



Reshaping Results

Canada Transaction Advisory Services

Managing Through the Coronavirus
(COVID-19) Crisis

Executive Summary

- ▶ COVID-19 has already had tremendous effects on the macroeconomic state of the world with greater impacts likely to come
 - ▶ Reduced demand, supply chain disruptions and curtailed spending are leading to financial and liquidity constraints
- ▶ Canadian businesses are scrambling to understand the impact, mitigate the adverse consequences and capitalize on opportunities
- ▶ Businesses are asking:
 - ▶ How do I model the **macroeconomic impact** on my business and adjust my strategy and business plan accordingly?
 - ▶ How do I assess the **value of impaired assets** and potential **claims** under insurance policies or supplier contracts?
 - ▶ How do I deal with **short term liquidity** issues?
 - ▶ How do I ensure ongoing **access to capital** through this period of disruption?
 - ▶ How do I manage my **stakeholders**?
 - ▶ How do I capitalize and execute on **transaction opportunities**?



The Global Crisis: COVID-19 appears to be spreading faster than similar viruses and has covered the globe

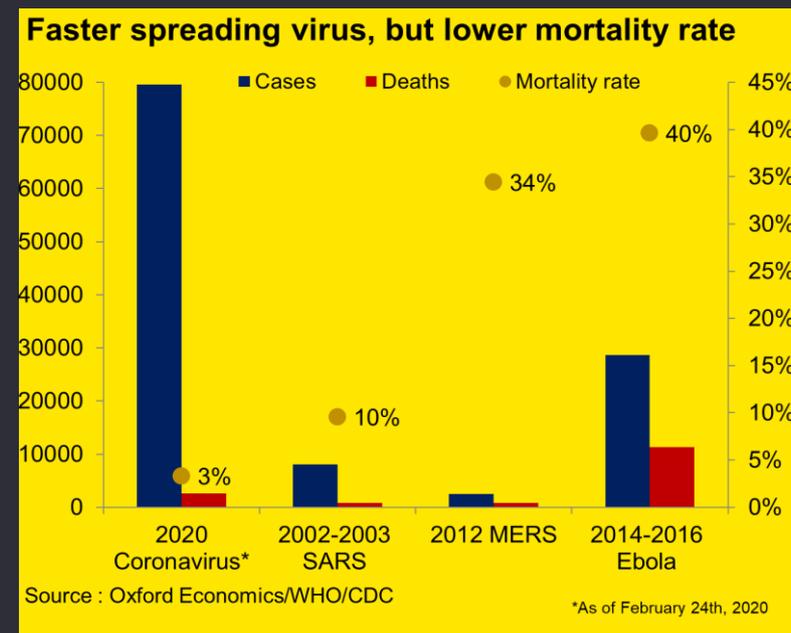
- ▶ COVID-19 confirmed cases exceed **115,000** in over **100** countries with over **4,000** deaths as of March 11, 2020
- ▶ Initially, most cases were confined to China. Now, about **70%** of worldwide cases have been in China as new cases in China are on the decline while the number of cases outside China, particularly in Europe is increasing rapidly
- ▶ The transmission rate appears to be 1.5-2x higher than the flu, but may fall with public health measures. About 20% of cases have required hospitalization, and 0.1-4% of all confirmed cases have been fatal. A robust Chinese and global response has helped slow disease spread

Transmission Rate
1.5-2x higher transmission compared to the flu

Disease severity
Up to 20% patients have severe disease

Mortality rate
3% of people with infections dying

Source: Latest numbers are available from a number of sources, including daily situation reports from the World Health Organization and reports from Oxford Economics, EMIS. Evidence on exact numbers are emerging however expected to decrease as viral containment measures intensify and treatments are developed.



