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Detecon Spotlight

Corporate finance during the Covid-19 pandemic

Fields of action for the CFO

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Contents

1 Introduction

The Covid-19 pandemic has hit the world and the global economy with full impact and at tremendous speed resulting in a human tragedy, which remains unprecedented in modern times. Economic recession is going to become reality and as far as businesses are concerned, immediate and fast response is crucial. In particular, the finance organization has to resume a leading role in stabilizing the company and ensuring short-term resilience as well as a strong and sustainable rebound after the pandemic.

Both the length and the severity of the Covid-19 pandemic in itself and the economic and business impact are uncertain. Given the speed of the disruption and the associated uncertainty, business and CFO function in particular face a multitude of immense changes that need to be considered.

This paper is intended to outline a response guideline for business finance leaders, CFOs and senior management alike during this time of uncertainty. Overall focus is country-agnostic and in some aspects specific emphasis is placed the conditions and particularities in Germany and the EU.

2 Impact of Covid-19 on individuals and societies, economies and companies

2.1 Impact on individuals and societies

The Covid-19 outbreak was identified in Wuhan, Hubei province, China, in December 2019, and was recognized as a pandemic by the World Health Organization (WHO) on March 11, 2020.

Symptoms of Covid-19 are non-specific and those infected may either be asymptomatic or develop flu-like symptoms such as fever, cough, fatigue, shortness of breath, or muscle pain. About 80% of all patients experience mild symptoms,[1] but the remaining 20% require significant medical support and in severe cases hospitalization and possibly ICU care. Most critical patients need ventilation to support breathing. Mortality rates vary and are higher with older people and those with relevant pre-existing conditions. The initial spread within China and neighboring countries was contained by massive quarantine, curfews and limitations on travel. Nevertheless, especially Southern Europe, UK and the USA have now become the most affected regions.

At this time, no specific vaccines or treatments for Covid-19 exist[2]. However, there are many ongoing clinical trials evaluating potential treatments. While pharmaceutical companies and research organizations are working on identifying new and successful treatments, other trials are exploring whether known drugs can be repurposed (as "compassionate use", as "off-label" treatment, etc).[3] In mild cases, treatment may include taking regular (over-the-counter) cold medications, drinking fluids and resting.

As an administrative reaction to prevent Covid-19 from spreading, measures were implemented including travel restrictions, quarantines, curfews, event postponements and cancellations, and facility closures. Thus, the pandemic has led to severe global socio-economic disruption, the postponement or cancellation of sporting, religious and cultural events, ceased production, disrupted supply chains, massive layoffs or hiring freezes, as well as widespread fears of supply shortages, which have spurred panic buying and hoarding of goods.

2.2 Impact on economies, industries and corporations

These restrictions have had a negative effect on the stock market leading to the sharpest downturn since the Great Depression of the 1930s. Governments and central banks reacted with both fiscal and monetary easing on an unprecedented scale. The US Federal

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1 https://www.onmeda.de/krankheiten/coronavirus-in-deutschland.html;
https://www.medicalnewstoday.com/articles/coronavirus-81-of-cases-are-mild-study-says
2 https://www.who.int/health-topics/coronavirus#tab=tab_1
3 https://www.nbcnews.com/health/health-news/here-are-some-existing-drugs-may-be-repurposed-treat-coronavirus-n1162021

Reserve has increased the money supply by $1.2 trillion, or approx. 5.4% of the US GDP and is expected to continue at the current pace until its balance sheet hits $10 trillion or approx. 50% of the US GDP. The federal government agreed to a $2 trillion stimulus package, which is approx. 10% of the US GDP[4]. The US Federal Reserve lowered its key interest rates to 0-0.25% and set up a range of other supporting measures[5] as outlined in the respective chapter of this paper. European and Asian governments as well as central banks have acted accordingly[6].

The Covid-19 pandemic is setting in motion a waterfall effect that has the following consequences:

- Supply chains are negatively impacted as human capital is becoming critically unavailable and similar pattern is seen for preliminary products especially if sourced globally.
- Travel and border restrictions have impeded the security of the supply chain in terms of production and supply to end customers.
- Purchasing decision-making is challenged due to uncertainty of the future market development which makes budgeting and planning largely unpredictable.

The restrictions implemented by governments impact industries unevenly: While some are severely affected, some will benefit or even emerge strengthened from the Covid-19 pandemic.

- Hospitality industry, gastronomy, event management, tour operators, airlines, hotels, personal service providers are now closed out of the market and face bankruptcies and potential nationalization, first and foremost in the areas characterized by atomistic market players and small business size.
- Manufacturing from electronics, automotive, machinery and all industries heavily dependent on global supply chains but especially from China will be negatively impacted.
- Less impacted will be information services, telecom, energy and utilities, real estate and agriculture.
- Those sectors which will become strengthened are online, highly digitized and automated commerce (e.g. Amazon) as well as converged telecommunication providers, streaming service providers, cyber security, remote monitoring & surveillance systems, and possibly data center as well as cloud services to support online and content growth.

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4 https://www.theguardian.com/world/2020/mar/26/us-coronavirus-stimulus-all-you-need-to-know; The US GDP in 2019 did amount to approximately $21.2 trillion US. https://tradingeconomics.com/united-states/gdp.
5 https://www.federalreserve.gov/covid-19.htm; https://www.handelsblatt.com/finanzen/geldpolitik/fed-protokolle-us-notenbank-will-mit-niedrigzins-durch-die-krise-steuern/25728562.html
6 https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/economy_en; https://www.reuters.com/article/us-health-coronavirus-central-banks-glob-idUSKBN2130KR; https://www.nytimes.com/reuters/2020/04/08/world/08reuters-health-coronavirus-economy-factbox.html

2.3 Macroeconomic development

2.3.1 Status of the economic situation as of April 2020

The current recession, which is caused by the Covid-19 pandemic, is still unfolding. The developments have a very dynamic and unforeseeable character. Therefore, it is currently too early to make final conclusions about similarities or differences to previous global recessions. With the benefit of hindsight, countless scholars will be in due time covering this topic in depth.

Except for Italy[7], it was only after the current crisis was declared a pandemic by the WHO on March 11, 2020[8], that the socio-economic measures which caused the recession started being imposed by local governments and resulted in the widespread closure of businesses and the subsequent drop of economic activities and output. The expected recession is therefore unforeseeable and it is in its cause and global scale unprecedented since the Great Depression of the 1930s.

