Restructuring and turning around your business

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Today's presenters

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Agenda

- Current Canadian economic background
- Overview of Canadian “Traditional Lender” landscape
- Restructuring and turning around your business
  - Balance sheet restructurings
  - Operational restructurings
- Formal restructuring options
- Key takeaways
- How KPMG can help
- Questions?

Current Canadian economic background

- Unprecedented economic contraction in terms of scale and speed
- Complete uncertainty over how long the economy will be “confined” and the speed of recovery thereafter
- Some industries are going to be fundamentally altered
- The M&A market has slowed significantly and multiples have declined. Opportunistic and value buyers are starting to surface in the marketplace
- It is not clear how “supportive” lending institutions are going to be, outside of government sponsored programs, of financially stressed businesses

Overview of Canadian "Traditional Lender" landscape

Focus on clients	– Key focus on **existing clients.** – Banks have reported that **companies are drawing down on their liquidity lines** where available.
Conservative but 'open for business'	– Mid-term and long-term views will be driven by COVID-19 duration and wider economic challenges during recovery. – Expect **pricing to increase further and financial covenants to tighten** which can impact clients looking for amendments/waivers.
Providing support	– Instances where lenders have already agreed to **provide principal deferrals and marginally increase operating lines.** – Banks will be **working together with BDC/EDC** as part of recently announced government-backed lending solutions.
Alternate lenders	– Bigger players have ability to provide flexibility – covenant lite, interest only for initial period, etc. – However, given current conditions it is **difficult for non-existing clients to access** this type of funding **at this stage**. – Special situation high rate lenders are likely to play a bigger role through any prolonged recession.
Special loans	– Lenders would rather defer dealing with troubled loans given the current economic climate, unless there is a cash crisis. – It is difficult, if not impossible, to restructure poor performing loans without knowing the true capital needs of the business.

Restructuring and turning around your business

At a high level a business restructuring can take two forms

1 Balance sheet restructuring	2 Operational restructuring
Balance sheet restructurings improve the capitalization of the business	Operational restructurings enhance the profitability and cash flow of the business

Restructuring and turning around your business

Balance sheet restructurings

- Balance sheet restructurings can involve:
  - Forgiveness of debt; or
  - Debt to equity conversion; and/or
  - An equity injection
- There can be significant tax implications with debt forgiveness and/or debt conversion
- It is difficult to effect a balance sheet restructuring in today’s environment
  - The economic impact of the pandemic is still unclear, so the final size of the “capital fix” may not have been reached
  - There is skepticism as to the ability to accurately project a company’s economic performance over the next few years given the macro environment
  - Attracting new equity could be very dilutive

Restructuring and turning around your business

Operational restructurings

Operational restructurings typically involve a review of all areas of the business with the objective of improving profitability and enhancing or unlocking liquidity.

Select **short-term initiatives** (in no particular order)

- Working capital optimization
- Elimination of discretionary spending
- Rationalization of product offering
- Rent deferral
- Deferral of capital expenditures
- Labour cost reductions
- Revisit purchasing practices and buffer stock levels
- Temporary reduction of interest rate and/or principal amortization on operating and/or term loans
- Government sponsored programs

Restructuring and turning around your business

Working capital optimization

Cash culture	
	– Form **cash team**, to meet weekly, **with participation by all function heads** and having aligned KPIs. Cash flow management should not just be the responsibility of the finance function.
	– Make cash management **a company priority.**
	– In reviewing and developing your cash management strategy, **develop clear metrics** for cash and working capital.
	– Consider **preparation of short-term cash flow forecasts** to identify liquidity constraints and improve near and mid-term decision making.

Working capital cycle

- Consider working capital needs in the context of overall business requirements for the weeks and months ahead. Most businesses are able to unlock cash from at least one, if not two areas of the working capital cycle.
- For **trade receivables**, ensure appropriate processes are in place to ensure clients are invoiced in a timely manner, in accordance with contract terms, and there are robust credit controls in place.
- **Address slow-moving, obsolete stock**. Critically examine forecast production requirements, the need for buffer stocks and SKU assortment, and avoid tying up cash in unproductive inventory.
- Ensure that **trade payables** are paid only in accordance with contract terms.
- Review trapped and illiquid cash within the group structure. Make use of treasury pooling structures, to make more effective use of available cash that may be lying idly within the group structure.

