

Looking Beyond

Events are unfolding with astounding speed, unveiling the outbreak's repercussions on all sectors with some businesses suffering immediate and major distress.

An M&A and Valuations Perspective

It seems that, more than ever before, shareholders, board members and management teams need to preserve value to counter the effects of the slow down.

The global spread of the outbreak means that most, if not all, industries will face significant turmoil, and that disruption is inevitable.

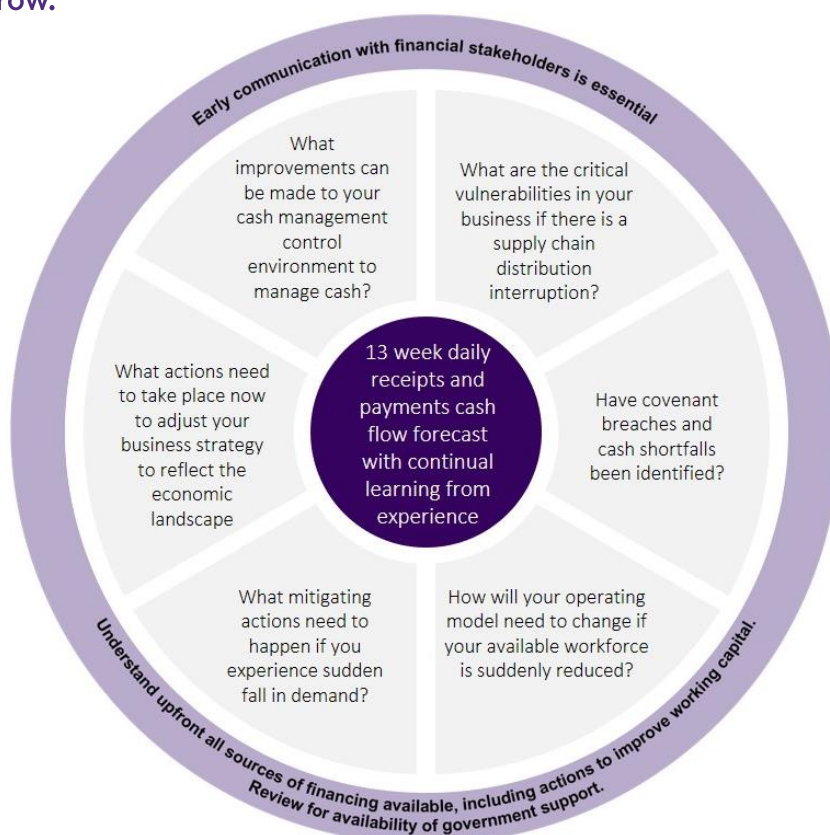
It is true that the level of impact will vary across various industries and organisations, however, we must remember that with any kind of change, planned or unplanned, growth doesn't happen overnight. Therefore, keeping sight beyond this crisis is vital for businesses to not only survive but to emerge stronger and with a renewed vision.

In times like these, decisions need to be made with agility and mistakes are inevitable. With the progression of the current crisis, further uncertainties and complexities are yet to come, leading to an accumulation of issues that need to be addressed.

The right responses are dependent on the specific circumstances you and your business face. However, when experiencing significant stress or distress, we recommend you to center the majority of your actions on the management of your financial position and liquidity.

We have developed a set of guidelines that all businesses can follow: The Resilience Wheel is designed to outline those critical areas in a business that need to be studied and addressed at times of crisis.

The Resilience Wheel is applicable to all sectors and is created to enable businesses to prioritise their actions, respond swiftly to the rapid developments, and to safeguard their resources in order to remain resilient, survive the current conditions, and continue to grow.



Cash management: the most critical issue for management

Cash management is placed at the heart of our Resilience Wheel as an effective responsive strategy: when experiencing significant stress or distress, we recommend our clients, in the GCC, to center their actions around the management of their liquidity.

Now more than ever, you need to create a robust cash forecast and conduct short to medium term cash forecasting exercises. The minimum expectation for most businesses should be a 12-14 week daily (or even weekly) forecast, and then monthly afterwards, until the end of 2020. Profit and loss and cash flow should also be integrated and cash balances reconciled.

Stakeholders who are contemplating to provide financial assistance will not be able to support everyone to the same level. Having a robust plan underpinned by strong financial forecasts will give comfort and clarity to the stakeholders themselves, thereby maximizing opportunities to access the necessary funding.

Take steps to retain cash in the business

This may include actions to:

- Stretch creditor payments.
- Negotiate payment deferrals with landlords and banks where possible.
- Sweep idle cash from other facilities into your working capital account, or draw down on availability in your banking facilities.
- Negotiate with customers for them to pay early, by offering them a discount or other concessions.
- Investigate available government grants and other support.

M&A and Valuations: A Closer Look

As the outbreak and its repercussions continue to spread across the globe, companies and transaction participants are grappling with increased risk, uncertainty, and lack of liquidity.

At this point in time, buyers and sellers are not only questioning their overall strategies but are also rethinking the very fundamental M&A aspects such as business valuations, pricing mechanisms and due diligence procedures.

Here we study the challenges the markets present as well as the issues organisations and investors need to address as a result. We identify ways in which companies can tackle issues internally, including cash flow and working capital management, scenario planning capturing a pre and post COVID-19 impact on EBITDA and value, and debt negotiation strategies.

Further and in relation to the stakeholders, we propose amicable solutions such as material adverse provisions as well as conducting periodic transparent communications with investors.

1 The Macro Environment

- The outbreak has significantly impacted the public and private company valuations with leadership teams having to transition from a mindset of value creation to value protection.
- The market has shown less appetite to part with cash or treasury bonds for equities – both private or public.
- The cost of equity has increased, resulting in valuation adjustments and record low bond yields.
- Businesses that are able to innovate and offset short-term losses through longer term gains or margin protection will be the ones to survive and thrive.

3 Internal Measures With a Cash Flow Focus

- Additional focus and assessments on receivables, such as identifying key indicators of default, and developing strategies to manage provisions and loss in business value
- Cost management strategies including re-assessing supply chain risks and alternatives
- Negotiations to manage creditors for payment terms adjustments and discounts to ensure visibility over working capital
- Assessing going concern risk and the ability to service debt, especially where high-yield debt may be in place and actively managing lender communications
- Leveraging internal resources and forging new alliances and partnerships
- Reduction of discretionary spending, agile workforce and optimising capex deployment can protect cashflows, especially for highly financially and operationally geared companies

2 The Micro Environment

- Revenues have been adversely impacted across all industries.
- There are always possibilities of new and unpredicted opportunities to rise in times of crisis.
- Mitigation of loss revenues through creativity and digitization in many industries is an essential measure to be taken by all businesses.
- Diversification and allocation of cash resources towards the industries of the future may mean that corporate venture capital becomes an important part of re-evaluated business strategies, enabling to introduce a new level of growth and scalability to existing business models.

4 Stakeholder Management

- Transparent communications with stakeholders, partners and investors as a critical strategy for M&A processes and deal negotiations
- Clearly defined financial and operational due diligence practices to help both buyers and sellers stay focused on key transactional risks and avoid time wastage for both sides.
- Taking a balanced approach in negotiations will help produce better results in deal closures despite of downward trends on revenue and earnings forecasts with a resultant effect on valuations
- Suitable accounting estimates and judgements for those preparing closing statements or earn-out calculations to avoid post-closing disputes and value loss
- Buyers/Sellers adjustment of expectations, timelines, and adapting to video-conferencing and virtual data rooms

Reach out:

The team at Grant Thornton is available to support you in your journey to mitigate the current crisis and to build resilience in your business.



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