The Global Impact: COVID-19 has already had tremendous effects on the macroeconomic state of the world with greater impacts likely to come

- ▶ China now makes up **16%** of the global economy versus **4%** during the epidemic (SARS) in 2003, which means the impacts on the rest of the world will also be larger

Economic considerations:

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Oxford Economics warned that the spread of the virus to regions outside Asia would knock **1.3%** off global growth this year, the equivalent of **\$1.1t** in lost income. ¹

Uncertainty in global economic shock

The duration of the shock, the ultimate infection rates and fatality rates are all unknown. The degree of disruption to normal activity is also unknown, but potentially severe as events in China have shown

Extreme reaction in financial markets

As long as the coronavirus appeared largely contained within China, the financial markets were not troubled. Evidence that it had spread beyond China in a major way has sparked a plunge in equity prices and bond yields

Supply and demand shocks

Supply is hit because people do not go to work either because they are sick or are afraid of becoming sick. Demand is hit because people shy away from social contacts, whether through their own choice, government edict, or employer policy

Monetary and fiscal policy

Monetary or fiscal policy cannot directly combat the supply or demand shocks but is still important as it can alleviate the economic burden of the virus on firms and households and reduce the risk of credit markets freezing up

GDP loss & after-effects

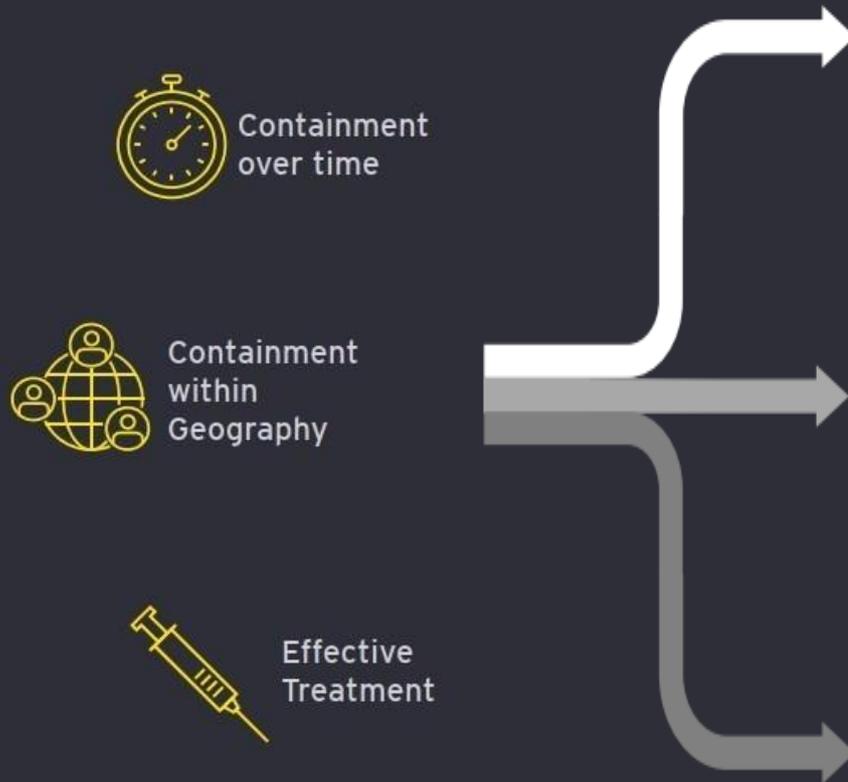
Existing economic studies of pandemics point to a possible loss of GDP of between 1 and 5 percentage points in the year of the outbreak, depending on its severity

Even after the outbreak subsides, the virus may have long-run effects on decisions about supply chains, on the growth of e-commerce, on travel, and on politics

Source: 1) Oxford Economics, EMIS

The Global Outcome? As of now nothing can be said with certainty - Various outcomes and scenarios are possible at this stage

Outcome depends on



Fast Recovery and Catch Up

- ▶ **Temporary dips** in global economic development
- ▶ **Limited** governmental **interventions**
- ▶ Summer will “**heal**” corona
- ▶ **Effective treatment** will be **available** quickly

The Year of Corona

- ▶ **No economic growth**
- ▶ Regionally **limited** government **interventions** necessary
- ▶ **Treatment not effective** immediately. **Crisis to continue** throughout 2020 and into 2021

Corona here to stay

- ▶ **Global recession** and **long-term recovery**
- ▶ **Massive** government **interventions**
- ▶ **Treatment** only available **long-term** with **humanitarian crisis**

Crisis scenarios are real and impactful - however, there can be positive learnings and takeaways in connected way of working!

Canadian Macroeconomic Outlook:

What Will Happen at Home?

