

BGW CPA
COVID-19 Small Business Update
3/24/2020

Format

- ▶ 30 minutes of content - please use the question feature to ask questions.
- ▶ Questions will be addressed both during a slide if related to the slide or at the end if the topic is unaddressed.
- ▶ Don't know all the answers yet - so part of the analysis is conjecture.

Representative war room plan

Launch (Day/Week 0)	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6
Get set-up and manage the process	Lay the ground work and fix immediate priorities			Focus on critical action plans		Focus on medium-to-long-term
<p><u>Align your senior team with a wake up call</u></p> <ul style="list-style-type: none"> - Host workshop with senior leaders 	<p><u>Protect your employees and customers</u></p> <ul style="list-style-type: none"> - Assess safety across all people: employees, customers, suppliers, etc. - Implement the most conservative CDC protocols 			<p><u>Defend against revenue declines</u></p> <ul style="list-style-type: none"> - Develop immediate actions, and medium-to-long term actions - Assess both downside and upside opportunities 		<p><u>Play offense, not just defense</u></p> <ul style="list-style-type: none"> - Assess methods to outperforming competitors (M&A, product moves etc.)
<p><u>Establish a dedicated senior team in a "war room" setting</u></p> <ul style="list-style-type: none"> - Stand-up the team - Specify work stream owners - Est. decision rights - Put in place complete tracking tool - If needed, call in external experts to help manage situation 	<p><u>Model your exposure; stress test P&L</u></p> <ul style="list-style-type: none"> - Conduct initial assessment on external and internal scenarios across revenue, cost, cash and operations 			<p><u>Stabilize operations to "new normal"</u></p> <ul style="list-style-type: none"> - Prepare critical operations: sourcing, manufacturing, supply chain - Build contingency plan for other operations 		<ul style="list-style-type: none"> - Prepare for 'bounce-back' and recovery (assess marketing spend, leverage macro trends)
	<p><u>Focus on immediate priorities / no regret actions</u></p> <ul style="list-style-type: none"> - Take swift needed decisions (e.g., cost, ops, rev.) 			<p><u>Plan urgent cost take-out to conserve cash</u></p> <ul style="list-style-type: none"> - Plan for rolling 4 quarter and 13 week, and immediate liquidity actions - Improve cost position for mid-to-long-term 		<ul style="list-style-type: none"> - Plan for and leverage a 'leap-frog' change in customer behaviors
	<p>Maintain an ongoing program management office (using Agile; start building 2-wave list of 'handbrake' vs. 'break glass' initiatives)</p>					
	<p>Build and execute on a communications and engagement plan</p>					

Financial Modeling

- ▶ Start at 12 weeks - beyond is unpredictable
- ▶ Revenue:
 - ▶ Permanent loss (retail - even if partial, cancellations)
 - ▶ Delays in starts - think in terms of customer segments
 - ▶ Delays in payments - think in terms of customer segments
 - ▶ Assume shelter in place rules will apply

Financial Modeling

- ▶ Expenses:
 - ▶ Start with 'steady state' and look at where you go negative.
 - ▶ Look to where reductions can occur:
 - ▶ Delay in payables / break into payments
 - ▶ Rent abatement
 - ▶ Loan payment relief
 - ▶ Reduced work / furloughs
 - ▶ Owner pay - sort out S-Distributions later
 - ▶ Model reductions

Financial Modeling

Sources of Cash In Flow - Details in Subsequent Slides:

- ▶ Lines of Credit - including temporary over-rides
- ▶ Delay in Tax Payments
- ▶ Credit in Tax Payments
- ▶ Retirement
- ▶ SBA

What We Know - FMLA

- ▶ Mandatory 500 - 26 employees; 25 and below exception applies; up to 50 exception could apply.
- ▶ 25 exception:
 - ▶ Change in operations
 - ▶ Equivalent position
 - ▶ Offer if position becomes available
- ▶ 50 and below exemption still awaiting guidance from DOL.
- ▶ Effective 4/2 - 12/31
- ▶ Any employee hired 30 days before 4/2

What We Know - FMLA (child care)

- ▶ First 10 days unpaid - can use accrued or sick leave
 - ▶ However, required to pay sick leave - gotcha (\$200/\$2,000) for 80 hours
- ▶ 12 weeks protected leave thereafter - 2/3 pay up to \$200 max of \$10,000 - doesn't have the ability to telework
- ▶ Applies to part-time as a pro-rata calculation
- ▶ ***Credit available against ALL payroll w/holding and taxes as the source of cash***
 - ▶ *Ex. Owe \$10,000 but paid \$8,000 - credit of \$8,000. Owe \$8,000 but credit of \$10,000 - entire credit a/application for expedited refund.*
- ▶ Guidance still pending from DOL / IRS
- ▶ Practical considerations:
 - ▶ Don't fund payroll and w/holding for the amount of credits you know won't apply?
 - ▶ If a worker has the ability to telework, but can't due to child obligations - what then?
 - ▶ State by state considerations on mandatory use of accrued leave - okay in NC but not others

What we Know - Income / Sales Tax

▶ Income Taxes

- ▶ Delay in all federal payments until 7/15 - including estimates
- ▶ State by state delays follow federal, including NC - but interest may apply (NC law)

▶ State Tax Payments Delayed - State by State

- ▶ NC currently paid by 4/15 - could change

▶ Practical Considerations

- ▶ Unlikely anything will be credited or waived - but states may be liberal on applying penalties to installment agreements - especially w/track record of compliance.

