


Decision Framework for Bermuda Business Owners Navigating Covid and Beyond



We help Bermuda companies measure, grow and harvest business value
support@firmadvisory.com – 333 5864


NAVIGATING COVID AND BEYOND (for Bermuda Business Owners)



1. Triage*


- Assess the condition of the business, likelihood of recovery and the best path forward for preserving / salvaging business value.

** See follow-up mind-map for further details*




2. Go / No-Go Decision*

- Business & personal considerations.



3. 'Go' decision

- Continue owning and operating business as a going concern.



4. 'No-Go' decision

- Plan to exit ownership / operational role within business.
- Make best efforts to realise business value through sale of assets, equity, operating units etc.

3.1 Address financing requirements of business*

- Recapitalise business (as appropriate)

3.2 Adapt to new Operating Environment*

- Business Model, Strategy, Operations etc.

4.1 Wind-Down*

4.2 Sell as going concern*

1. TRIAGE



Manage Immediate Cash Needs

- Assess business' current cash position and calculate # of days of cash reserves assuming no revenue. How soon will business need to be recapitalised and by how much?
- Does the business have unencumbered assets which can be used to help secure financing, sold, leased out or otherwise leveraged?
- Secure lines of financing - reach out asap to potential sources of capital - e.g. bank, investors, friends & family, trade partners.
- Communicate with potential creditors - e.g. landlord, employees / employee representatives, suppliers
- If you have a business loan, communicate with the bank - are they willing to provide an interest-only facility for a period of time, are they willing to restructure the facility or defer payments?
- Cut costs aggressively while making best efforts to minimise damage to the business.
- Distribute cash outlays strategically until financing has been secured. Prioritise accounts payable to make the best use of available cash.
- Examine, prioritise and chase receivables.



Develop Short-Term Outlook

- Build a cash forecast for the business (this will help to identify opportunities for further 'belt-tightening' and the transparency gained should help reduce anxiety and with managing expectations. This should ideally be a living document that is reassessed every 8 to 12 weeks.
- What is the general industry outlook? How might supply chains / other potentially vulnerable areas be impacted?
- What expectations are there re. the impact of current and potential future of public policy on the business? e.g. what impact will continued enforcement on social distancing have on the way customers are serviced?



Identify Temporary Opportunities

- Can equipment be repurposed to make products / deliver services that are now in demand due to Covid?
- What opportunities are there for collaboration, barter, delivery of services etc?
- What ideas do staff / management have for re-engineering, re-purposing etc? What are customers asking for?

2. GO / NO-GO DECISION



Business Considerations

- What medium to long-term changes are anticipated to the general business operating environment, to the industry and to the specific business? How are customer behaviours expected to change? Will they demand that the business deliver its goods / services in a different manner? Are demand levels expected to increase /decrease?
- Can feasible adaptations be made in the business and do they 'make business sense'? Can a sustainable business model be built for 2021 and beyond?
- Does the owner have the personal attributes needed in order to lead the business effectively into the future?
- Does the business have a strong management team that can make the necessary adaptations? If personnel changes are needed to bring in new skill sets, how can that feasibly be accomplished?
- Can the business survive on current cash reserves until cash flow positive again? If not, can the business be recapitalised as needed?
- Can adequate return be generated on any financing / additional investment put into the business?
- What is liquidation value of the business vs. the expected value as a going concern in 12 to 24 months?



Personal Considerations

- Where is the owner in their life journey? Do they have the interest / motivation to continue operating the business and bearing the related responsibility?
- What are the priorities and needs of the owner's family - financial, health, personal time spent together etc.
- What are the owner's financial circumstances? Do they have outstanding personal obligations e.g. mortgage, business loan etc.? Are business loans secured by personal assets of the business owner / family members /external investors? If so, how can these issues be best addressed?
- Does the owner have the ability to generate adequate income to support their personal financial requirements from alternate sources e.g. investments, real estate, alternate employment / business if they were to exit the business?

3.1 ADDRESS FINANCING REQUIREMENTS OF BUSINESS



Estimate / Quantify Financing Requirements

- Calculate burn rate, days' cash outstanding assuming reduced operations
- Updated medium to long-term cash flow forecasts (3, 6, 12 months) w/ various scenario assumptions
- Estimate cost of capital associated with different capital sources



Assess Potential Sources of Financing

- Company reserves (no external financing needed)
- Debt restructuring
- Trade partners (adjustments to credit terms, direct funding etc.)
- Personal savings
- Friends & family
- Bank products (loans, overdraft, other)
- BEDC (various tools including loan / overdraft guarantees)
- External investors (debt, equity, convertible debt etc.)