The further development depends now on how quickly and thoroughly the public health challenge will be met. Until a cure or vaccine is found, it is virtually impossible for economists to predict the “end game” of this crisis, and ultimately when economies will rebound from the expected recession.[9]

The general shutdown of the economy in almost all sectors and across the world has led to a severe jump in unemployment. A UN study said 81% of the world's workforce of 3.3 billion people have had their place of work fully or partly closed because of the Covid-19 pandemic.[10]

In Germany, the March figures already recognize a small increase versus the previous year, but this does not yet reflect the full scale of the impact of the Covid-19 pandemic on the labor market[11]. Exact data for the GDP drop following the crisis are not yet available as the lockdown was just unfolding in the course of the month of March. However, the macroeconomic outlook as described in the following chapter foresees for Germany a sharp decline in the current year and possibly a recovery in 2021 which would resemble either a V-shaped recession, supported by the five designated leading economic think tanks consulting the German federal government[42] or rather a U-shaped recession as

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[7] https://en.wikipedia.org/wiki/2020_coronavirus_pandemic_in_Italy
[8] https://time.com/5791661/who-coronavirus-pandemic-declaration/
[9] https://www.theguardian.com/business/2020/apr/08/the-2008-financial-crisis-will-be-seen-as-a-dry-run-for-covid-19-cataclysm
[10] https://www.bbc.com/news/business-52236936
[11] https://statistik.arbeitsagentur.de/Statischer-Content/Unterbeschaeftigung-Schaubild.pdf

projected by the "German Council of Economic Experts ("Sachverständigenrat")" in its Special Report provided to the German Federal Government.[56] However, as currently many governments are discussing and planning a step-by-step and cautious approach to returning to socio-economic normality, markets have already recovered parts of their initial losses, including bond and stock markets across the globe, in anticipation of this above mentioned V-shaped type of recession.

In addition, since its inception governments and central banks have aimed to cushion the impacts, leveraging on the experience from the 2008/2009 crisis and, especially in Germany, from years without public net borrowing, which returned public debt close to 60% of the GDP – in line with the Maastricht criteria - for the first time since 2002.[12]

While job losses on the European continent are only just beginning to be counted, in the US, during the four weeks starting in the middle of March when the Covid-19 pandemic unfolded in the US, the number of unemployment claims has reached 22 million. This is roughly the net number of jobs created in a nine-and-a-half-year stretch that began after the last recession and ended with the pandemic's arrival.[13] This is an unprecedented figure and the number of jobs lost in such a short period of time now exceeds the 15 million that it took 18 months for the Great Recession to eliminate from 2007 to 2009.[14]

It will be seen how many jobs lost during this recession will ever come back. In many cases, developments which had started already before the crisis may accelerate. This includes, as an example, the move from physical retail to online shopping or the long-discussed downturn of the German automotive industry with the move to electrical cars. These trends might be transformed into a permanent situation. It is also questionable how many jobs in start-ups and other newly founded enterprises can be maintained when they were solely based on expectations regarding future developments.

2.3.2 Expected macroeconomic development

There will be a "coronavirus recession" – the only questions are how long and how painful will it be and will the slump be V-, U-, or L-shaped?

Economists and analysts debate whether this recession will be short-, medium or long-term (V-, U or L-shaped)[15] :

Due to the dynamic nature of the Covid-19 pandemic and the associated introduction, maintenance and step-wise withdrawal of rigid public health measures, it is necessary to think in scenarios.

Assuming a **best case scenario,** the most likely outcome for Germany would be a **V-shaped recession.** V-shaped recessions are recessions that begin with a steep fall but

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[12] https://tradingeconomics.com/germany/government-debt-to-gdp
13 'Nowhere to Hide' as Unemployment Permeates the Economy";
https://www.nytimes.com/2020/04/16/business/economy/unemployment-numbers-coronavirus.html
14 https://www.politico.com/news/2020/04/09/coronavirus-unemployment-claims-numbers-176794
[15] https://www.learningmarkets.com/understanding-v-u-w-and-l-shaped-recessions/

then quickly find a bottom, recover and move higher immediately (e.g. 2001, following the 9/11 events).

This view is, among other analysts and economists, supported by the five designated leading economic think tanks consulting the German federal government. These think tanks jointly suggest a GDP drop in 2020 of 4.2% and a recovery in 2021 by 5.8%.[16] Such a best case scenario would be **based on the following assumptions, some of which are already implemented:**

- Current measures to contain the Covid-19 pandemic especially the quick development of a vaccine are widely successful.
- Some countries, China in particular[17] (but also comparatively smaller economies such as those of Denmark and Austria in the EU[18]), are already moving away from situations with severe restrictions on economic activities. The travel restrictions between Europe and the USA and the limitations of socio-economic activities within the USA are then gradually removed.[19]
- In Germany, returning to 'normal' social and economic interactions would start at least partially and step by step at the beginning of May. Any further month of "shutdown" may lead to another further GDP drop of 1.5%. At the time of writing, various "exit strategies" are discussed at different political levels[20]. At the level of the European Commission, a concept to implement a consistent exit strategy is under discussion as well, although this is challenged by some of the member states, namely Spain and Italy[21].
- All larger countries such as the USA ($2 trillion)[22], China ($3.7 trillion, mainly on infrastructure)[23], Japan[24], Germany (€750 billion, marking the first instance of the German government taking on new debt since 2013) [25], France (€45 billion aid package to help businesses and workers) [13], UK (£30 billion stimulus plan)[26] and supranational organizations such as the EU (€37 billion)[27] set up stimulus packages to support their economies, which need to prove that they are sufficient

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[16] https://www.handelsblatt.com/politik/konjunktur/nachrichten/gemeinschaftsdiagnose-konjunkturinstitute-erwarten-einbruch-der-wirtschaft-aber-schwaecher-als-zuletzt-befuerchtet/25725406.html

[17] https://www.nytimes.com/2020/04/07/world/asia/wuhan-coronavirus.html?referringSource=articleShare

[18] https://www.washingtonpost.com/world/europe/austria-coronavirus-lockdown-end/2020/04/06/b4dedd8e-7805-11ea-a311-adb1344719a9_story.html

[19] https://www.reuters.com/article/us-health-coronavirus-trump-idUSKCN21Q3EW

[20] https://www.manager-magazin.de/politik/deutschland/lockerung-der-ausgangssperren-nach-ostern-debatte-um-exit-strategie-a-1305744.html; https://www.t-online.de/nachrichten/panorama/id_87665772/coronavirus-news-massnahmen-lockern-altmaier-warnt-vor-selbstzufriedenheit.html

[21] https://www.politico.eu/article/commission-to-unveil-exit-strategy-as-countries-push-to-lift-corona-measures/

[22] https://edition.cnn.com/2020/03/25/politics/stimulus-package-details-coronavirus/index.html

[23] https://www.bloomberg.com/opinion/articles/2020-03-10/coronavirus-china-s-infrastructure-stimulus-is-a-road-to-nowhere

[24] https://www.reuters.com/article/us-healthcare-coronavirus-japan-package-idUSKBN20X04B

[25] https://www.dw.com/en/coronavirus-what-aid-packages-have-governments-agreed/a-52908669

[26] https://uk.reuters.com/article/uk-britain-budget/uk-pledges-30-billion-to-protect-economy-from-coronavirus-idUKKBN20Y007

[27] https://www.reuters.com/article/us-health-coronavirus-eu-vonderleyen-idUSKBN2101VV

and effective. The European Commission has suspended debt and deficit requirements for members of the bloc, giving less economically stable countries such as Italy more room to fight the coronavirus[13].

