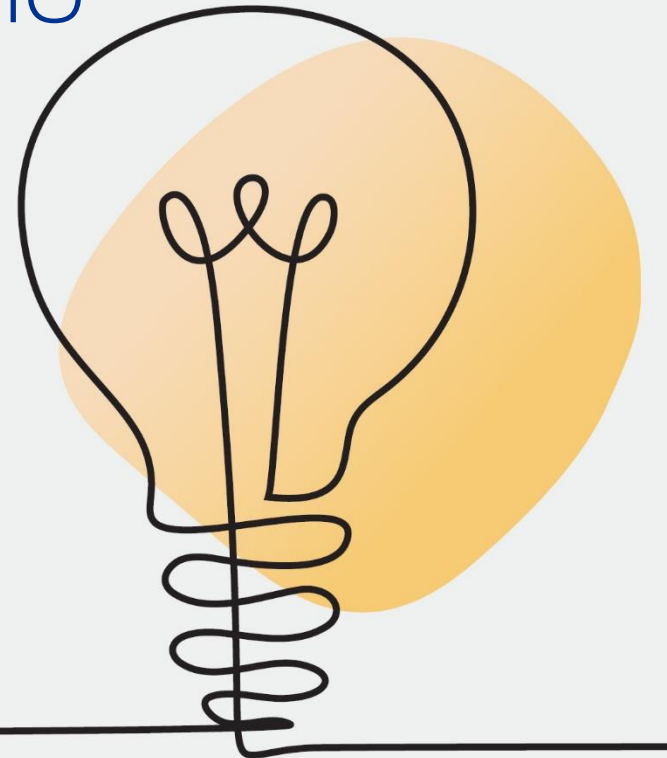




How to Future Proof Your Business using Scenario Analysis for Operational Continuity

May 19, 2020



You will be fighting for your people and your business

The COVID-19 pandemic has had, and is expected to continue to have, a significant impact on businesses in BC and across the world

- **74% of businesses** reported **decreased sales volume** due to the COVID-19 pandemic.
- **Almost half** reported **laying off employees, reducing staff hours** and/or closing temporarily.
- **One-third** have had capital projects, contracts/tenders and/or marketing projects either **cancelled or deferred**.
- Approximately **half of all business** (48%) have experienced **revenue decreases of 75%** or more in the past two weeks and **two-thirds** (63%) have had **revenues drop by 50%** or more.
- Over the next two weeks, **75% of businesses expect decreased sales volumes** with 56%, expecting revenues to fall 'significantly'.
- Close to half (46%) expect to **still be closed in two weeks**, and considerable proportions are expecting reduced staff hours (38%), further lay offs (29%), and cancelled/deferred contracts or tenders (33%), capital projects (26%) and/or marketing projects (27%).
- Although 23% expect digital or e-commerce activity to increase.

Source: The BC Chamber of Commerce, Greater Vancouver Board of Trade and the Business Council of British Columbia survey of 1,938 business leaders between March 26th and April 1st, 2020.

Proper scenario analysis and cash flow forecasting are the tools to ensure you've considered all the variables you can as you make the tough decisions

Scenario analysis must be comprehensive and kept current

- ✓ Experienced resources must be brought together to ensure that all relevant business and market factors are compiled to prepare for robust scenario analysis
- ✓ Comprehensive scenario analysis must look at a wide range of potential situations intersected with different potential time frames
- ✓ Insights from other industry players, trends in your market, and expectations on overall macro factors must all be assessed
- ✓ Selection of most likely scenarios will highlight key areas for short term tactical operating decisions and also medium to long term shifts in operating model or business strategy
- ✓ Scenarios developed will drive the important exercise of modelling cash flows and each scenario must be updated on a real time basis and there must be ongoing assessment of relevance of new scenarios

As the crisis evolves, leaders must frame the possible scenarios that their businesses will face in order to make critical tactical operating decisions and reposition for the future

Scenario analysis results drive cash flow forecasting

Why is it important to have a robust cash flow forecast?

- Cash is key for both short-term survival and repositioning for an organization's future.
- Given the current situation, managing cash on hand, working capital and/or debt has never been more important.
- Accurate real-time cash flow models built off of comprehensive scenario analysis must underpin the longer term strategy and tactical operating decisions in the days, weeks and months ahead.
- A robust cash flow model will provide improved visibility of upcoming liquidity constraints and vulnerabilities to help you make informed decisions to navigate potential pinch points.