- ▶ On March 4, 2020, the Bank of Canada cut its overnight rate by 50 basis points to 1.25 percent. While COVID-19 played a central role in reducing the overnight rate, the uncertainty over the future of NAFTA and the US-China trade war also played a role in the Bank of Canada's decision
- ▶ While the Canadian labour market continues to be in good health, with national figures showing record-low unemployment rates, higher quality jobs, and a growing labour participation rate, certain oil-producing regions and more generally, sectoral specific regions continue to remain a concern. Commodity price fluctuations, geopolitical uncertainty, and an ever-changing business environment further puts downward pressures on these vulnerable regions
- ▶ However, a healthy Canadian labour market also means a resilient economy, which will be tested in the coming months, as consumer confidence may continue to erode, which may create a further economic slowdown
- ▶ Specific expected impacts as a result of COVID-19 include:



Reduced global demand for Canadian exports

Global consumption of locally sourced commodities, raw materials, and more generally, intermediate inputs and final goods would be adversely affected, impacting Canadian exporting firms. Canadian oil-producing regions are further exposed to the changing geopolitical uncertainty caused by the economic slowdown arising from COVID-19



Supply-chain disruptions

Canadian firms reliant on Chinese-produced intermediate goods may be vulnerable to inventory challenges, putting further pressure on stabilizing socioeconomic outcomes



Adverse domestic spending

Sectors heavily reliant on consumer confidence and spending will be impacted the most, further exacerbating the economic and financial pressures from a reduction in exports and supply-chain challenges



Financial liquidity constraints

The economic implications arising from the coronavirus adversely impact both revenue and operating costs, having severe financial implications to small and medium sized businesses that are heavily reliant on predictable cashflows

Canadian Businesses: Client issues we are seeing

Decline in revenue

- ▶ Retail and travel industries and companies that supply to these industries are experiencing a decline in sales volumes
- ▶ Temporary layoffs and plant shutdowns for some companies effected with supply chain bottlenecks
- ▶ Amended work hours to streamline costs

Supply chain disruptions

- ▶ Companies that rely on raw materials or inventory inputs from China, Italy and other countries that may be affected by COVID -19 are bulking up purchases up to 6 months supply to ensure no shortage supply/minimize their supply chain process

Contingency and business continuity plans

- ▶ Implementation of business continuity plans (i.e. work from home, limited travel, self quarantine & reporting to appropriate health institutions)

Debt covenants & operating limits

- ▶ As companies either bulk up on purchases or operate at lower production levels, they are now pushing closer to their debt limits and covenant structure

Liquidity squeeze

- ▶ As companies are short on cash they accelerate payment terms and even require cash on delivery for certain necessity items
- ▶ Strain on working capital and greater usage of their operating line

Business plans are upended

The Resilient Enterprise: Key considerations for leaders re: COVID-19.....

How do I quickly pivot when my suppliers, raw materials and delivery options are no longer viable?

What options should I consider to mitigate my financial loss?

How can I prepare my systems, infrastructure, policies and workforce for safe remote work while protecting our data?

What kinds of government actions should I be following and how could they affect my business?



How can I effectively and realistically safeguard the health and wellbeing of my people?

