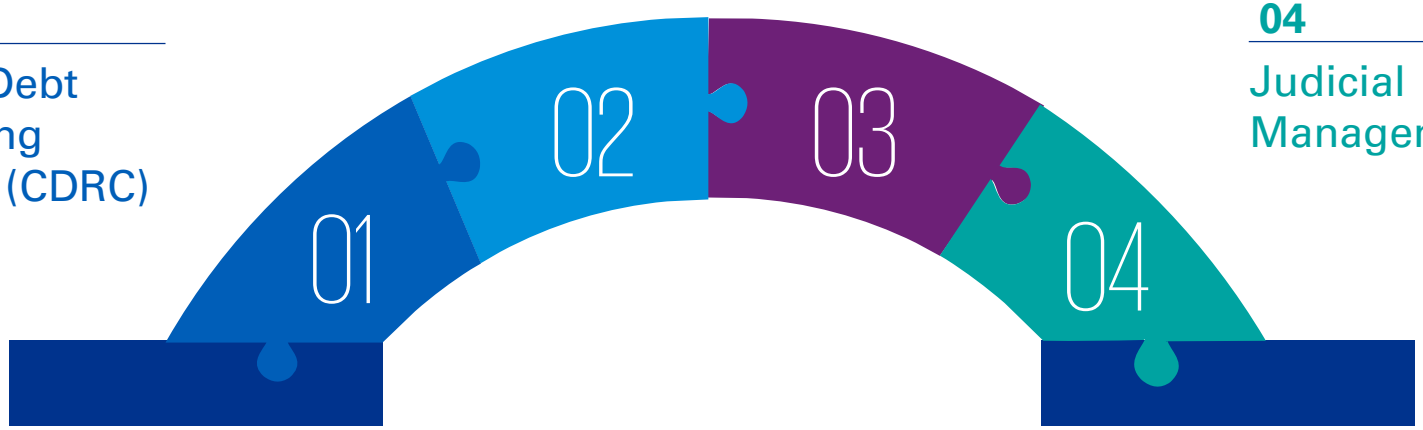
Scheme of Arrangement

03

Corporate Voluntary Arrangement (CVA)

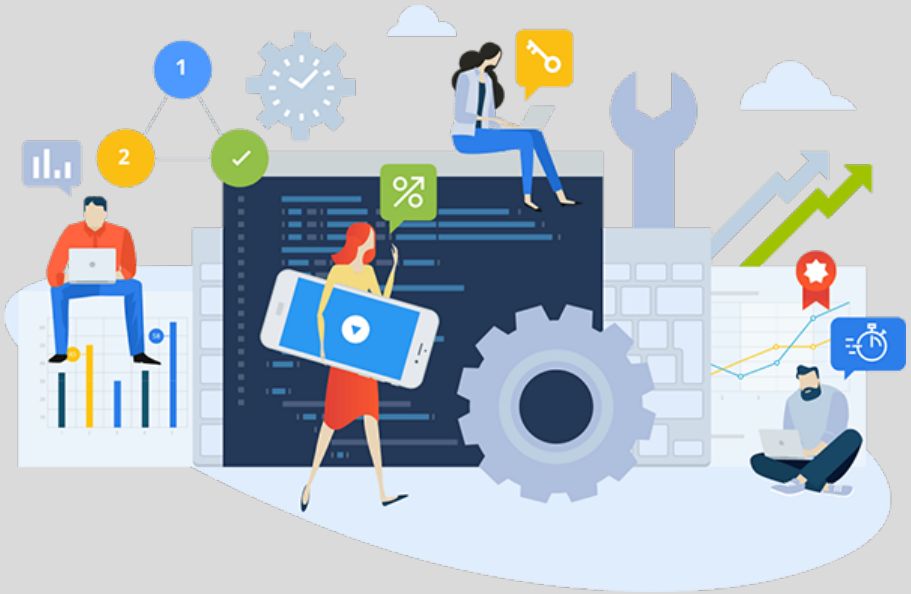
04

Judicial Management (JM)



Trends

Future developments



KPMG

Questions & Answers

Questions

Q Question 1

Whether it is a JM, CVA or SA, there may be a white knight involved and may involve M&A – what will the white knight do? What M&A structuring issues may arise in a COVID-19 environment?

A Answer in summary

What can the white knight do:

1. Inject assets, target issues shares, possible reverse take-over
2. Buy assets
3. Buy shares
4. Invest as financial investor

What are some M&A structuring concerns during Covid-19, and suggestions:

1. Improve valuation
    a. Consider deferred payment + price adjustment mechanism to share the risk
    b. Consider tender process to create competitive tension
    c. Close material compliance gaps (which also reduces risk of transaction failure)
2. Due diligence, enhanced representation and warranties
    a. Buyer will require more risk assessment
    b. Seller can balance between higher risk and low risk warranties, consider W&I insurance

Questions

Q Question 2

Whether it is a JM, CVA or SA, it may involve restructuring of debts both with financial institutions and trade creditors – can we have an insight of what these entail?

A Answer in summary

- 3 assumptions to ensure a successful financial restructuring: 1. inherent value in the company's business 2. sound medium to long term plan 3. support of main creditors.
- Start the process early to preserve more value for a wider range of stakeholders. Look out for early warning signs.
- Often financial restructuring is a consensual discussion, negotiation with the lenders and it can be combined with a form of statutory proceeding such as CVA or JM.
- CDRD is a good platform to commence the process.
- 3 basic steps to financial restructuring: 1. Understand the company's financial position; 2. Understand the capital structure; 3. Understand which creditor has a real economic interest (concept of "in the money")
- Common financial restructuring outcomes: deferment or rescheduling of debt repayment, extension of maturity date, capitalization of interest, debt equity swap.
- Management needs to spend time and focus on devising a viable restructuring plan, prepare business execution plan and support projection.
- Key takeaways: start early, engage with your lenders (lesson from Leadmont Development case where buy-in or support by major creditors is crucial)

Contact Us

Adrian Hong
Head of Restructuring Services, KPMG in Malaysia
ahong@kpmg.com.my

Alvin Julian
Partner, ZICO Law
alvin.julian@zicolaw.com

Tan Wooi Hong
Partner, ZICO Law
wooi.hong.tan@zicolaw.com

Ang Siak Keng
Partner, ZICO Law
siak.keng.ang@zicolaw.com

Thank you!

Thank you for participating in KPMG's webinar series. It has been our pleasure to bring you insights you can use. Please visit **www.kpmg.com.my/KPMGevents** to browse for future events.

If you wish to be invited to future KPMG events, kindly email your contact details to **INFO@kpmg.com.my**.

For more information, visit **www.kpmg.com.my**

kpmg.com/socialmedia

kpmg.com/app