- Central banks around the world have launched measures to supply liquidity and implemented additional asset purchases; they have also lowered interest rates wherever this is still a measure of choice.
    - The European Central Bank announced the "Pandemic Emergency Purchase Program", a bond-buying scheme worth €750 billion to provide EU members with increased liquidity.
    - The Central Bank of China increased the loans available to banks by approx. €65 billion and lowered bank reserve requirements, thus freeing up approx. €71 billion in cash to be lent out. It cut interest rates for banks and large corporations. It has also asked banks to extend the terms of business loans and landlords to reduce rents on commercial properties[13].
    - The Bank of England cut its key rate by half a percentage point to 0.25%, introduced a new program for cheap credit and reduced a capital buffer to help banks lend[14].
    - The US Federal Reserve has stepped in with a broad array of actions[28] to limit the economic damage from the pandemic, including up to $2.3 trillion in lending to support households, employers, financial markets, as well as state and local governments. It has cut its target for the federal funds rate, the rate banks pay to borrow from each other overnight, by a total of 1.5 percentage points since March 3, bringing it down to a range of 0 percent to 0.25 percent. Further measures include quantitative easing. The Fed initially said it would buy at least $500 billion in Treasury securities and $200 billion in government-guaranteed mortgage-backed securities over the coming months. However, on March 23 it made the purchases open-ended. It also expanded purchases to include commercial mortgage-backed securities. It re-introduced lending to securities firms. The Fed will offer low interest rate (currently 0.25 percent) loans up to 90 days to 24 large financial institutions known as primary dealers. The dealers will provide the Fed with equities and investment grade debt securities, including commercial paper and municipal bonds, as collateral. There are many more measures including direct lending to major corporate employers, increased activity and lower requirements in the secondary bond market, and the reduction of regulatory requirements.

- Supranational institutions such as the World Bank have launched broader economic programs providing up to $160 billion over the next 15 months[29]. The member states of the Euro area, e.g. means of the European Stability Mechanism

[28] https://www.brookings.edu/research/fed-response-to-covid19/?preview_id=790874
[29] https://www.worldbank.org/en/who-we-are/news/coronavirus-covid19

(ESM) or so called “Corona Bonds” with joint liability, have managed to stabilize financial markets and allowed its member states to launch further fiscal and other activities. The IMF just announced having $1 trillion in lending capacity and placing it at the service of its membership. This includes doubling the access to its emergency facilities with a volume of $100 billion in financing, reviewing its tool kit to improve precautionary credit lines to encourage additional liquidity support, establishing a short-term liquidity line and helping meet countries' financing needs via other options – including the use of SDRs. The IMF has revamped its Catastrophe Containment and Relief Trust to provide immediate debt relief to low-income countries affected by the crisis, thereby creating space for spending on urgent health needs rather than debt repayment. It is also working with donors to increase the CCRT to $1.4 billion to extend the duration of the debt relief.[30]

Slightly more pessimistic in the sense of a **more pronounced V** or even a **U-shaped recession[4]** (recessions that begin with a slightly slower decline but then remain at the bottom for an extended period of time before turning around and moving higher again) was the “German Council of Economic Experts (Sachverständigenrat)” in its Special Report provided to the German Federal Government on the situation in Germany.[31] It provided different recovery scenarios, but the most quoted risk scenario assumes a drop of the economic output in Q2/20 and ultimately a GDP drop of 5.4% (annual average) with a growth in 2021 of 4.9% based also on a lower baseline (January 2021 vs. January 2020). The scenario assuming a **long U-shaped recession** would become relevant if measures to contain the Covid-19 pandemic last until after the summer, and policy measures are not enough to prevent far-reaching damage to the economy resulting from lay-offs and bankruptcies.

An indefinite **L-shaped recession** seems only likely if neither a cure nor a vaccine against the Covid-19 pandemic can be found throughout 2020 and strict socio-economic restrictions remain in place throughout the year. For the IMF, e.g., it was already obvious at the beginning of April that global growth will turn sharply negative in 2020 as visible in its *World Economic Outlook* specified in the mid of April[32]. In fact, the IMF anticipates the worst economic fallout since the Great Depression of the 1930s.[33]

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30 https://www.imf.org/en/News/Articles/2020/04/07/sp040920-SMs2020-Curtain-Raiser

31 https://www.sachverstaendigenrat-wirtschaft.de/en/special-report-2020.html

32 https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

33 https://www.imf.org/en/Topics/imf-and-covid19; https://www.imf.org/en/News/Articles/2020/04/07/sp040920-SMs2020-Curtain-Raiser

3 The CFO: Fields of action and responses to uncertainties accelerated by the Covid-19 pandemic

3.1 Immediate needs for action

3.1.1 Cash flow & liquidity management

"Cash is king" is a term reflecting the belief that money (cash) is more valuable than anything else. Having sufficient cash at the company's disposal is normally a good indicator. Additionally, strong cash flows provide a company with the ability to act and re-act flexibly when it comes to business decisions and potential investments. Depending on the company's exposure, a well hedged cash flow – but also a well hedged commodity exposure etc. – is essential. It is more than ever relevant when previous business plans evaporate and revenue and cash flow streams run dry, while the adjustment of costs cannot be performed immediately or without associated restructuring-related cash-outs. Hence, the first and foremost focus of any CFO during the Covid-19 pandemic must be securing the company's ability to meet their financial obligations at any time and maintain sufficient liquidity reserves for unexpected developments. It is therefore critical for the CFO to establish a cash flow war room which ensures a frequent, i.e. daily or weekly, cash flow rolling forecast for a minimum period of 90 days and provides all senior executives with a cash decision framework.

Unexpected developments are becoming more likely as delays in information from the supply chain or the sales teams leading to ever more incorrect revenue forecasts. These shortcomings may be overshadowed by further socio-economic disruptions in key markets within a small period of time. Such a liquidity management may include:

- **Communication with financial sponsors, thus maintaining and increasing transparency**[34]
    - Banks and bondholders as any other financial sponsor including (private) equity shareholders do not like surprises.
    - Eliminate those surprises by proactively communicating updates to financial planning (budget and cash flow), thus being transparent about risks and the possible impact to the business.
    - Prepare and provide different scenarios.
    - Update these projections based on real-time data and increase frequency of communication with financial sponsors.
    - Additionally, especially if there are private equity (PE) shareholders among the owners, lean on sponsors for guidance. PE firms have a portfolio-wide view of the corporate response to the Covid-19 pandemic. They have unique insight into emerging best practices. PE firms see and enable such

[34] https://www.cfo.com/budgeting/2020/03/the-cfos-response-to-coronavirus-uncertainty/;

portfolio-wide responses to a threatening global crisis in the context of their macro-economic expertise[35].