Cash is essential for short-term survival, and a robust, real-time cash flow model underpins longer term strategy and tactical operating decisions

How to build your model

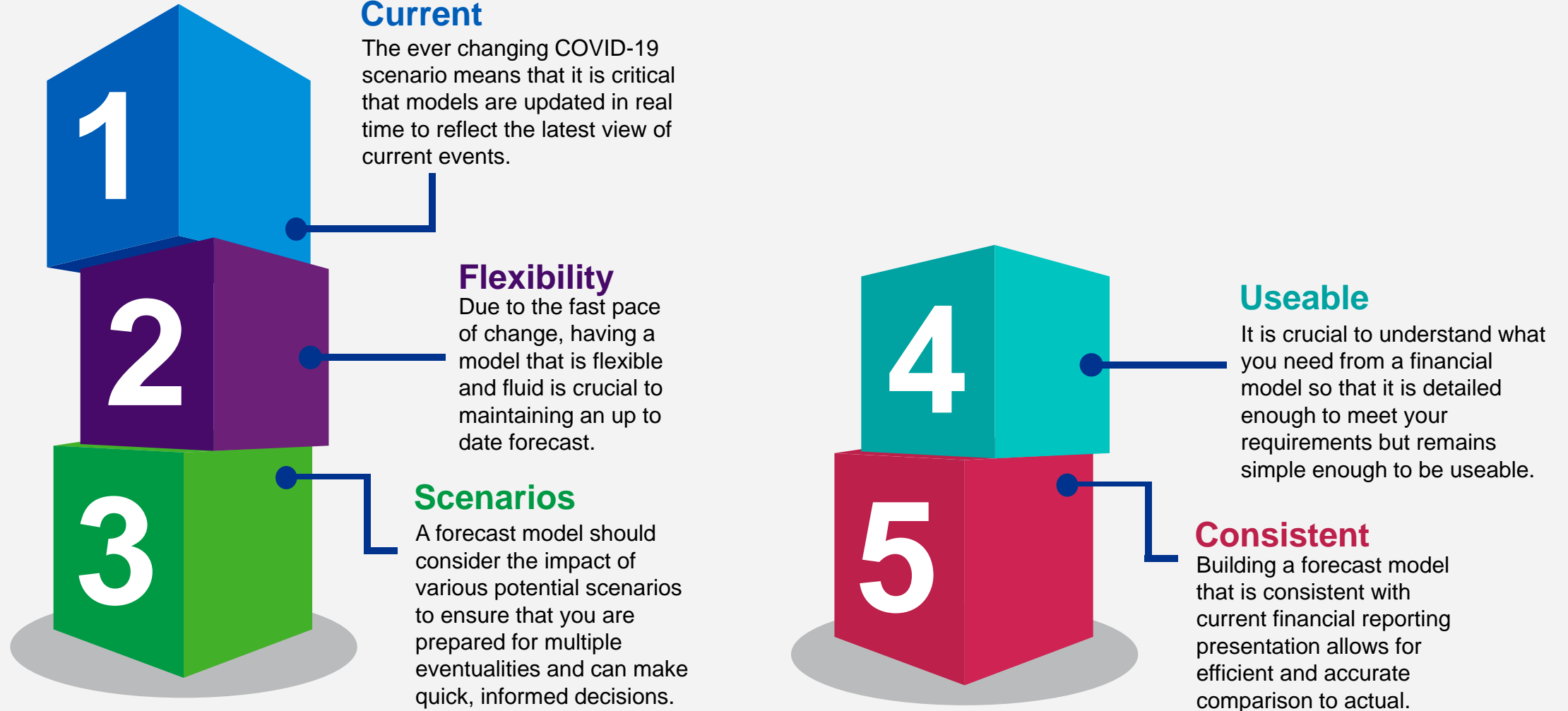
What is needed to build a robust model?

- ✓ Dedicated team with business acumen working together to capture all the relevant business and market factors relevant to a scenario that need to be reflected in the forecast model.
- ✓ Technical resources that can sufficiently model each scenario including the impacts of each decision, such as employee scheduling and capacity, location closures, timeline for restarting locations, contract terms with third parties, arrangements for financing, government support, etc.
- ✓ Current data from the business and external market which is integrated into the model.
- ✓ Dedicated people who are assigned to update and maintain scenario analysis and financial forecast modelling efforts.

A valuable forecast model needs to reflect robust scenario analysis requires experienced personnel who can dedicate their time to **build** and **maintain** key assumptions and inputs as the impact of decisions take hold



Five keys to maximize a model's effectiveness



Getting the most from your model



Use the forecast model and scenario analysis to put contingency plans in place, ahead of any potential issues and establish a foundation for post crisis recovery.

Use the model to make a clear action plan with assigned duties to specific people in order to take immediate action to address potential risks identified in the forecast model.



Ensure that the forecast is used to monitor critical factors and any vulnerabilities are communicated with the relevant people, for instance providing lenders with advance warning of any expected covenant breaches.

Undertake regular actual vs forecast comparison and investigate any variances, taking actions to address any incorrect assumptions.



