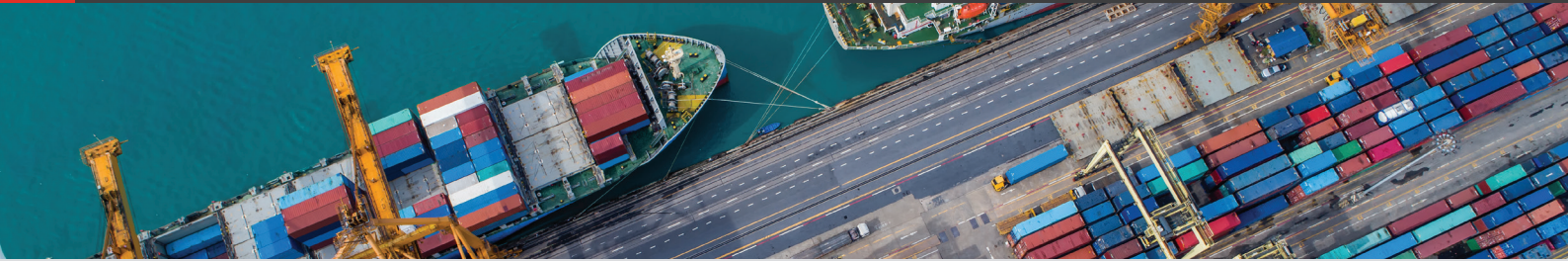


COVID-19 crisis response and positioning for recovery



Insights from exporters

In this paper we outline key themes and points of interest covered in our recent webinar focusing on crisis response and positioning for recovery.

The insights detailed below have been gathered from PwC's work with New Zealand Trade and Enterprise (NZTE) providing local exporters with the tools to assess and adjust their businesses for the effects of COVID-19.

Since the programme began in mid-March 2020 PwC has carried out workshops with companies with staff ranging from five to 500 people and exporting a variety of goods including seafood, aircraft, wine, skin treatment, dairy food, professional services, industrial plant, digital products and baby clothes.

If the insights below resonate with your business, or you would like more information on the workshops, please get in touch using the contact details below.

General observations

From the wide range of businesses we have worked with, a number of common themes have emerged including:

- A disparate range of assumptions have been made by companies when considering the potential impact of COVID-19, not only on their own businesses and sectors, but also on the global economy. These range from "it'll pass within three months" to "this virus is going to change certain sectors forever."
- In our view, a number of companies are underestimating the longevity of COVID-19 and the impacts it will have on their markets. While no one knows the extent to which COVID-19 is going to adversely impact the global economy and key sectors, we believe companies should be erring on the side of caution when developing Business Continuity Plans, even if the "worst case" scenarios don't materialise
- (in the words of Benjamin Franklin if you fail to prepare you are preparing to fail).
- A number of companies are interested in how they can preserve what they have built-up over time (whether it's asset base, brand reputation or key strategic relationships) rather than the immediate impact COVID-19 is going to have on their businesses (i.e. impact on profitability or cashflow).
- We are coming across more businesses who consider COVID-19 to be a "moment of truth" i.e. an external shock that is giving them the impetus to take care of sizeable issues on their radar that have never made it to the top of their agenda (including digitising their business, restructuring, removing underperformers and rationalising product ranges).



People and leadership

Insights related to workforce issues and approaches to management include:

- Key person risk is on the agenda for many. While the majority of companies spoken to believe they have this risk covered, when prompted to consider business critical tasks associated with key roles, and the knowledge and tools (including access rights to key systems), gaps become evident.
- It is also evident that in many instances, the people that would have responsibility for adopting a key role, if required, have not been formally briefed and would likely not be able to perform that duty without undue risk.
- The majority of the companies we have spoken to have quickly and proactively applied for the Government's Wage Subsidy Scheme, though some had initially been reluctant to due to either concerns over eligibility (e.g. they are not 100% sure that the 30% revenue reduction hurdle will be met even if they think it's probable) or concerns over external perception (the naming of applicant companies is causing anxiety in a few).
- Governance has also been a consistent theme, both in understanding the importance of good governance and the value of a strong advisory team, as well as recognising weaknesses in their current governance arrangements.