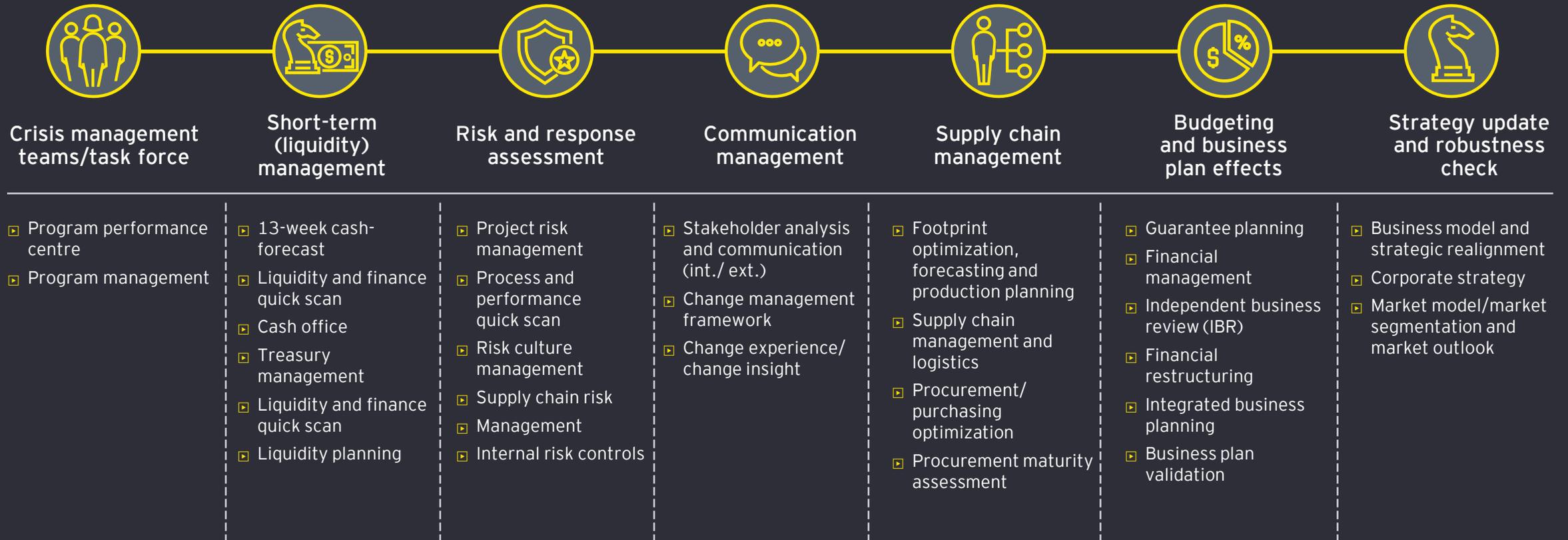
What do I do when most of my business is dependent on employees being on-site?

How can I manage my brand and engage with my customers when human interaction is perceived as dangerous/unhealthy?

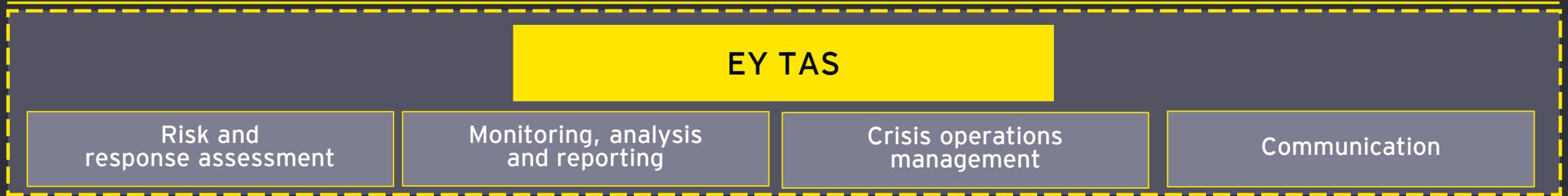
How do I managed the short and long term liquidity and earnings impacts and obtain continued support of my lenders and shareholders?

How do I minimize my risk exposure while not feeding into a panic mentality?

Offering Solutions along Key Steps: EY is ready to stand by its clients



EY's Transaction Advisory Services ("TAS"): How TAS Can Help



Macroeconomic Analysis & Strategy

- ▶ Perform a macroeconomic outlook study to address how COVID-19 will impact business results and operations
- ▶ Use data analytics to highlight geopolitical landscape and social undercurrent for executives
- ▶ Develop options to realign strategic goals, business models & process and company culture in light of COVID-19 impacts

Valuation & Business Modelling

- ▶ Model the impact of COVID-19 on the business; Test potential scenarios in a rapidly changing environment
- ▶ Value impaired assets or potential insurance and contractual claims
- ▶ Provide expert reports and witness services to maximize recovery in legal disputes

Liquidity & Cash Management

- ▶ Assess short term liquidity needs and options for managing liquidity
- ▶ Analyze impact of COVID-19 disruption on financial health of business
- ▶ Assist with mitigating impacts of potential loan defaults
- ▶ Develop crisis plans
- ▶ Assist with stakeholder management including lenders, customers, suppliers and others

Corporate Finance

- ▶ Identify various options to reshape capital structure and associated execution risk of pursuing each option
- ▶ Secure short-term and long-term liquidity to fund business
- ▶ Assist in raising new debt, equity or hybrid capital from local and international investors

Mergers & Acquisitions / Divestiture

- ▶ Perform portfolio review to discover best path to growth and competitive advantage
- ▶ Assess the strategic fit of a business by evaluating the market opportunity and potential synergies
- ▶ Conduct due diligence and operationalize a deal
- ▶ Assist in divesting non-core assets