- **Measures to raise capital:**
  - Issue debt obligations; if possible in a way so they are eligible for purchases by central banks.
  - Stock issues are a theoretical option, but cannot be assumed to be workable in the immediate upcoming future
- **Measures to increase liquidity reserves:**
  - Prepare documentation and establish relationships. Make plans transparent and act immediately if there is a window of opportunity to refinance on the capital markets. In the meantime, utilize established relations with principal banks for bridge financing:
  - **Review refinancing strategy on the capital markets**[36]:
    - **The Bond market** is still accessible for investment grade issuers. This is particularly interesting if such bonds meet the requirements to be sold to the ECB in one of its bond-buying programs, especially within the new Pandemic Emergency Purchase Programme (PEPP), where requirements have been lowered.[37]
    - **High yield market:** Since March 2020, activities have notably slowed, the secondary market is under pressure with average prices below 100% and the current spread is 6% on average (7.2% at its peak during earlier phases of the Covid-19 pandemic). This is significantly less than during the Great Recession of 2008/2009 where at the peak, spreads of 14% were paid.
    - **Bonded senior notes ("Schuldscheindarlehen")** are typical alternatives to bank loans and bonds for long-term refinancing. Typical investors are financial intermediaries and financial institutions. At the moment (Q1/2020), the activity in this market is relatively low. Price levels are currently adjusted upwards. Marketing can last up to four weeks. Insofar, it may be recommended to look for short-term or medium-term bank loans instead. The company's long-term goal to return to the market for such senior bonded notes should be made transparent to the banks (transparency). Blue chip corporations will increasingly tap the market for senior bonded notes so there may be a 'crowding-out" effect.

35 https://www.blackrock.com/corporate/literature/whitepaper/bii-macro-perspectives-april-2020.pdf

36 Biasi, Gerhard (Head of Investment Banking Corporate Commercial Clients, HypoVereinsbank): "Coronakrise und der Kapitalmarkt. Wo bekommen Unternehmen jetzt noch Geld her?" (Webinar 07th April 2020).

37 https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html

- **Review refinancing strategy on the money markets**: **Commercial paper** is a commonly used type of unsecured, short-term debt instrument issued by corporations, typically used for the financing of payrolls, accounts payable and inventories, and meeting other short-term liabilities. Maturities on commercial paper typically last several days and rarely range longer than 270 days. Commercial paper is usually issued at a discount from face value and reflects prevailing market interest rates.[38] In the PEPP, the ECB will also purchase commercial papers for the first time in order to support companies in avoiding short-term liquidity shortages[39].
- **Review increased or re-vitalized engagement with principal banks**: Banks are sufficiently funded and are prepared to assists clients during the time of the Covid-19 pandemic. Basel III requirements were postponed by one year to January 1, 2023.[40]
    - Turn uncommitted bilateral credit lines into committed syndicated loans even if these are slightly more expensive;
    - Open all possible credit lines with banks;
    - Reduce credit costs or agree to postpone payments;
    - Negotiate easier credit conditions, and higher limits;
    - Review debt retirement schedules and covenants;
    - Principal banks in which a client has a long and trustworthy relationship may even (depending on the circumstances) continue supporting the client if the current Covid-19 pandemic puts otherwise healthy clients into temporary financial difficulties. It may include term loans with a defined repayment schedule in order to reduce the bank's exposure continuously.[41]
- **Review re-financing with public banks**: This option mainly refers to loan programs set up by the European Investment Bank (EIB) and – in Germany – by the KfW Group. Such loans are usually made available through the company's principal banks. It is intended to grant loans quickly and with reduced credit checks. However, interest rates may be above those granted to investment grade companies for commercial loans or in the capital market.

[38] https://www.investopedia.com/terms/c/commercialpaper.asp

[39] https://www.manager-magazin.de/politik/europa/europaeische-zentralbank-bringt-pepp-gegen-corona-krise-a-1305554.html

[40] Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision. Basel III was introduced to improve the banks' ability to handle shocks from financial stress and to strengthen their transparency and disclosure. The Basel III accord raised the minimum capital requirements for banks from 2% in Basel II to 4.5% of common equity, as a percentage of the bank's risk-weighted assets. There is also an additional 2.5% buffer capital requirement that brings the total minimum requirement to 7%. https://www.bis.org/bcbs/basel3.htm; https://corporatefinanceinstitute.com/resources/knowledge/finance/basel-iii/; https://bankingjournal.aba.com/2020/03/implementation-of-basel-iv-standards-delayed/

[41] Koller, Stefan, Head of Corporate Structured Finance Germany, UniCredit, 07.April 2020, statement during webinar "Coronakrise und der Kapitalmarkt – Wo bekommen Unternehmen jetzt noch Geld her?"

- **European Investment Bank (EIB)**[42]

The European Investment Bank (EIB) is the lending arm of the European Union (EU). On Friday, April 3, 2020, the EIB board endorsed the proposal for EU Member States to create a €25 billion guarantee fund that would mobilize up to €200 billion for the European economy to deal with the impacts of the Covid-19 pandemic. This is on top of emergency measures already underway to mobilize €40 billion to small- and medium-sized enterprises (SMEs), among other steps taken.

The guarantee fund is designed to primarily support private sector final beneficiaries in EU Member States that are high-risk but viable in the long-term and, in the absence of the Covid-19 pandemic, would meet a lender's or other financial intermediaries' requirements for commercial financing. Thanks to the guarantee, the EIB Group would be able to provide existing products to local banks and other financial intermediaries, who are in close contact with businesses in all member states and can unlock financing to the real economy, without risking financial instability.

- **KfW Group**

The KfW Group is the promotional bank of the Federal Republic of Germany. 80% of its shares are owned by the federal government, whereas the remaining 20% of the shares remain with the federal states[43].

Companies, next to self-employed entrepreneurs and freelancers running into financial difficulties because of the Covid-19 pandemic, can now receive a KfW loan to improve liquidity and to cover running costs. Applications will be processed through the primary bank or savings bank. Different schemes are established to support different business segments, e.g. KfW instant loans, KfW entrepreneur loans, enterprise resource planning (ERP) start-up loans and ERP 'Start Geld', as well as KfW syndicated financing depending on the circumstances.[44]

- **Measures to reduce cash-out:**
  - Delay or abandon shares repurchase programs;
  - Re-consider acquisition plans or bigger organic investments;
  - Postpone non-critical capital expenditures;

[42] https://www.eib.org/en/about/initiatives/covid-19-response/index.htm
[43] https://www.kfw.de/PDF/Download-Center/Konzernthemen/KfW-im-Überblick/GP_2014_deutsch_112014_final-2.pdf
[44] https://www.kfw.de/KfW-Group/Newsroom/Latest-News/KfW-Corona-Hilfe-Unternehmen.html

  - Assess availability and applicability of tax relieve programs;
  - Assess possibility to renegotiate withholding taxes;
  - Assess and negotiate possibilities to delay tax payments.

  On all these measures typically consensus can be found within the management, ownership and shareholdership and other stakeholderships of the company.

  A more critical and discussion-prone approach would be reducing or stopping dividend payments.

- **Measures to increase cash-in:**
  - Find out about subsidy conditions and file applications including credit programs made available by public banks as part of the government's stimulus packages;
  - Use the full range of possibilities for later payment as provided in the individual contract's Terms and Conditions, including the postponement of payments. This comprises assessing whether the Force Majeure Clause can be invoked on the side of the involved parties. Renegotiate contracts including the payment terms.

- **Measures to assess and reduce risks associated to the cash flow stream:**
  - Install credibility screening/process for approval of request from debtors/contractors (bad debt assessment);
  - Check customer base for open positions and rate the risk of non-payment due to the crisis.

