

## COVID-19: Being Prepared for the Rebound in Business

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*While most of us are focussed on surviving in our respective businesses, those that will come out in front are the ones that prepare for the rebound in the economy post-COVID-19.*

I have witnessed at least three major economic downturns in my 30-year career that have taught me a great deal about what to do and what not to do in response to these events. While the COVID-19 crisis is different in so many ways the key lessons still hold. The very unique nature of this crisis is it is a health crisis first and the economic crisis is a consequence. The good news is the health crisis surrounding COVID-19 will pass. Our first-class health professionals and researchers will find an effective treatment and vaccines will be developed. The issue is the treatments are not going to be developed next week or even next month and as a result, we are faced with a prolonged period before the health crisis is truly past us.

The business and economic impacts of this are profound. However, again I am optimistic this will also pass and that businesses that weather the storm best and prepare for the inevitable pick up in the economy will come out on top. While I believe there will be a rebound, I don't personally prescribe to the theory that it will be sharp ("V" Shaped). I am more in the school of a more gradual return to normality ("U" Shaped), something that will mirror the recovery from a health perspective and is driven largely by the unwinding of restrictions from our governments and health professionals.

So, what are some of the lessons from the past, what am I doing with my portfolio and what can you do to position your business best through this period?

**Stay in Front of the Storm**

The number one lesson from prior economic downturns is to stay in front of the change, don't let the events of the time and the potential impact surprise you. In this environment you can't plan enough for what's ahead, you need to run multiple scenarios and have a plan for how you are going to respond. As COVID-19 has shown us all, it's always worse and moves faster than we first think so don't kid yourself about the impact and be prepared to act.

You need to plan for the worse, be prepared to make the hard decisions early but stay optimistic and on the alert for opportunity. Too many businesses wait to respond too late and find themselves in serious financial difficulty where the decisions are taken away from them or it's too late to act. If you become too reactive, you will end up making short term decisions that have the risk of damaging the business into the medium to long term. The balance here is to make enough hard decisions that keep the business cash flow positive (more on that later) while maintaining the essential parts of the business intact ready for the rebound. You have to effectively run on two speeds by using the cash reserves to keep the customer or revenue facing part of the business healthy.

### Cash is King

The key focus during this time is on staying cash positive and using all your available levers to do so. This is not a time to think about profit optimisation, staying cash positive will ensure the business will survive to the other side of the crisis. No matter how big the business is, you need to bring all core decision making into the centre. This is not a time for distributed decision making where you do not have visibility of where the cash is going and coming from. The CEO and the CFO (or at least a small number of senior executives) need to be making the key decisions and have visibility across all aspects of the business. Your CFO (or equivalent) needs to be preparing at minimum weekly forecast cashflows that look at both short term and long-term cash projections for the business including all the impacts and initiatives you have in place. This needs to be reviewed and acted on, again to stay cash positive.

As mentioned earlier, this means making hard decisions early both on the balance sheet and the Profit and Loss statement. Standing down staff might sound like a tough decision. However it is better for everyone that the business weathers the storm and people still have jobs after the crisis has ended than the business going under. Keeping the balance sheet healthy and cash balance positive is the oxygen your business needs to get through this.

Every business is different. However the following table highlights some examples of areas you may need to focus on to preserve cash.

*Table 1 – Examples of balance sheet and P&L initiatives*

Cashflow/Balance Sheet	Profit & Loss
<ul style="list-style-type: none"> <li>· Negotiating with the bank for deferral of debt/interest payments and waiver of any covenant breaches</li> <li>· Look to draw on any available sources of short term cash eg working capital facilities</li> <li>· Improved debtor collections</li> <li>· Extending creditor terms</li> <li>· Delaying or stopping all non-critical capital expenditure</li> </ul>	<ul style="list-style-type: none"> <li>· Removing all discretionary expenditure</li> <li>· Stepping down non-essential permanent staff either in part or in full (some businesses have asked staff to work full hours at a reduced salary for a while)</li> <li>· Reducing casual labour to what is necessary</li> <li>· Negotiating tax payment deferrals with the ATO and state revenue services</li> <li>· Negotiate rent holidays or deferrals with landlords</li> <li>· Utilising any Government incentives available to help support your business (eg Job Keeper)</li> </ul>

While working through this, communication is essential. Work with your bank, creditors, landlords and the government authorities. At times like this, everyone is motivated to see strong businesses get through this and still be there as a good customer or partner on the other side. The banks, in particular, are working proactively with customers to support them through this period. However, be prepared and have a plan. All stakeholders will be supportive if you have a plan on how you are addressing the downturn in your business. However, they are likely to take the opposite view if you don't. There is only so much support they are going to be able to give and they will pick favourites and you want that to be you. Again, acting early is also paramount as this support may dissipate if the crisis is elongated.

## It's not all downside

Amongst all the doom and gloom it is important to look for the upside. Many businesses are reporting that the response to COVID-19 has forced the company to make changes to their business model that have improved the efficiency in the business. They have found new and more efficient ways to engage with their customers, developed new work practices that are more efficient and effective or developed new channels to market. Now is a time that you need to think creatively and be agile to take advantage of the change.

In some examples, the COVID-19 crisis has given many latent trends a huge nudge in the right direction and has kick-started a new wave of doing things. Look how much we are all using video conferencing platforms like Zoom, there is no doubt some of this will change people's attitude towards how we interact in the future. This may have profound impacts on business by reducing costs, like business travel for meetings, that were previously a business norm.

Several companies have found new and creative ways to interact with the customer base and they are finding this more effective than old methods. Amongst all the cost reduction and cash flow management, some CEOs are optimistic about how their business may change when we are through this. Use this situation to make permanent shifts in your business model that will have a positive impact on the future and strength of your business. Again, this is only possible where leaders have a plan and make hard calls early.

## Be prepared to call it if necessary

Here is the hard part and the bit we all don't like talking about. Unfortunately, it is evitable that not all businesses will make it through this downturn. The short-term damage to the business may be too great and the medium-term outlook may mean you have little option than to think about attracting new shareholders that are willing to support the business through the cash flow hole or even more serious actions like putting the business into Voluntary Administration (VA). Your shareholders, including you if it's your own business, may rightly make the call that putting more money in is not the soundest decision in this environment. It's not saying it's not a good business in normal circumstances but that the capital required to 'save it' is not a rational investment decision if you can find funding from other sources. In some cases, a restructure of the business is what is required to get the business in the right shape.

In summary, staying close to your cash flow and ensuring you have control of all major outflows during this phase will be critical to staying cash positive. Divert cashflow from discretionary expenditure to key parts of your business that you will need to have intact to respond quickly when there is a rebound. The sooner you do this the better you will manage through any elongated downturn. Treat the cash that you have preserved by deferring expenditure, tax, rent, debt, etc in a separate bank account and don't mix it with your daily cashflow. Treat it like debt, as one day when you are through this you will need to pay it back and only draw on it in absolute emergency. Have a plan for all potential scenarios and be ready to act quickly but above all remember this will pass and you need to be ready to catch any upside.



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Daren has over 30 years' experience in the healthcare sector, including private equity investments. Prior to joining Crescent Capital, Daren was the co-founder and ex-CEO of LifeHealthcare Group Limited and COO of MIA Group Limited and CEO of multiple hospitals across Australia. Daren is the Chairman of MyHealth, Australian Institute of Business, Nucleus Network, Sun Doctors and Healthcare Australia.