Coronavirus (COVID-19) response

Economic Advisory and Strategy & Operations

Credentials and Key Contacts



Understanding the macroeconomic environment and responding with an appropriate strategy is essential in a crisis situation



What we do

- ▶ Provide guidance and framework
- ▶ Understand the impact of COVID-19 on the geopolitical and social landscape, the market, industry, customers, suppliers and how it might impact the business
- ▶ Perform a micro and macroeconomic outlook study to address how COVID-19 disruption will impact future business intentions
- ▶ Employ data-driven tools to re-assess strategy, realign strategic goals, business models & processes and company culture
- ▶ Develop and recommend a strategy that is responsive and flexible to ongoing COVID-19 impacts and other macroeconomic events



What we are seeing

- ▶ Dated business continuity plans or the non-existence of one
- ▶ Globally integrated supply chains that cannot easily flex to disruptions caused by COVID-19
- ▶ Shifting demand and supply balances resulting in price impacts that may be difficult to pass through due to social perceptions
- ▶ Unprecedented impacts of COVID-19 challenging ability to forecast and stress test future cash flows and economic and financial losses as well as to assess the resiliency of businesses to absorb the impact
- ▶ Increased interest in identifying alternative strategies and investment vehicles to diversify business operations during this period of macroeconomic and geopolitical uncertainty

- ▶ EY Parthenon global team with strong sector expertise to understand business dynamics by sector
- ▶ Track record of developing fast understanding of potential market / customer impact of events and making quick recommendations on strategic options

Economic Advisory
Services

Strategy &
Operations



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Coronavirus (COVID-19) response

Valuation & Business Modelling



Robust capabilities for complex and ad-hoc modelling and valuation are essential in order to assess financial impacts in a crisis situation



What we do

- ▶ Rapidly build complex financial models
 - Develop scenario analysis and sensitivity analysis to assist in managing uncertainty
 - Provide full transparency on magnitude of financial impacts (Earnings, Cashflows, Covenants, Funding)
 - based on different crisis scenarios
 - Develop scenario analysis to model and review forecast leverage headroom under multiple scenarios
- ▶ Valuation services
 - Assess potential impairment of fixed assets and goodwill impairments due to the financial impacts of COVID-19
 - Establish the recoverable amount of assets that may be impaired
 - Provide valuations for purposes of business interruption or breach of contract claims
 - Value businesses and/or entities, in support of merger and acquisition / divestiture opportunities
 - Providing expert reports and expert witness services for legal disputes



What we are seeing

- ▶ Financial models
 - Financial models that are not suited for rapidly responding to “what-if” questions
 - Not well articulated scenarios to assess downside risk as well as upside opportunity
 - Need to reevaluate capital allocation strategies and support through reasoned analytical modelling
- ▶ Valuation impacts
 - Opportunities to implement tax plans that become effective at reduced values
 - Rapid assessment of claims for negative events under contracts, government programs and insurance policies
 - Opportunities to take businesses private and recapitalize
 - Buy-out of business partners at lower prices especially when it represents a non-core asset for the partner
 - Litigation in respect of claims arising from business disruption

Credentials and Key Contacts

- ▶ Extensive experience delivering modeling solutions and valuation services in condensed timeframes.
- ▶ Team of 100+ seasoned valuation and business modeling professionals

Valuation & Business Modelling



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Coronavirus (COVID-19) response

Liquidity & Cash management



Liquidity & credit management with embedded cash forecasting is essential in a crisis situation



What we do

- ▶ Assess short term liquidity needs
 - Build and maintain cash flow forecast model
- ▶ Extend liquidity runway
 - Maximize one-time revenue opportunities
 - Realign and reduce costs
 - Employ working capital crisis management techniques
- ▶ Financial health assessment
 - Analyze financial position in the context of COVID-19 impacts and determine areas of stress
 - Review and stress test financial forecasts
 - Assess potential impacts to debt covenant ratios from downside forecasts and assess covenant headroom
- ▶ Develop crisis contingency plan
 - Develop KPIs and real time KPI tracking and reporting
- ▶ Stakeholder management
 - Prioritize and negotiate needs to enable short-term and long-term viability
 - Communicate concise plan to suppliers, customers, lenders, equity sponsors, government and employees;
 - Establish credibility and maintain control