Assess Financing Options

- Pre-existing personal financial obligations
- Responsibility associated with personal guarantees, collateral obligations etc. understand return requirement re. debt financing e.g. a 5 year loan at 10% interest requires minimum ROI of approx. 25% through the term of the loan
- Control, pay-back priority, creditor priority considerations



Release / Preserve cash

- Amend credit terms with trade partners
- Convert receivables to cash (aggressive collection)
- Provide services / sell goods to creditors in
- Aggressively sell off slow-turning inventory and keep inventory levels low
- Sell and lease back hard assets
- Pre-sell services e.g. year contract paid up front



Reduce Expenses in Short to Medium Term

- Furlough / lay off / terminate employees (as required)
- Renegotiate leases / other large long-term operating expense commitments
- Reduce discretionary / non-essential expenses
- Renegotiate / restructure existing debt financing

3.2 ADAPT TO NEW OPERATING ENVIRONMENT



First Principles

- Establish understanding of Cost of Capital, Return Requirements, Interplay of Fixed vs. Variable costs and Contribution Margin, How to build business value etc. (Read free Value Architecture e-book - see Recommended Resources below)
- Create transparency and ensure deep understanding of business model by owner / management. This may require combination of updating financial projections, understanding financial and operation levers in business, quantifying upward and downward capacity limitations etc.
- Appropriately align business processes, personnel & other resources
- Beware sales 'at any cost' approach including discounting without understanding of the business' underlying cost structure



Strategic Opportunities / Risks

- Given what is happening in jurisdictions that are further along in their Covid response timeline, what reasonable extrapolations can be made vis-a-vis potential updates to public policy, adaptations of customer behaviour etc?
- Given your understanding of other industry players, their strengths, weaknesses and financial circumstances, attributes of owners / management etc. what opportunities might there be to collaborate, acquire key customers, merge / acquire their businesses, compete aggressively against them etc?
- How can your business' supply chain be better secured? Are there opportunities to gain better transparency into the supply chain so as to avoid concerns e.g. the 'bullwhip' effect?
- Is there opportunity for / what are the pros & cons of potential vertical integration opportunities?
- What new product / service needs will be created by a post-Covid world?



Recommended Resources

- Antifragile: Things that Gain from Disorder (book) by Nassim Nicholas Taleb
- Principles for Navigating Big Debt Crises (book) by Ray Dalio
- Value Architecture (e-book) see https://firmadvisory.squarespace.com/s/Value_Architecture_ebook_clean.pdf
- Pricing Strategy and the Dangers of Discounting (blog post) see <https://www.firmadvisory.com/thoughts>
- Value Architecture - A fresh perspective on risk/reward and business value (blog post) see <https://www.firmadvisory.com/thoughts>

4.1 WIND-DOWN



Liquidation or Wind down

- Considered appropriate in scenarios where the highest and best use of the Company assets is determined to be the cessation of operations and monetization of assets.



Considerations

- Manage process independently or use external assistance to ensure process is completed properly and legal loose ends are tied off
- Fiduciary duties of directors and officers. Personal liability associated with those roles.
- Timing constraints including cost of operating expenses during wind down
- Professional fees, administrative costs (legal, accounting etc), ongoing operational expenses associated with receivership / administration / liquidation
- Obligations per Employment Act 2000 including employee redundancy
- Managing long-term obligations e.g. leases for which there may not be a plan in place
- Effective communications with customers, employees & strategic / trade partners. Particularly impact on collectability of receivables, trade partners' willingness to offer credit. It is critical to manage these relationships.
- Liquidation strategy for inventory heavy businesses. How to maximise proceeds via pricing vs. disposal of large lots at different stages of process
- Run-off strategy / transfer of contractual agreements for businesses with extended service contracts
- Liquidation priority of payments: which creditors are paid first and to what extent are they made whole when proceeds are distributed?

4.2 SELL AS GOING CONCERN



Assumptions

- The business is saleable - i.e. it has attributes that will make it appealing to buyers and financing sources.
- Business value can be best maximised through ongoing operation with subsequent transfer of equity and ownership responsibility to another party
- Owner / management have the capacity, motivation and acumen required to grow / at least preserve business value in the interim until a transaction is closed
- There are buyers who are interested in / willing to purchase the business; they are capable of financing a purchase; they consider it preferable to purchase the business rather than to build a business from scratch.
- The Seller is emotionally and psychologically ready to part with business.
- If there are multiple owners in the business, all parties are agreed on the action to be taken and will proceed in a coordinated manner.



Considerations

- What is the business' fair market value - how much is it 'worth'?
- Are there strategic buyers for whom it may make sense to pay more than 'market value'?
- How can harvested value / sales proceeds be maximised?
- What is a reasonable expected timeline? How long will it take to find a potential buyer(s), come to terms and close a transaction?
- What interim activities must be taken to preserve / enhance business value?
- How can the transaction process be conducted, so as to minimise disruption to customer and employee relationships?
- How can seller best leverage an external professional to assist them with finding a buyer and optimising deal structure?
- How can balance between transparency (sharing information needed to make a purchase decision with potential buyers) and confidentiality (protecting information key to business survival / success) be best managed?
- Will the business be sold in full to one party or will different business units / portions of the business be sold to different buyers, with any remainder liquidated / wound down?
- What actions is seller willing to take to facilitate the sale? Is seller open to provide partial financing via a seller's note? Can seller assist in otherwise reducing risk for both buyer and themselves via deal structure? If seller agrees to a transaction that is not all cash, how does seller protect their interest?