Maintain lines of communication with key stakeholders (e.g. suppliers, employees, customers) to keep them up to date with the current outlook.

Using the forecast model to keep key stakeholders up to date and put contingency plans in place will help you realize the full value of having a robust forecast model

Putting the pieces together ...

Scenario Planning / Forecasting

1

Common inputs

Duration of crisis by region
Cross industry factors
External market factors
Import / export impacts

+

Company specific inputs

Demand scenarios
Committed outflows
Supply chain impacts
Capital requirements

Stress test the model to answer the following questions:

- How long before we run out of cash / how much cash do we need
- What can we do to mitigate
- When will we breach our debt covenants
- To what degree do we require contingency actions

Monitoring

2

Rolling cash flow

- 13 week rolling cash flow forecast
- Evaluation across multiple current scenarios

Receivables

- Daily monitoring of AR levels to address impacts quickly

Revenue

- Weekly monitoring of sales levels and/or canceled orders

Supply Issues

- Asking international supplier for status updates

Contingency Planning

3

Credit

- Immediately access line of credit and other lender financing
- BDC / EDC / Canadian Emergency Business Account

Capital

- Capital injections

Working capital

- Slow AP, accelerate AR
- Reduce inventory levels
- Tax deferrals available
- Government program access
- AR factoring
- Rent deferral / Contract renegotiations

Cost reduction with short payback

- Reduced working day
- Leveraging Workshare and government EI scheme and/or SUBP
- Temporary redundancy of 8 weeks
- Unpaid vacation
- Salary reductions
- Benefits reductions
- Staff terminations if needed
- Reduction in temp staff

Your cash flow models for each scenario will guide you in selecting from your tactical options

Immediate cash preservation options

- Slow AP immediately.
- Cut discretionary spending
- Putting in place additional controls (eg. payments over a threshold need CFO approval)
- Reduce inventory levels.
- Access tax deferrals
- Action applications for government programs.
- Rent deferral and renegotiate other contracts
- Lines of credit
- Cessation of bonus and other incentive programs and/or deferral of earned bonuses – most bonus programs are tied to the company's financial performance and can therefore be ceased at the employer's discretion.

Medium term cash preservation options

- Reduced working days – Workshare program or Emergency Wage Subsidy
- Use the temporary redundancy of 8 weeks supported by EI benefits with potential top up from the employer (leverage SUBP).
- Outside of the current EI scheme, employers can temporarily lay off employees where provided for in their employment contracts or union agreements.
- Reduction in benefits – employers can consider adjusting benefit programs offered to employees or requiring employees to buy in to those programs.
- Reduced work hours/job sharing – move employees to a reduced work week and adjust salaries accordingly or have two employees share one role (i.e. two part-time employees vs. one full-time).
- Salary reductions – employers may have the ability to cut salaries across the organizations.
- Staff terminations – employers also need to consider one-time costs associated with termination and severance entitlements and whether mass termination provisions will apply

Coping with COVID19 - Employee Considerations

Emergency Wage Subsidy (CEWS)

- Up to 12 week subsidy for first \$58,700 (\$847 per employee per week)
- Requires 15% decrease in revenue in March YoY (or compared to January / February) and 30% in April or May YoY
- Amount is taxable

Workshare (Extended)

- Employment insurance for employees implementing reduced hours
- Equal reductions of all WS unit members
- Requires average reduction of 10-60%.
- Periods of 6-26 weeks (extension possible to 76 weeks)
- At least 1 year operations

CERB / SUBP

- Canada Emergency Response Benefit (CERB) provides temporary income support of \$2,000 per month for four months to those who have stopped working due to COVID-19.
- Supplementary Unemployment Benefit Plan (SUBP) is an arrangement established by an employer to top-up an employee's EI/CERB benefits during a period of unemployment.

The interaction of these programs must also be considered in decision making, especially in situations where Scientific Research and Experimental Development expenditures and Investment Tax Credits are being earned on some employees as well as other funding, grants or incentives.

Coping with COVID19 – Financial Support

Business Credit Availability Program

- BDC working capital line up to \$2 million
- BDC Co-Lending to small and medium sized enterprises for operational cash flow requirements up to \$6.25 million
- EDC Co-Guarantee for new operating credit and cash flow term loans of up to \$6.25 million to small and medium sized enterprises