Restructuring and turning around your business

Operational restructurings

Select **mid to long-term initiatives** (in no particular order):

- Redesign of business processes to lower costs, reduce waste and/or shorten production cycles
- Restructuring of rental and/or other contractual arrangements
- Scaling back of business segments and/or product offerings
- Review and minimize overhead costs
- Reduction of physical footprint or attempt to lease unoccupied space
- Review procurement policies and main vendors
- Outsourcing components of your business
- Sale and leaseback of assets
- Divestiture of surplus assets

Restructuring and turning around your business

Short-term cash flow forecasts and longer term financial projections are essential

- Improved management decision making, identification of liquidity constraints and improved lender discussions
- The details:
  - 13 week cash flow forecast and an integrated monthly financial projection for two to three years
  - Not the status quo, re-evaluate for the current and future environment
    - Incorporate implemented and intended restructuring initiatives, including
      - Market changes to cash collections
      - Discretionary spending
      - Capex deferrals
      - Government support programs
    - Ensure that these documents are robust and will allow for various scenarios
    - On a periodic basis compare your actual and projected results and if necessary change your assumptions
- Plan for the restart – working capital requirements will be strained in many sectors as the economy reopens, make sure this is incorporated into your projections.

Formal restructuring options

A company has a few **formal restructuring alternatives available** to it in order to control a rapidly deteriorating cash position, right size a business, and/or bring key stakeholders to the negotiating table.

Restructurings using the Companies' Creditors Arrangement Act and Division I Proposals **are debtor led**, meaning that an **existing ownership group** is able to **retain control of its assets and operations** through the restructuring process.

Companies' Creditors Arrangement Act (CCAA)

- Available to company's with debt of $5.0 million or more
- Stay of proceedings granted by Court, initially 10 days but can be extended indefinitely thereafter to provide necessary time to restructure
- Court officer is appointed to monitor the affairs of the company and assist with the restructuring plan. The monitor is independent and represents the Court and the company's stakeholders
- Company's are able to access debtor-in-possession financing
- The process can be expensive
- No automatic bankruptcy, but if stay lifted creditors can enforce

Bankruptcy and Insolvency Act Division I Proposal

- Available to company's of all sizes
- Stay of proceedings automatic, no Court application
- Court officer is appointed to monitor the affairs of the company and assist with the restructuring plan. The monitor is independent and represents the Court and the company's stakeholders
- Company's are able to access debtor-in-possession financing
- Stay is limited to 30 days, with the option to extend in 45 day increments thereafter to a maximum of 6 months.
- Failure results in deemed bankruptcy

Formal restructuring options

Oversight	– Existing **ownership group** is able to **retain control** of its **assets and operations through the restructuring** process. – An **independent Court officer is appointed to monitor** the company's affairs and cash flow through the restructuring. – Formal restructuring proceedings are granted by the Canadian courts, thus they are public matters.
Operational matters	– **Suppliers must continue to provide the company with supply** pursuant to existing agreements or customary terms (payment terms may differ). – The proceedings **provide a forum to open and often expedite negotiations** with suppliers and counter-parties. – Allows the company to deal with onerous agreements or commercial leases, employee retention, and supply chains issues.
Debtor-in-Possession (DIP) financing	– Provides a **means to obtain new financing** from existing and/or new lenders in order to obtain **funding required for the continuation of the business**. Possible to prime existing secured lenders if they are unwilling to provide DIP funding. – Allows for an open dialogue with lenders. Lenders often gain confidence given there is an independent monitor in place.
Creditor management	– Provides a vehicle to **address unmanageable debt load.** – Restructuring process can provide a **stay of proceedings**, which in simple terms "freezes" the company's debts as at a the filing date to be dealt with later on as part of the overall restructuring plan.
Consequences	– **Suppliers often demand prepayment or deposits** to be made in respect of new shipments of goods or services. This can partially offset working capital benefits associated with the stay of proceedings. – May cause negative publicity or stigma. **Communication is key** to manage stakeholder perceptions. – Within a Division I Proposal, failure to abide by statutory obligations can result in deemed bankruptcy.

Formal restructuring options

Finally, restructurings of certain debt can be achieved under the *Canada Business Corporations Act* (CBCA) and/or similar provincial statutes.

