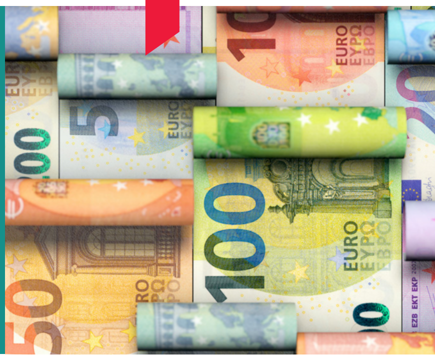
CORPORATE FINANCE | IT & PERFORMANCE ADVISORY

ACCESS TO STATE FUNDING & OTHER LIQUIDITY MEASURES

(As of 31 March 2020)



The ongoing corona crisis is threatening the existence of companies in virtually all sectors. In addition to the funding instruments provided by the *Kreditanstalt für Wiederaufbau* (KfW) and other local state banks, the federal and regional governments have announced further programmes intended to provide short-term support for the economy. As well as ensuring they meet the formal conditions for receiving state aid, it is absolutely essential for companies to adjust their planning on a continuous basis and to monitor their cash flow and capital requirements closely. Automated rating procedures by lending banks and breaches of the covenants attached to loans mean that the reporting obligations with which distressed entities are faced will increase in the near future. Plausible, verifiable cash flow planning is a vital formal component of applications for existing state aid, and for any other programme that may be added in future. It becomes even more important in the context of the particular risks that arise if an entity is “borderline insolvent”. Cash flow planning is the only way to judge whether the conditions for suspending the obligation to declare insolvency are met, for one thing. The other is that it makes it possible to avoid risks under criminal and civil law, D&O liability and financing risks.

Our teams of experts are available to advise you on all matters relating to business plans, and do support to calculate your short- and longer-term liquidity and capital requirements. This enables us to make a key contribution to fulfilling even more demanding reporting obligations and to obtaining state aid.

LIQUIDITY STATUS AND PLANNING

The latest developments in the corona crisis show that a large number of companies has found themselves completely unprepared and faced with cash flow problems. Our long-standing experience, gained through many M&A transactions and restructuring operations, also and particularly involving distressed companies, means that we have the routines enabling us to calculate up-to-date performance figures and status reports from the entity’s internal perspective. They form the basis for short-term corporate planning, negotiations with banks, investors and other creditors, as well as access to urgently relevant state support in the form of loans and/or guarantees from the KfW and other state funding banks. At the same time, professional, verifiable and transparent planning provides additional confidence for entrepreneurial activities at times of crisis.

Our current range of webinars and additional information, particularly about our “Digital Liquidity Cockpit” and our “Tool-enabled & Scenario-based Liquidity Planning in the Context of Covid-19” can be found on our website at www.bdo.de/de-de/services/im-fokus/coronavirus.

ACCESS TO LIQUIDITY AND CAPITAL

Our transaction specialists have years of experience in negotiating with banks, investors and other creditors who are or may become companies’ first point of call for mitigating acute cash flow bottlenecks in the current situation. As well as increasing loan volumes and obtaining state aid, specialised private investors offer access to additional liquidity, e.g. in the form of mezzanine capital or subordinated loans. In the past we have advised on a highly diverse range of transactions between private investors and companies and so are able to anticipate their

ABOUT BDO

With over 1,900 employees across 27 different locations, BDO is one of the leading companies for auditing and audit-related services, tax and business law consulting, and advisory services in Germany.

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mutual expectations to a very large extent. We also have wide-ranging experience of negotiating with banks and creditors in the context of refinancing, reorganisation projects and M&A transactions. To back up these discussions we can provide reliable, meaningful performance indicators of the company's situation by means of quick checks using our tried and tested tools.

INDEPENDENT BUSINESS REVIEW & TURNAROUND CONCEPTS

Our Independent Business Review (IBR) is carried out in the scope and depth required, in close cooperation with you and if necessary, your lending bank (principal bank and investors, including KfW). The IBR report contains a detailed description of the reasons behind the cash challenges and an analysis of the company's business. We concentrate on key questions that are relevant to future liquidity. A large part of our analysis is dedicated to the assumptions for the financial forecast, especially how future liabilities are to be treated and the entity's ability to repay them. Our analysis is intended to assist you and your financing partner by offering a sound basis for negotiate required by third parties.

To the extent that the situation requires it, we also prepare turnaround opinions in line with IDW S 6, insolvency assessments in accordance with IDW S 11 or forecasts for the continuation of the business. When it is appropriate, we also prepare for administration proceedings on this basis and advise you on their implementation.