Financial resilience

Financial resilience is at the top of the agenda for all businesses in the current environment. We have heard the following:

- While key risks to a company's financial position/ liquidity have often been identified (e.g. reduced revenue, customer credit risk etc), the impacts on cashflows have not been modelled in many instances.
- Where modelling has been undertaken it has not always been kept current, or taken account of multiple scenarios including best and worst cases.
- Where liquidity pinch-points are envisaged as a result of COVID-19, there is a view amongst many that existing (or new) lenders will extend facilities to cover the additional funding requirement. In these instances, we are encouraging companies to consider the preparatory work that would be required to support a funding request – given solvency concerns in many cases, lenders will likely treat applications in this environment with an increased level of scrutiny.

- In some cases, companies have not actively considered the markets that they will be re-entering once COVID-19 is behind us. In these cases there is a general view that things will return to normal, but we are challenging management teams to consider the impact of suppressed margins (even if it's just temporary) on their financial position and working capital requirements as they look to re-grow their businesses.
- With the constantly evolving range of government/ legislative support packages being made available to businesses (e.g. Business Finance Guarantee (BFG) scheme, Business Debt Hibernation, tax rebates etc), management teams are feeling they have options.
- While these initiatives are going some way towards reducing anxiety levels amongst management teams and Boards, some companies have not:
 - anticipated the level of loan application support that banks may be looking for when being approached over BFG scheme eligibility (e.g. forecast and affordability analysis, increased security requirements etc); or
 - acknowledged the number of matters that remain to be worked through in respect of the Business Debt Hibernation scheme (e.g. which classes of creditors would be included or excluded from the scheme) and the time frame associated with the legislation being passed (e.g. Parliament hearing in late April).
- These businesses have quickly come to the realisation that these measures may not provide an immediate cashflow cure that other initiatives such as the Wage Subsidy Scheme have (i.e. over the next few weeks).
- Some companies we have spoken to are considering seeking additional equity capital (or convertible debt instruments) to fund short-term working capital requirements in the absence of available debt funding lines. This is a very expensive form of funding.

Supply chain

Key supply chain themes include:

- We are hearing many examples of freight constraints including freight space, increasing tariffs and shortages of refrigerated containers.
- Supply chain issues due to offshore disruption are not easily able to be mitigated against and, in some cases may prevent products from being manufactured.

Market access

Observations include:

- On the whole the market access issues we've encountered are both straightforward and discouraging. In many cases, market access has simply been denied due to state restrictions. Additionally the working assumptions are that access issues will not be resolved quickly.
- Where market access has been denied, there are few alternatives to quickly repoint products or services to new markets without having a deleterious impact on brand or margins.
- Market access conversations have been pointed more directly at either rapid channel switching, or positioning for recovery.
- Many businesses have been found wanting on their digital presence including both brand and transactional channels.

Scenario planning

- A clear challenge for all the businesses we've met with will be how to reset their strategy in coming months, based on core scenarios, and more importantly how to operate within a dynamic strategy that can flex as data comes to hand.
- The businesses we're talking to realise they are moving into an environment of continual uncertainty that won't clear for months, or years. This will change attitudes to risk as well as increase the value of in-market connections and data.

Contacts

As the wider impact of COVID-19 becomes more apparent, New Zealand businesses have a number of considerations to ensure that they are able to respond and recover effectively. We have put together **guidance** for responding to the business impacts of COVID-19 and have a team that can help with response, recovery and planning for the future.

For more information or to discuss any of the information included in this paper please get in touch:

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Positioning for recovery

- Companies are actively considering what the 6, 12 and 24 months will look like. Common themes emerging in the medium-term are:
 - How can we maintain strong relationships with our customers to ensure we're well positioned in a more benign environment?
 - How can we best understand the signs of recovery to be well-positioned in an improving market?
 - How can we manage our inventory and supply chain to return to full production when we see a recovery?
 - What is the business that we'll be running in 6 months (size, shape and offering)?
 - What is the market we'll be operating in in 6 months or a year?

Very few companies have any real confidence around what their core markets look like. In many instances we believe they are drastically underestimating the trading environments they will emerge back into (either by the extent or duration of poor economic conditions).