Emergency Business Account

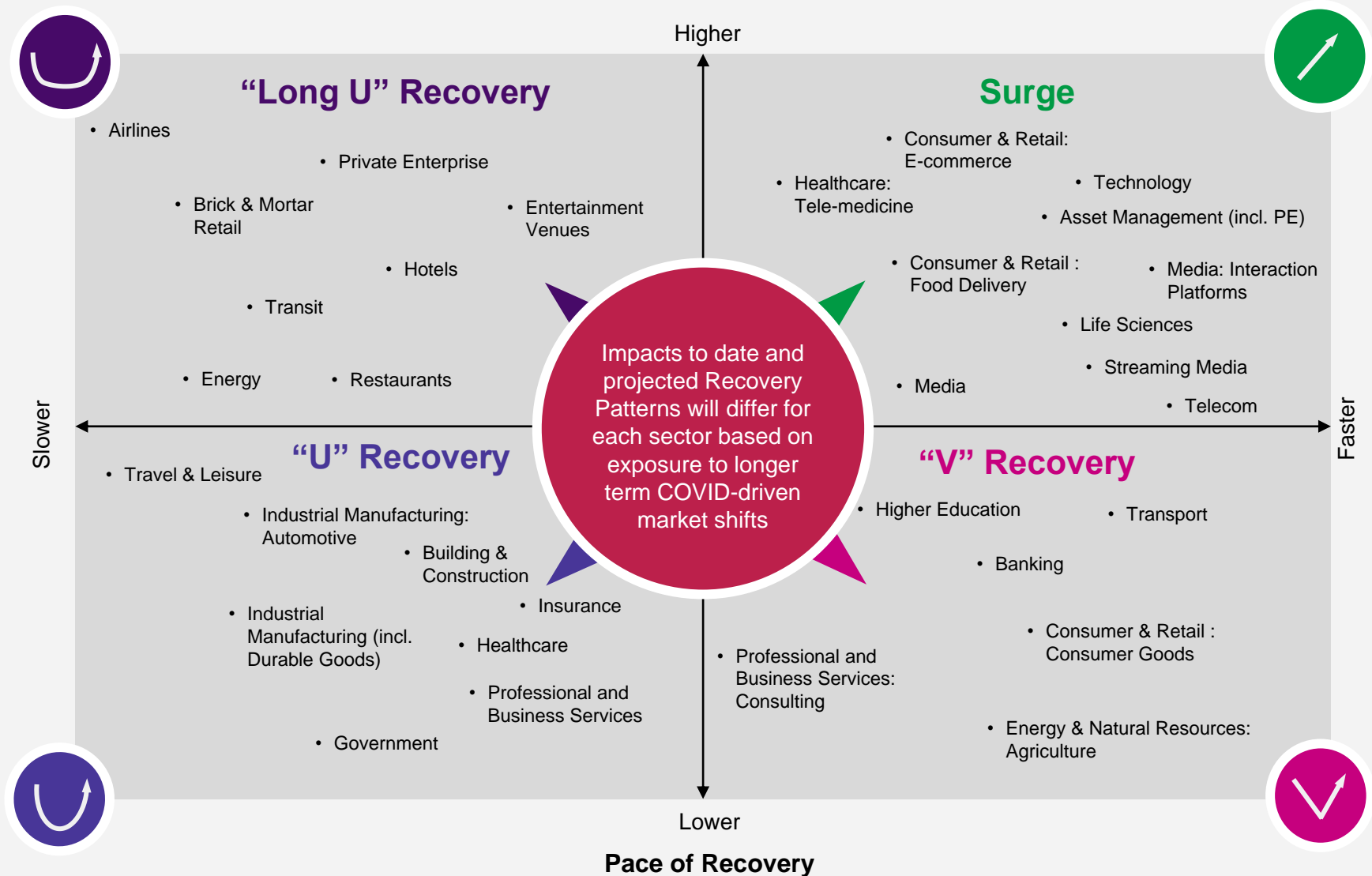
- \$40,000 interest free business loan
- 2019 payroll between \$20,000 and \$1.5m
- 25% forgiven if repaid by December 31, 2022
- If not repaid on December 31, 2022, converts into a 3 year term loan at 5% interest

Commercial Rent Assistance

- Forgivable* loan to property owners to cover 50% of rent (excluding other costs) for 3 months
- Forgivable if owner reduces rent by 75%
- Focus on mortgaged commercial properties where tenant forced to shut down or revenue reduced by 70% or more
- Tenant rent must be less than \$50,000/m
- Anticipated to be in place mid-May

How might recovery look?

Degree of "Permanent" Change to Sector Economics/Value Chain



Where to from here?

- How long might the COVID-19 pandemic last?
- What has the impact of COVID-19 been on my organization?
- Evaluating actions taken in short, what next for medium and longer term?
- Have we missed anything critical in my current assessment?
- What are other organizations doing in their responses?
- What KPIs should we be tracking to understand our progress?
- How is my industry being affected?
- What are the macro trends and signals that affect my business?
- Do we need to pivot how I go-to-market?
- How do we position our organization for recovery?
- What other risks do we need to be aware of?

To properly react and prepare for recovery it will be important to take stock and re-evaluate where we sit and how to move forward with a an agile strategic approach



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