- **Budgeting, forecasting and communication**
  - In the short-term, open the budget and immediately execute necessary and visible adjustments. Additionally, major disruptions may require a zero-based budgeting approach. Rework the cash flow plan and increase the frequency and the level of detail in which it is updated. Reassign more people to cash flow management from other units.
  - This may be the time to speed up transformational changes and to make them the "new normal", e.g. rolling budgets, tight and frequent variance analysis.
  - Ensure cash management
    - Assess availability and suitability of supplier financing, taking into account also possible supply chain shortages and the need to remain a preferred customer.
    - Manage outstanding trade receivables, taking into account also long-term customer relationships and considerations, if being a reliable and supportive business partner will be helpful in the customer relationship after the Covid-19 pandemic.

- Provide private customers with vouchers and other incentives instead of cash reimbursements, if pre-booked and pre-paid events or travels had to be cancelled due to pandemic-related restrictions.

3.1.2 Cost containment & efficiency improvement

CFOs liaise with the business units to find ways to identify and expose all cost items that are impacted through mitigation measures, e.g. cancellation or delay of expenses.

Finance organizations which have launched productivity increase initiatives in the past have a significant advantage and can leverage this exercise to make a robust and more sustainable productivity adjustment and not in the range of 5 or 10%, but rather 30% and more. These changes will also enable the organization to emerge much more resilient and outperform competitors in profitability.

Fixed costs pose a particular challenge as they are not changeable in the short term to mitigate any revenue losses and therefore require a thorough but quick analysis of available resources. Transforming blocks of fixed cost into variable cost components (e.g. turning IT-related investments into dynamic service agreements (IaaS, SaaS)) to the greatest possible extent can bring significant relief.

Variable costs need to be reduced to the minimum level which is necessary to fulfill the projected sales over the next 90 days. This may include procurement control through a rigid purchase order approval process.

Lease payments may have a significant P&L impact for some businesses and should therefore be looked into to assess potential renegotiations and postponement of lease payments.

Although many businesses face serious repercussions from the Covid-19 pandemic, many of which will have no other option than to reduce headcount, it is crucial for corporates to strike a balance between the reducing and ensuring a quick and strong comeback after the pandemic. Immediate measures may include, but are not limited to the following:

Real Estate

- Conduct rental renegotiation driven by workspace adjustments, customer demand and internal headcount. Furthermore, evaluate options to reduce rental costs.

IT

- Secure and update the data network, improving company resilience Ensure safe accessibility from off-site spaces and make use of secure remote monitoring and access systems.
- Purchase mobile equipment. Web cameras, smartphones and laptops for all relevant office employees.

- Speed up digitization and automation wave.

HR

- Evaluate the effect of short-time work on personal costs, as well as options to reduce or retard social insurance costs with relevant authorities.
- Holiday planning plays a major role, both operationally and financially. Operationally, it is important to avoid holiday clusters after the Covid-19 pandemic, while financially the limitation of provisions for holiday entitlements to a minimum is essential. Thus, the workforce should be encouraged or even enforced in alignment with employee representatives and when required to take holidays during the time when business is low as a result of the Covid-19 pandemic. At the same time, care must be taken to ensure that employees reduce their overtime accounts.
- The German federal government has facilitated access to temporary support for employees having to reduce their daily working hours as a result of the effect the Covid-19 pandemic has on the employer's economic situation.[45] Depending on whether or not the employee has to support children, it may be 60% or even 67% of the suspended salary for up to twelve months. Similar schemes exist across Europe and are supported by funds made available by the European Commission.[46]
- Reconsider new openings. Hiring should be selective and not entirely frozen in order to keep the company's competitive advantage, if the recovery is faster than expected.
- Flexible workspace roll out; furthermore calculate/assess the effects of new style of work (agile working).
- Stop all non-essential travel.
- Compensation schemes should continuously be re-evaluated, especially in times of crisis. It must always be part of the assessment, if and how cost savings are outweighed by discouraging impacts on employees.
- Evaluate working productivity consequences driven by longer home office.
- Calculate and prepare redundancy payments driven by headcount reduction. Assess any possibility to benefit from national short-time working schemes as also supported by the European Commission. Similarly, the UK will temporarily compensate companies, approx. 80% of the salary costs of staff they put on short-term leave, up to a limit of £2,500 per month

45 https://www.arbeitsagentur.de/m/corona-kurzarbeit/; https://www.arbeitsagentur.de/news/corona-virus-informationen-fuer-unternehmen-zum-kurzarbeitergeld
46 https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/economy_en

per employee and salary reductions as a result of compulsory reduced working hours will not be covered by this compensation scheme.[47]

Companies that have invested in digitization and enabled home-office schemes are well-equipped for the current crisis in which lockdowns and office closures have pushed the workforce towards home working. It is not too late to ramp up these investments if not already done, although supply chain disruptions and liquidity concerns may make it difficult to equip the workforce in the short term.

Although these IT investments seem to be in stark contrast to cost containment initiatives, these sustainable investments should be prioritized over other less significant expenses or other budgets re-allocated to cater for this event.

3.1.3 Strategy, steering & M&A

Firms may have to look into refreshing their short- to medium-term tactics and particularly long-term strategic objectives, which may have to be changed given the potential impact of the Covid-19 pandemic. Finance heads need to be strongly advocating the financial assessment of above mentioned scenarios with the strategy and business divisions and more than ever focus on the financial viability of the choices.

Strategic directions need to be concerned with the emerging needs of customers and how to increase their loyalty at the present time. Telecom firms were quick to react to loyalty challenges by waving change fees for cross- and up-sale transactions, as well as quickly opening up online payment channels. Given the uncertain duration of the Covid-19 pandemic, the scenarios need to reflect the different timelines and sketch different pricing, segmentation and product variants along with supply chain risks and daily updates from the war room on intelligence data identified. This urges the management team to continuously rethink their understanding and definition of the strategic direction. As this is obviously not the normal strategic planning exercise, the head of finance can take advantage of this circumstance to bolster the importance of a well-managed financial planning practice in which management should reduce administration and bureaucracy tasks to a minimum to ensure fast decisions.

Along with the above strategic challenges posed by the Covid-19 pandemic, CFOs and merger and acquisition (M&A) leaders should assess any potential M&A-related risk and opportunity to strengthen their position.

The outbreak and surge of the corona pandemic may have a positive effect for cash rich and liquidity-preserving companies. International capital markets plummeted with unprecedented price losses. As early as in the 3rd week of Germany's social distancing

47 https://uk.reuters.com/article/uk-health-coronavirus-germany-kurzarbeit/factbox-short-time-work-schemes-gain-traction-in-crisis-hit-europe-idUKKBN21Q28E

and lock down measures, international firms such as Vapiano, Maredo and Esprit have filed for insolvency.

Hence, new and unexpected acquisition opportunities may arise as some firms have come under heavy pressure and thus may be estimated at a much lower valuation level, compared to the level before the Covid-19 pandemic. Thus, for cash-rich firms this may represent good buying times. Still, management has to focus on key drivers to ensure success of the transaction.

