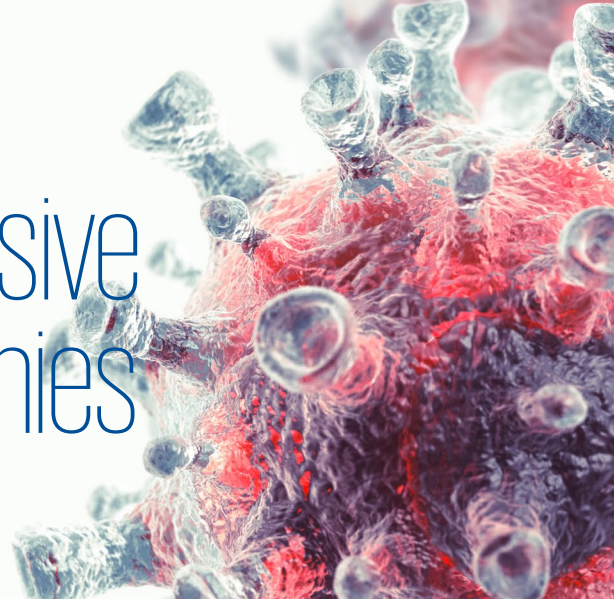


Coronavirus is a massive challenge for companies

What Measures Should Companies Take?



The Coronavirus (COVID-19) is keeping people on their toes, confronting companies with new operational challenges. According to the OECD, the Coronavirus is currently the largest threat to the global economy since the financial crisis of 2007/2008. Having an emergency and crisis management in place and pre-planning multiple scenarios has become indispensable.

The Risk of a Global Recession is Looming Large on the Horizon

The Coronavirus is threatening supply chains and the logistics setup of many companies, which is why it has become unavoidable that there will be a break in the supply chain and thus the production, thus causing longer delivery times. In view of the loss of production, important decreases should be expected in industrial production as well as in the retail trade. Simultaneously, consumers have rapidly changed their buying patterns and travels, thus reducing their expenditures for goods and services. The great insecurity is causing a significant drop in the demand for goods and investment activities, which are limited to the bare minimum. It is therefore possible that a global downturn is just around the corner.

To make things even more turbulent, the oil market is in a crisis, which is causing further uncertainty and instability. The current situation is making investors jittery. As at the beginning of March 2020, international stock markets have experienced their highest losses since the financial crisis in 2007/2008. Credit markets and the market for credit insurance are extremely tense.

Companies that are highly leveraged or those that are not highly profitable could enter troubled waters quickly, experiencing difficulty refinancing expiring bonds and loans

or they could only service these at a much higher financial cost. Apart from a global recession, the Coronavirus could also trigger a debt crisis.

Switzerland has already experienced the first negative impact. Numerous companies warn of the Coronavirus in their outlooks and some have even issued profit warnings. The longer the insecurity is lasting, the higher the risk that a company with a low liquidity and equity buffer will spin out of control and into financial trouble.

In view of these developments, monetary policies will be called for from central banks and stimulus packages from governments. Indeed, the Swiss Federal Council has just announced that it would support companies with CHF 10 billion.

What to Focus on Now

In order to master this out-of-the ordinary situation that has come from nowhere, Management has to refocus quickly on the continuity of the company with the help of a business continuity management plan. Central issues are employee safety and protecting the value chain as well as the company's liquidity.

A realistic view of the threat is imperative in order to master the crisis. For this, it is important to actively seek out the

most up-to-date information both internally and externally. It is central to deploy sufficient resources for this.

Analyzing and assessing the impact of the Coronavirus holistically not only requires a good grasp of the threat but also a comprehensive understanding of the company, which should be integrated into the crisis management.

It is decisive to think in scenarios, have a multidisciplinary approach and to work out various action plans for each scenario in the context of the business continuity

management as well as emergency and crisis management plans. It is also important to monitor things closely in order to ensure quick, efficient and timely action should the situation worsen.

How Could the Coronavirus Affect Your Business?

How the economy, politics and society deal with the pandemic could have numerous effects. From our viewpoint, the following will be especially hard hit: company management, finances, employees, the supply chain and logistics, production, customers and customer care, legal aspects and communication.

While this list is far from exhaustive, expect having to give consideration to the following:

1. Corporate governance

- We recommend setting up and implementing an interdisciplinary crisis team to support your Board of Directors and operational management
- Leaders will require a good deputy system and systematic work organization in order to be able to handle the extra load
- For an effective crisis management at large corporations, each business unit should have its own crisis team with a similar structure. These must be included in decision-making and implementation

2. Finances

- Ongoing analyses of the short-term liquidity and an early-warning system of potential liquidity shortages with the help of a rolling short-term liquidity planning (liquidity plans for 13 and 17 weeks)
- Identification and implementation of short-term liquidity improvement measures (e.g. increasing credit limits, improving net working capital, reducing costs, sales, etc.)
- Ongoing update of medium-term planning and budgeting
- Working out of scenarios and sensitivity analyses
- Implementation of stress tests and analyses of implications on income statement, balance sheet and cash flow statements
- Ongoing identification and staggered implementation of restructuring measures
- Analysis of the maturities of financial obligations
- Analysis of financing terms and conditions
- Monitoring of financial covenants, regular information for financial creditors and renegotiation of loan agreements depending on the situation (waivers, standstill, etc.)
- Monitoring of the operational key figures as an early-

warning system (e.g. booked business, cancellations, utilization, etc.)

- Rolling assessment of going concern for the Board of Directors
- Monitoring of the financial reporting (outlook, disclosures, etc.)

3. Employees

- Employee health has first priority
- Uncertainties, fears and questions of employees must be taken seriously (e.g. by setting up a hotline, providing on-going information on the intranet and training to managers, etc.)
- Introduction of home office
- Care for ill employees
- Assessment of whether short-time work is necessary and if yes, its implementation

4. Supply chain and logistics

- General and root-cause analysis of supply chain interruptions
- Analysis of providers/suppliers and their sub-contractors
- Analysis of all orders to prioritize these
- Identification of possible alternative providers/suppliers
- Definition of stabilization measures

5. Production site

- Analysis of possible loss of production
- Update of production planning
- Analysis of complete loss of production

6. Customers and customer care

- Analysis of customer groups
- Analysis and prioritization of customers

- Analysis of customer reaction in light of various scenarios
- Definition of more intense customer care
- Analysis of pricing, and if necessary, introduction of discounts
- Definition of marketing activities

7. Legal

- Review of supplier contracts, production orders, customer agreements, etc.
- Analysis of contracts for force majeure clauses
- Analysis and if necessary, adjustment of general

terms and conditions

- Review of insurance policies (e.g. pandemic insurance)
- Assurance and adherence to all labor laws and official directives

8. Communication

- Ongoing information of employees for reassurance
- Preparation and implementation of internal and external communication concepts
- Development of communication concept in case of interrupted supply chains and loss of production

Conclusion

The Coronavirus represents a significant risk for the going concern of companies. Because of this, it requires Management's full attention. But crises can also be opportunities. Companies that were well managed in good

times now have a competitive advantage which they should use. Companies that had already been in a financially strained situation before the Coronavirus crisis should get specialist help immediately.

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