- Restructurings under the CBCA or similar provincial statutes occur via a Plan of Arrangement (details under provincial statutes may differ)
- The Plan of Arrangement includes the exchange of existing debt securities for a new issuance of debt or equity to help recapitalize the business

***Canada Business Corporations Act* (CBCA)**

Key factors under the CBCA include:

- Applies to companies that are not insolvent (or won't be after the restructuring)
- The Plan of Arrangement is subject to a vote by creditors and, in some circumstances, shareholders
- Debt securities are defined as notes, bonds or debentures. A lending agreement (i.e. bank debt) is not included within the definition but, depending on the circumstances, could qualify
- No automatic stay of proceedings, must apply and be granted by the Court
- No independent Court officer is appointed
- DIP financing may not be available. Requires Court approval
- No ability for operational restructuring
- Court must approve final plan

Key takeaways

- Cash is king.
- Implement short term initiatives to preserve and unlock cash.
- Prepare short-term cash flow forecasts to identify liquidity constraints and improve near and mid-term decision making.
- Prepare multi year financial projections that are robust and dynamic to allow for scenario analysis. This should allow you to determine whether your company should be considering a restructuring.
- If you believe your business will require a formal balance sheet restructuring or substantive operational restructuring, it will take time and funding. It is best to determine the end objective of the restructuring and work backwards to understand the steps and time to complete.

How KPMG can help

If you've exhausted your 'self help' options and/or want professional advice, KPMG is ready to assist. KPMG has audit and tax resources available in Windsor and deal advisory professionals located throughout Western Ontario and in the GTA

1 Rapid Performance Improvement (RPI)

- RPI is a quick assessment of business improvement opportunities, with a **focus on profitability and liquidity**
- The RPI team leverages proprietary deals data and analytics software to provide **deep insights at deal speed**
- The diagnostic phase of RPI is **fast**, **low cost** and **highly effective** at pin-pointing upsides in EBITDA and cash management
- Options ranging **from light-touch to full diagnostic report** which would cover upside opportunities, including benefits and risks, timing for implementation, one-time costs and resource requirements

2 Cash management and cash flow forecasting

- **Working capital optimization**, including implementation assistance
- Virtual meetings with a company's cash team to help **improve an organization's cash culture**
- Assistance preparing **rolling short-term cash flow forecasts** and **scenario planning**
- **Quantify short-term funding needs**
- Weekly monitoring of forecast to actual cash flow results

3 Raising capital

- Identifying **appropriate government support programs**, eligibility requirements and application requirements
- Identifying and **planning the financing request** to existing lenders
- Assisting with the **preparation of dynamic financial projections** in support of any financing ask

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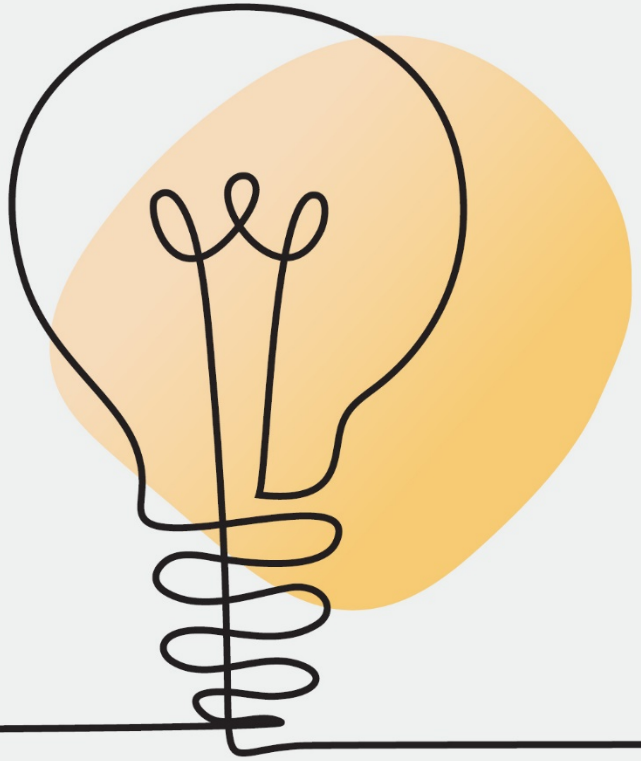
Questions?



Thank you