Nonetheless, the Covid-19 pandemic has led to a significant slowdown in M&A transactions as management focuses all efforts on stabilizing the business, reducing costs and ensuring liquidity for their operations.

Although some deals are still being pursued when there is a strong business and financial rationale behind it, the focus of the due diligence phase has shifted dramatically. Due diligence activities are now primarily stress-test driven and burdened with the intensive assessment of the Covid-19 pandemic impact on the targets' business to ensure funding during these turbulent times of uncertainty.

This requires an increased level of cooperation between the finance, strategy and legal organization as a strong creative contract is key.

As for firms that have come and will further come under pressure due to supply chain disruptions, loss of revenues, increasing bad debt and resulting liquidity shortfalls, it is of paramount importance to find ways to strengthen their balance sheet. CFOs have numerous ways, as outlined above, with primary attention to be given to cost reduction and safeguarding liquidity. Divestments of holdings can surely be considered a major contributor in ensuring short- to medium-cash funds. But given the uncertainty, it will be difficult to hold tight to valuation levels estimated and recorded before the Covid-19 pandemic and CFOs should balance this against the urgent need for funding.

3.2 Short-term needs for action

3.2.1 Accounting and external reporting

The Covid-19 pandemic is likely to impact financial results, companies' operations and the value of assets.

For companies with a calendar-based fiscal year 2019, the Covid-19 pandemic can be considered a non-adjusting event in the meaning of IAS 10. Assets and liabilities require a valuation reflecting the conditions existing on December 31, 2019. However, significant changes are to be disclosed as post-balance-sheet events in the notes and in the management report.[48]

IAS 1.25 requires comprehensive disclosures in the notes, if the annual financial statements are not prepared on the assumption of a going concern or if the management has significant doubts about a going concern. This may be the case in the event of significant sales-related involvement in crisis regions and industries, or if the company is pursuing business models which is heavily impacted by the above mentioned socio-economic restrictions (e.g. in the tourism industry). This also applies if these events would otherwise not have to be taken into account in accordance with IAS 10. The same applies to commercial law annexes (IDW PS 270 n.F. *-new version-*, No. 9) and, according to DRS 20.148, also to the (group) management report.[4] If there is a significant risk that the Covid-19 pandemic will lead to a negative deviation from the Group's forecasts and figures, this must be reported in the risk report (DRS 20.146ff.). In addition to the explanation of risk and the individual consequences, quantitative information and the disclosure of risk limitation measures may also be required[49].

On March 12, 2020, the European Securities and Markets Authority (ESMA) has issued, among others, the following recommendations to market participants[50]:

- Market Disclosure – issuers should disclose as soon as possible any relevant significant information concerning the impacts of the Covid-19 pandemic on their fundamentals, prospects or financial situation in accordance with their transparency obligations under the Market Abuse Regulation.
- Financial Reporting – issuers should provide transparency on the actual and potential impacts of the Covid-19 pandemic to the extent possible based on both a qualitative and quantitative assessment on their business activities, financial situation and economic performance in their 2019 year-end financial report if these have not yet been finalized or otherwise in their interim financial reporting disclosures.

For companies with a fiscal year 2019/20 ending e.g. March 31, 2020, or for any other period starting with Q1/2020, the impact of the Covid-19 pandemic has to be considered not only in the notes, management reporting and risk reporting but also in the balance sheet and the P&L statement. This covers a range of topics, including but not limited to the interruption of production and supply chains, the closure of office space, production sites as well as retail premises as these will impact revenue, cash flow, costs and productivity. It may affect expansion plans, limitations to the ability of raising funds, etc.

[48] https://www.haufe.de/finance/jahresabschluss-bilanzierung/ifrs-coronavirus-und-die-finanzberichterstattung_188_511276.html
[49] https://www.ifrs-akademie.de/blog/blog-detailansicht/coronavirus-jahresabschluss-und-lagebricht/
[50] https://www.esma.europa.eu/node/90557

The Covid-19 pandemic may affect accounting conclusions and disclosure requirements regarding almost all aspects of business. While it is impossible to cover all of them in this paper, some aspects should be highlighted[7]:

- **Impairment of non-financial assets, including goodwill (IAS 36):** The financial performance of such assets including the estimates of future cash flow and earnings may be significantly affected by the current economic downturn. IAS 36 requires entities to perform an impairment test at the end of each reporting period when there is any indication that the 'cash generating unit' may be impaired. It can be assumed that under many circumstances, the economic consequences of the Covid-19 pandemic are a triggering event, thus requiring an impairment test.
- **Valuation of stock in warehouse (IAS 2):** The fundamental principle is that inventories are measured at the lower of cost and net realizable value (NRV) (IAS 2.9). Difficult economic conditions may make the NRV calculation complex and necessitate additional analysis. Further, if an entity's output is extremely low (e.g. as a result of temporary production close), verification of the assumed inventory cost may be necessary to ensure that manufacturing expenses do not include items related to unused capacity.
- **Allowances for expected credit losses (ECL) (IFRS 9)[51]:** The Covid-19 pandemic can impact the ability of borrowers to meet their obligations. Individual and corporate borrowers may have particular exposure to economic impacts in their geography and industry sector. This includes private customers having lost their employment but also financially strained business partners. ECL applies to trade receivables, loans, debts and securities, as well as losses recognized in measuring loan commitments and financial guarantee contracts[52]. The amount and timing of the expected credit losses and its probability must be based on reasonable and supportable information[53] which is available at reasonable costs and effort at the end of the reporting period. Information obtained after the balance sheet date must not be taken into account.[54] By doing so, accounting and external reporting moves closer to forward-looking credit risk management. Forward-looking projections are required to measure credit risks for all financial assets not measured at fair value[55]. Companies need to develop estimates based on the best available information about past events, current conditions and forecasts of economic conditions. Extrapolations of historical data are insufficient and not representative, e.g. due to the implications of the economic disturbances caused by Covid-19. Even customers with a historically good credit rating have a certain probability of default. In assessing forecast conditions, consideration should be

51 https://www.accountingcoach.com/accounts-receivable-and-bad-debts-expense/explanation/3; https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-9/ifrs-9-ecl-and-coronavirus.pdf
52 https://www.bankingclub.de/wp-content/uploads/2017/11/Dr.-Jan-Philipp-Hoffmann_Deutsche-Postbank.pdf
53 https://www.openriskmanual.org/wiki/Reasonable_and_Supportable_Information
54 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2016.323.01.0001.01.ENG
55 https://www.ifrs.org/-/media/project/financial-instruments/webcast-july-2016/ifrs9-webcast-july-2016-slides.pdf?la=en

given both to the effects of Covid-19 and the significant government support measures being undertaken.