What we are seeing

- ▶ **Contingency planning:** Abrupt sales decline and uncertainty resulting in need to continually reassess forecasts and implement cost cuts in response
- ▶ **Supply chain disruption:** Suppliers unable to provide goods due to disruption; Distressed suppliers requiring special assistance
- ▶ **Credit squeeze:** Vendors requiring scheduled payments while customers not paying leading to working capital challenges - companies being driven to hasty behavior under duress to shore up liquidity
- ▶ **Covenant compliance:** Reduced headroom and concern regarding defaults, limited ability to access new/existing capital sources
- ▶ **Access to capital:** Sector based challenges emerging; refinancing uncertainty; recoverability of COVID-19 losses under insurance policies unclear

Credentials and Key Contacts

- ▶ Leading Canadian turnaround & restructuring practice
- ▶ 80+ seasoned professionals
- ▶ Vast experience in managing liquidity and operational risks during time of crisis

Reshaping Results Leader



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Credentials and Key Contacts



Management of capital structure is essential in a crisis situation



What we do

- ▶ Fortify capital structure from a liquidity perspective
 - Assist in ensuring there is committed capital and cash flow runway
 - Optimize capital structure to ensure it can handle economic disturbance of COVID-19
- ▶ Assist with revised business plan and forecasting to extend liquidity and cashflow
 - Stress the balance sheet, income statement & cashflow with critical thinking and assumption
 - Present forecasts in a logical framework that debt capital providers understand
- ▶ Assist in restructuring / renegotiation with lenders to extend terms and debt capital structure
 - Review present lending structure and match up with revised forecasts and determine further optimization
 - Structure debt products in alignment with revised forecasts
 - Ensure the revised debt structure is what is most suitable to each business based on industry and economic fundamentals



What we are seeing

- ▶ Lenders are accelerating credit reviews on all of their clients incorporating the worst-case outcome of COVID-19
- ▶ Canadian capital market liquidity continues to be robust with Canadian banks and alternative lenders available to provide capital as required
- ▶ Alternative and unique structures are available to address short term crisis situations

- ▶ Seasoned team of 100+ professionals many with 25+ years of industry experience in banking and finance (debt origination, loan structure, workout, restructuring, extensive experience raising capital and optimizing capital structure.

Capital Markets Advisory
Services



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Coronavirus (COVID-19) response

Mergers & Acquisitions / Divestitures and Diligence

Credentials and Key Contacts



Mergers & acquisition / divestiture opportunities are likely to arise in a crisis situation and there is a need to rapidly assess the opportunity



What we do

- ▶ Corporate Finance Strategy
 - Strategic discussions with business leaders about capital allocation, portfolio review and potential targets
- ▶ Transaction Origination
 - Significant local and global c-suite and board member network to facilitate and advance transaction discussions where appropriate
- ▶ Deal Execution
 - Deep technical expertise to execute throughout the sale, acquisition or financing lifecycle, including idea generation and target identification, financial modelling and analysis, quality of earnings, structuring and negotiating, synergy assessment and planning, arranging financing and closing transactions
- ▶ Buy-side and sell-side due diligence
- ▶ Transaction carve-out advice
- ▶ Sector-focused
 - Sector focused teams to provide breadth and depth to act quickly and efficiently on opportunities



What we are seeing

- ▶ **Capital Allocation** - Organizations are evaluating core and non-core operations in the event a subsidiary or business unit could be divested to generate cash flow
- ▶ **Potential Sale** - Buyers are assessing whether a potential sale makes sense in the current environment and whether a sale process should be accelerated or delayed
- ▶ **Credit Facility Assessment** - Companies are evaluating existing credit facilities and whether they provide the flexibility for a potential economic contraction and whether a refinancing or additional financing need exists
- ▶ **How to Capitalize** - Companies with strong balance sheets and higher risk tolerances are assessing the opportunity to be proactive in making opportunistic acquisitions. In addition, existing funds with large amounts of liquidity still need to deploy their capital and will potentially expand the opportunities they look at. Bi-lateral transactions may also be more possible in a time of uncertainty

- ▶ One of Canada's largest and most active M&A advisors focused on private companies and complex transactions (i.e. carveouts of public companies)
- ▶ A diligence team that advises corporate, private equity and government clients on all aspects of buy-side and sell-side due diligence

Mergers & Acquisitions Leader

Transaction Diligence Leader



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