What We Know - SBA Disaster Relief

- ▶ Application on-line
- ▶ Used to cover lost revenue to cover recurring bills, payroll, payables, etc.
- ▶ Damage calculation will be made based on analysis of historic sales - but still need to wait on SBA to ask questions
 - ▶ Ex - submitted on first day available in NC - still 'pending review' status
- ▶ Have to exhaust existing sources of funds (e.g. lines of credit) first
- ▶ Practical considerations:
 - ▶ Don't hold your breathe - unlimited money but limited resources to process requests

What's Coming - Senate Bill

- ▶ Working capital funding (up to \$10m) for small businesses (fewer than 500 employees)
- ▶ 2.5 - 3X average payroll
- ▶ Based on average FTEs pre 4/2 - you have a time period to re-hire if needed
- ▶ Can be used for recurring bills - subject to restrictions on employee salary size (e.g. up to \$100,000)
- ▶ Forgivable pro-rata based on average FTEs 6/30 for amounts used exclusively for payroll
- ▶ Ability to w/draw from retirement w/10% penalty waived, taxes paid over three years, ability to put back beyond existing limits
- ▶ NOL carry-backs

What's Coming - Senate Bill

Practical Considerations:

- ▶ Use of retirement as source of funding
- ▶ Use of NOL carryback as source of funding
- ▶ Consider use of FMLA to 'keep employees' until something passes
- ▶ Consider use of unemployment / furloughs to 'keep employees' until something passes (e.x. NC offers help w/replacement income if reduction in time worked)

Working with Banks

Practical Considerations:

- ▶ Communicate early / often about use of Line of Credit
- ▶ Consider use of possible Senate proposal as funding
- ▶ Most banks are offering some type of relief if requested

BGW Response - Key Themes

- ▶ Ensure that you guys all have the ability to get your work done safely and we still meet our client needs.
- ▶ Make sure that the firm still has enough cash to operate.
- ▶ Provide resources for our clients to help them get through this.

You Guys / Client Needs

- ▶ Expectation is that we're keeping normal work hours during busy season - flex as you normally would if there wasn't a crisis - dealing w/crisis being the exception.
- ▶ If you can't work from home - let Rebecca Cole know:
 - ▶ No Computer / Mic
 - ▶ No Internet Service
- ▶ Intern Mentors are checking in daily w/the interns to ensure they aren't getting stuck.
- ▶ Attest team kicking off daily huddle.
- ▶ Tax team - Camden - keep the status meeting rhythms already in place.
- ▶ Myrtle / Hendo - start doing daily huddle.
- ▶ Daily huddle - 15 minutes - everyone:
 - ▶ Any roadblocks / issues?
 - ▶ Focus for the day.

You Guys / Client Needs

MS Teams:

- ▶ Everyone needs to be logged in at all times with their status what their status actually is.
- ▶ Someone 'chats' you that's no different than someone going to your desk - so expectation is that response will be similar.
- ▶ It's not okay to always say 'busy.'
- ▶ If you have questions - post to BGW COVID 19 team.
- ▶ If you have internet and a computer - you have MS Teams as it is an app you can use when you login to Office 365.
- ▶ Also - MAC / Ipad / Iphone apps.

Client Needs

- ▶ No more live meetings - use MS Teams - we have had ZERO push back with this.
- ▶ Clients have set times they can drop tax information and pick tax documents off. This will be evaluated daily and will likely be cut off.
 - ▶ Fedex / Overnight
 - ▶ Portal
 - ▶ E-signatures
 - ▶ Sign / scan / picture
- ▶ Attest - looking at workarounds for field work / covenant dates.
- ▶ Website / Phone system modified to reflect our policy of the day.
- ▶ Set up your signature / out of office to reflect what we are doing - email was distributed already on Monday from Rebecca Cole.

Firm Continuity

- ▶ Our major risk is that our clients can't pay us - and that doesn't mean you shouldn't continue doing work / invoicing.
- ▶ Implementing lockbox system so that we aren't depending on needing to be in the office to make a deposit - invoice remittance will be modified going forward.
- ▶ Owners approved pursuing SBA emergency bridge loan.
- ▶ Major vendors being contacted to discuss policy on deferring payments / shorting payments to preserve cash.
- ▶ L10 team meeting daily to react to issues as they arise.

Questions?