- **Fair value measurements (IFRS 13):** While level one and level two valuations are relatively straightforward, entities will need to focus specifically on fair value measurements based on level three. It is required to reflect how market participants would assess the effect of Covid-19 pandemic, e.g. on future cash flows related to the assets and rely less on historical data than on projections based on a defined scenario with Covid-19 pandemic implications.
- **Onerous contract provisions (IAS 37):** An onerous contract is an accounting term for a contract that will cost a company more to fulfill than the company will receive in return. These "unavoidable costs" are also defined as the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill it. Any business or company that identifies a contract as onerous is required to recognize the current obligation as a liability and to list that liability on its balance sheet. This process is meant to be undertaken at the first indication that the company expects a loss from the contract. It possibly includes contracts where increased fulfilment costs incur due to lower production volumes, higher shipment costs or providing services to customer groups far smaller than making the contract economically viable.
- **Restructuring plans and restructuring provisions** (Restructuring costs are in the scope of **IAS 37**): A restructuring can comprise numerous activities, including termination or relocation of a business, a change in management structure and lay-offs. IAS 37 explains[56] that a provision for restructuring has to be recognized only when there is **a detailed formal plan** adopted and has started being implemented, specifying the business or part of a business concerned, the principal locations affected, the location, function and approximate number of employees whose services will be terminated, the expenditures that will be undertaken; **a clear timeline** when the plan will be implemented and completed and that the entity has created **a valid expectation in those affected** that it will carry out the plan. If, as a result of the Covid-19 pandemic, it is considered to close some parts of the operations, the above mentioned criteria must be met before restructuring expenses can be accrued – but only if they are incremental, directly associated with the restructuring and not associated with ongoing activities such as the cost of training or relocating continuing staff. Once the nature of the restructuring costs has been identified, the provision is measured at the best estimate of the anticipated costs and discounted using a pre-tax rate that reflects both the time value of money and risks specific to the liability[57]. If ultimately, it is considered to sell or dispose parts of the operations within one year, it is required

56 https://www.iasplus.com/en/standards/ias/ias37
57 https://www.fas-ag.at/knowledge/ifrs-standards/ias-37-rueckstellungen-eventualverbindlichkeiten-und-eventualforderungen/

to classify them as "held for sale" and report the fair value less costs to sell if this is lower than the carrying amount (IFRS 5).

- The closure of operations as a result of the Covid-19 pandemic may also include the termination of employment contracts involving **employee termination benefits (IAS 19.2):** These are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. These benefits must be recognized when the company can no longer withdraw the offer of those benefits (either the termination plan exists or employee accepts the offer of benefits) and when the company recognizes cost for a restructuring (IAS 37) and involves the payment of termination benefits. Depending on the specific terms of the benefits, they will be reported as an undiscounted expense in the current year (if wholly settled within 12 months) or accounted (discounted) for as long-term benefits (if not settled within 12 months).

3.2.2 Risk & Legal

Risk management

Corporate risk refers to the liabilities and dangers that a corporation faces. Company risks are risks that might cause a loss to one company but not to other similar companies. Risk is differentiated from uncertainty which is not necessarily measurable. Even though the Covid-19 pandemic is neither restricted to individual corporations nor can it be considered a measurable risk such as e.g. actuarial risks, exchange risks, and inventory risks, many aspects of this pandemic can be considered in a corporate risk management strategy or a business continuity plan (BCP). A risk management strategy is an integrated business process that incorporates all of the risk management processes, activities, methodologies and policies adopted and carried out in an organization. A well-developed company risk management should include a plan for major disruptions of business caused by natural disasters, or e.g. by pandemics (the BCP). Planning "only" now would not be ideal but better than not planning at all. On the other hand, if such a business continuity plan is already in place it will certainly not cover all aspects which will prove to be critical for the current situation and therefore will need adaptation when being operatively put in place. There are a number of measures to be deployed in order to ensure a company's survival or even in order to contribute to an improved positioning in the market.

Ensure your employee's well-being

The biggest risk for companies remains in the ability to operate in all potential scenarios of the Covid-19 pandemic. However, ensuring the health and well-being of the workforce is of highest importance. The use of technology to enable work to continue without physical proximity is essential. Among other measures, this is demonstrating the company's commitment to the employees and its concern for their well-being. It does not only ensure the company's ability to continue business, nor does it simply reflect meeting legal requirements (such as imposed restrictions on working on-site), but it is having a highly motivational impact on the staff.

Continuously re-assess company risk scenarios and develop new risk-mitigating policies and strategies.

- Build new risk scenarios with additional and unexpected risk-drivers, analyze exposure, e.g. to affected supply-chains and distribution channels, calculate the impact of business disruptions and build up mitigation measures based on the results of such analysis.
- Rapidly increase alternative distribution channels which do not require physical presence. This may include online channels, but also encouragement to increase virtual meetings between the company's sales force and clients.
- Identify an increased plurality of sources for materials and supplies. This may be costly, but will be a source of stability and risk-reduction not only during the time of the Covid-19 pandemic.
- Review the proximity of suppliers to the company's production sites or even the geographical location of the company's own factories based on the current pandemic-related experiences.
- Reassess the existing strategies pertaining to the quantities of material on stock, in times of "just-in-time" delivery being limited to the needs of the next several days.

Implementing such measures will come with a cost but at the same time will reduce measurable business risks in the future and mitigate current disruptions. A crisis such as the Covid-19 pandemic is always an appropriate time to review and challenge existing business models and assumptions which so far had been taken as granted. This is especially true, once the crisis is finally over. Then, lessons learned and a measurement of the effectiveness of previously existing BCPs or ad-hoc measures must lead to adjusted plans for the future and the implementation of structural and process-related changes which have proven to be necessary already at this point in time.

Legal

The Covid-19 pandemic is affecting all areas of business, be it with suppliers and landlords, clients, employees, banks and financial partners, insurance providers, government and authorities, business partners in corporate transactions and other parties. While it is possible to highlight some legal aspects that may become important under the current or other similar circumstances, the ideas provided in this paper cannot be conclusive nor can they replace appropriate legal advice.

- Assess possibilities to legally challenge restrictions for your business as imposed by the government and associated authorities. In Germany, e.g., major retail groups are challenging restrictions as to under which circumstances they may be allowed to open their premises for trade. Calculate exact losses and liquidity implications caused by the trade restrictions in order to assess if insolvency and bankruptcy laws are applicable to the business and act accordingly.
- Renegotiate contracts with suppliers and customers, possibly by evoking the "Force Majeure" clause. Circumstances outside a party's reasonable control

which prevent that party from fulfilling its contractual obligations are often considered force majeure events under a specific contract or under the applicable law. Establishing that a force majeure event has occurred may give a party the option to either terminate the contract, refrain from performing the contract, suspend performance of the contract, or claim for an extension of time for performance. At the same time prepare for situations where the other contract party considers evoking force majeure.

- In the context of corporate transition projects (M&A deals), the inclusion of material adverse change (MAC) clauses need to be considered or the applicability of such MAC clauses needs to be assessed if already included. MAC clauses are clauses which aim to give the buyer the right to walk away from the acquisition before closing, if events occur that are detrimental to the target company.

Prepare and distribute (ad-hoc) information for stockholders and stock exchanges: Corporations publicly listed at stock exchanges and their board members are required to meet the legal requirements regarding insider rules, armed with significant personal sanctions. This pertains also to the obligation to publish ad-hoc information without negligent delay.

