Because the lasting impact and full scope of COVID-19 remains largely unknown, companies must be prepared to deal with any challenges that may arise, particularly those that could result in unforeseen financial distress. We offer a chart that outlines considerations that will help companies proactively and successfully navigate the potential impacts of the spread of COVID-19.

IN DEPTH

Following the recent outbreak of the Coronavirus (COVID-19), companies are focused on the financial and commercial implications, including problematic supply chain disruption, workforce disruption and sweeping travel restrictions on both goods and people.
Because the lasting impact and full scope of COVID-19 remains largely unknown, companies must be aptly equipped to deal with these and any other challenges that may arise, particularly those that could result in unforeseen financial distress. Being proactive in the coming months can help companies preserve value and prevent additional harm. Impacted industries include:

- Travel (airlines, hotel, cruise lines, tour operators)
- Food and Beverage/Restaurants
- Entertainment (movie theatres, live sport venues and teams)
- Real Estate
- Transportation/Shipments
- E-Commerce (supply and delivery disruption)
- Oil and Gas/Power
- Retail (especially luxury sector)
- Pharma/Life Sciences/Healthcare
- Manufacturing (supply chain disruption and a drop in demand)
- Healthcare (demand/supply and capitation related issues)

To successfully navigate this uncertainty, management should be prepared to evaluate modifications to current business plans to address changes in operations, potential financial covenant defaults and other possible contract breaches or defaults; regularly update their requisite cash flow forecasts; and monitor their ability to pay upcoming debt maturities or obtain additional financing, as needed.

The subsequent chart outlines considerations that will help companies proactively and successfully navigate the potential impacts of the spread of COVID-19:

<table>
<thead>
<tr>
<th>Considerations for Successfully Navigating COVID-19</th>
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<tbody>
<tr>
<td><strong>Mitigate Supply</strong></td>
</tr>
<tr>
<td>• Identify and mitigate any potential supply chain disruption caused by factory closures, travel restrictions or employee shortages due to illness or quarantine.</td>
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<tr>
<td>• Consider short-term changes to supply chain model to avoid disruption (e.g., replacement suppliers or vendors, other production alternatives).</td>
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<tr>
<td>• Evaluate and consider impact on vendors’ ability to deliver and customers’ ability to pay on time.</td>
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<tr>
<td>Chain Disruptions</td>
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| • Identify and mitigate potential contractual issues arising from delays in production or failure to fulfill outstanding orders (e.g., events of default, notice requirements, applicability of force majeure provisions) and any related consequences of a breach.  
• Review material contracts for any cross-default issues.  
• Implement alternative communication procedures with buyers and suppliers while any travel restrictions remain in effect. | • Regularly review actual cash flow status and accurately forecast cash on a regular and rolling basis (e.g., daily) to mitigate potential deficiencies due to supply chain disruption, decreased sales, and extended travel restrictions. For companies with credit facilities, they should assume that their lenders will be requesting 13-week cash flow forecasts and begin prepare these preliminary draft forecasts.  
• Consider implications of missed targets on ability to achieve overall projections outlined in current business plan and update business plan accordingly.  
• Assess implications for the potential delay of business expansion or consolidation and ability to obtain subsequent rounds of financing.  
• Consider impact on working capital of disruption to supply chain and replacement of existing company vendors.  
• Consider cost of significant workforce disruption and its impact on continued operation of business.  
• Consider cost of implementing programs to protect employee health.  
• Carefully review insurance policies to assess potential recoveries for any business disruption and clarify need for additional coverage as situation develops. |
| • Critically review existing debt service obligations to identify ability to make principal and interest payments likely due at the end of March and assess probable consequences of seeking deferrals.  
• Critically review potential covenant defaults resulting from operational disruption. Review potential options for |
### Near-Term Debt Financing Issues to Address

- Review current access to revolving lines of credit and delayed-draw term loans and consider drawing down prior to next reporting period (while being mindful of impact on any applicable financial covenants). Review cash management structure to determine ability to keep cash in deposit accounts that are not part of a lender’s security package.

- Consider whether COVID-19 will impact ability to bring down representations and warranties (including those related to solvency and no material adverse effect).

- For asset-based loans (ABLs), carefully review excess availability or liquidity triggers for avoiding springing financial covenants, cash dominion, increased reporting and inspection rights caused by increased draws.

### Long-Term Debt Financing Issues to Address

- Consider whether there are any upcoming debt maturities in the near future (e.g., next nine to 12 months) and assess ability to address them.

- Consider impact of decreasing loan bids and falling bond prices in the secondary loan market on traded debt and ability to retire debt under par.

- Engage with lenders and other company stakeholders to encourage proactive discussions regarding potential rescheduling of debt or obtaining alternative financing sources.

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