For capital markets in Germany, the Federal Financial Supervisory Authority (BaFin) has published a list of frequently asked questions to assist banks, financial institutions, etc. during this uncharted territory of the pandemic's economic implications, also addressing questions pertaining to reporting obligations.[58] Having the uncertainties of the Covid-19 pandemic in mind, similar recommendations were published by the European Securities and Markets Authority (ESMA)[59] and the UK Financial Conduct Authority (FCA).[60]

58 https://www.bafin.de/EN/Aufsicht/CoronaVirus/CoronaVirus_node_en.html
59 https://www.esma.europa.eu/press-news/esma-news/esma-recommends-action-financial-market-participants-covid-19-impact
60 https://www.fca.org.uk/

4 "The day after" – Accelerating and changing business trends as a result of the Covid-19 pandemic

At some point in the future, Covid-19 will be contained or treatable to some extent. A vaccine will hopefully be developed and made widely available. However, the virus will probably be with us for a long time, at least with a predictable number of people affected each year. The Covid-19 pandemic will not only re-shape socio-economic behavior for good but also how companies work. Due to the Covid-19 pandemic, some already existing trends are radically accelerating. Others are being reversed and it is happening all at the same time.

- An efficiency and cost focus will experience a renaissance, not only because of the liquidity necessity triggered by the corona event, but also because of an already darkening economic outlook and the need to invest in new business models and services in the course of the age of digitization. After the impacts of corona for the companies have been managed and the financial situation stabilized, companies will continue the way of efficiency and cost structure improvement by making increased use of new digital technologies and methodologies which make them more independent from attacks on the human workforce. Robotics, machine learning, Internet of things, increased and intelligent automation will help to avoid production losses by making core and support processes more independent. Analytics technologies will help to be better in predicting future developments and events and will help to model cost and revenue scenarios not only in crisis situations but also in every unforeseen company event. Cloud and XaaS solutions will be stronger requested as they help to make cost structures more flexible and adaptable to new situations. Cooperation models and cost sharing approaches in the context of large investments will become commodity in the B2B area to optimize cost structures and to minimize risk in economic emergency situations. Digital tools such as web conferencing, collaboration solutions, virtual reality applications will also experience an intensified use in industries that haven´t been working under those digital working conditions. Professional conferences, trade fairs and product presentations will increasingly take place virtually instead of physically. The trend to "work from home" will reduce the size of a company's real estate footprint and increased virtual meetings will reduce travel expenses leading to a more efficient use of working time. Once companies get used to an increased amount of staff working remotely from home, geographical restrictions to hiring will diminish and nationwide hiring will increase. It will be easier to hire more qualified employees and of course vice versa. The same trend towards more "virtuality", as it is predicted to happen with external meetings, will even more rapidly apply to internal business meetings. In general, a large percentage of face-to-face meetings will be replaced by video conferences. In this context, **cyber security** will become ever more important. In the context of digitization, we often talked about disruption, e.g. disruptive technologies or disruptive business models, disruption that has been brought to companies by new technology developments that effected their markets and competition. In this case the digitization triggered the disruption in the companies and markets and forced established companies and their CFOs to react or – even better – to act. Now again we have a disruption in companies and markets, this time triggered by the unprecedented virus. The difference from a digitization perspective is that this time digitization has the chance to be not the activator but one of the instruments for the CFO and finance departments to maintain the disruption and provide efficient solutions to handle the time of crisis and the aftermath. At the end, digital efficiency will not only be one of the central answers for companies to the challenges of the pandemic but also the solution to stay competitive in the future global competition.

- **Globalization** will not automatically cease to exist with the end of the Covid-19 pandemic. International division of labor will continue demonstrating advantages as compared to the nationalization of industries: optimal deployment of the factors of production and the build-up of specific clusters of quality, expertise and efficiency in all areas of business. Closer trade relations may also lead to an improved political understanding.[61] However, during this economic crisis, we are seeing the disadvantages of globalization, among them sensitivity to economic and political disturbances – however distant from a company's home market originally – and in general, the increased political and economic dependency associated with international supply and distribution chains. In the future, companies will want to ensure that **supplies are sourced from at least two independent suppliers of which one will be local.** Business-critical production sites – both those of external suppliers and also company-internal will be assessed also on the basis of their geographic accessibility. Stocks and inventories will still rely on just-in-time deliveries but with more generous contingencies.
- Some administrative restrictions will be in place **for a longer time,** depending on the jurisdictions. Companies will need to adopt its working and business models to changed realities.
- The value of key currencies might be affected. **Hedging of costs and revenue will become more necessary and paramount**. Industrial corporations must avoid any kind of implicit or explicit speculation on the development of currency and commodity prices.
- **Many companies will file for insolvency.** Many larger companies in heavily affected industries such as airlines may be nationalized. Markets will reshape and may never return to pre-crisis constellations. This will provide the prudent buyer with sudden opportunities to acquire new business. On the other hand, there will

[61] https://fee.org/articles/want-peace-promote-free-trade/

be a need for some companies to sell some of their assets. Many companies will change their shape significantly in the course of the crisis.

- **Business models with variable costs at its core will increasingly replace those models which rely heavily on large capital investments.** Trends such as Software as a Service (SaaS) and Infrastructure as a service (IaaS) will accelerate, leasing will replace owning, e.g. with regards to property footprint and car fleets.

Without a doubt, the corona crisis is the biggest challenge for societies, economies and single companies since many decades and the full effect will only be seen in months and years. For CFOs and the finance departments, the crisis means a kind of compressed “back to the roots”. The management of liquidity, cost situation and cost structure are in the middle of every short-term action and a lot of decisions and actions have to be taken to secure the business continuity during the next weeks and months. After these weeks of safeguarding, there will be a phase of recap and reflection, and many of the things that have been started, will have to be evaluated for future need and future direction. During this phase, Finance will have the duty and chance to take financing, cost structure and digitization decisions, and set up initiatives to further increase financial and finance department resilience and sustainability.

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We make ICT strategies work

Detecon is a consulting company which unites classic management consulting with a high level of technology expertise.

Our company's history is proof of this: Detecon International is the product of the merger of the management and IT consulting company Diebold, founded in 1954, and the telecommunications consultancy Detecon, founded in 1977. Our services focus on consulting and implementation solutions which are derived from the use of information and communications technology (ICT). All around the globe, clients from virtually all industries profit from our holistic know-how in questions of strategy and organizational design and in the use of state-of-the-art technologies. Detecon's know-how bundles the knowledge from the successful conclusion of management and ICT projects in more than 160 countries. We are represented globally by subsidiaries, affiliates, and project offices. Detecon is a subsidiary of T-Systems International, the business customer brand of Deutsche Telekom. In our capacity as consultants, we are able to benefit from the infrastructure of a global player spanning our planet.

Know-how und Do-how

The rapid development of information and telecommunications technologies has an increasingly significant influence on the strategies of companies as well as on the processes within an organization. The subsequent complex adaptations affect business models and corporate structures, not only technological applications.

Our services for ICT management encompass classic strategy and organization consulting as well as the planning and implementation of highly complex, technological ICT architectures and applications. We are independent of manufacturers and obligated solely to our clients' success.