DISTRESSED M&A

It is not infrequent for exit solutions that can be realised promptly in crisis situations to offer a realistic option for restructuring a group of companies, for a strategic realignment in light of changing market conditions or simply to improve the current cash flow situation. These kinds of transactions differ from the usual processes, because both the situation of the company and the legal and financial context require additional factors to be brought to a successful conclusion, or they may positively and significantly affect the process to the benefit of the seller. Our experts in distressed M&A have specialised in the complex and challenging issues that characterise companies in crisis. Within the applicable time restrictions they draw up individual transaction strategies that can be implemented swiftly, along with the information required by the market for decision-making, such as fact books, due diligence reports or valuation reports.

WORKING CAPITAL MANAGEMENT

Efficient management of inventories, receivables and trade payables makes it possible to reduce the amount of capital tied up in your business and to cut the costs of operating processes, so improving financial flexibility, by means of the following effects:

- Reduction in working capital
- Increase liquidity
- Capital saved can be used for other payment obligations or to reduce the amount of debt
- Improve profitability
- Better terms from banks for upcoming lending

Taking the appropriate steps, precisely in times of crisis, can make a vital contribution towards improving your company's ability to finance its own operations.

We analyse the core processes (outlined hereinafter, just by way of example, for a manufacturing company), starting with sales, purchasing the necessary raw materials (trade payables), orders, storage of work-in-progress, production and delivery of goods to customers, including payment and receivables management. The aim of this process is to reduce working capital to a minimum and with you, we develop solutions for optimising the management of inventory, receivables and liabilities that are practicable and tailored to the needs of your company. If you wish, we will of course advise you on talking to your customers about collecting payments or obtaining collateral for receivables.

The basis for the successful management of working capital is cash flow planning, which has to be updated regularly. Additional medium-term plans should be drawn up for a period of at least three years.

APPENDIX:
OUTLOOK FOR STATE SUPPORT PROGRAMMES

The federal and regional state governments are planning to amend tax, labour and insolvency law to support businesses, as well as to provide short-term liquidity and capital. Below we outline and explain briefly the situation for existing aid programmes and the additions that will be available in the short term.

The funding can be accessed via various public-sector institutions. Local state funding banks offer various instruments, as well as the federal and regional governments themselves. Programmes provide direct financial assistance, but also access to additional loans or guarantees. All the programmes are tailored to a particular size of company and so have different conditions for applying.

I. KREDITANSTALT FÜR WIEDERAUFBAU (KFW)

The KfW is a federal institution and offers the following financial instruments, which are generally disbursed via the company's local bank:

1. "ERP Start-up credit" – for companies established in the past 5 years. This is a universal programme that assumes up to 80% of the lending bank's risk and can be used to guarantee working capital loans of up to €200 million. The programme is now also available for large companies with annual revenue of up to €2 billion.
2. "KfW Business credit" – for companies in existence for more than 5 years. Support for credit lines for working capital of up to €200 million is also available in the form of a de-risking or indemnity of up to 80% for the bank extending the original loan. The programme is now also available for large companies with annual revenue of up to €2 billion.
3. "KfW Growth credit" – also for companies in existence for more than 5 years. This credit enables a temporary extension of the purpose of general financing, including working capital loans. Here too, it works by assuming the risk or indemnifying the house bank against a maximum of 70% of any default by companies with annual sales of up to €5 billion.
4. Outlook:
   The KfW has announced its intention to offer a special programme for SME and larger companies in the near future. This special programme will comprise a guarantee or indemnity for the lender of up to 80% for working capital and up to 90% for investments. It is intended to be used by companies hit by the current crisis, although syndicated constructions are also possible.

In addition, the local state funding banks offer similar aid and guarantees. Terms vary from one German state to another in terms of volumes and eligibility criteria.

II. ESTABLISHMENT OF AN ECONOMIC STABILITY FUND

The Federal Finance Ministry has published a draft bill for setting up an economic stability fund, comprising various measures to stabilise the real economy. In the following we describe key aspects of the draft, which has not yet been finalised; details will be defined in the forthcoming regulation.

1. The Finance Ministry and Economics Ministry will coordinate the fund jointly and include the KfW and the Finance Agency as necessary. The Economics Ministry will process the applications initially. In the current draft there is no legal entitlement to stabilisation aid; a decision is taken at the discretion of one of the ministries involved.
2. Eligibility (2 criteria) is likely to be dependent on companies exceeding total assets of €43 million and/or revenue of €50 million and/or 249 employees in two successive financial years before 2020. Furthermore, the applicants must not be able to draw on any other funding and must demonstrate that they were not already in financial difficulties before the crisis (relevant date: 31/12/2019). In addition, they must have solid and prudent company policies and above all, contribute to stabilising supply chains and safeguarding jobs.
3. The portfolio of stabilisation instruments is likely to include the following:
   - Guarantees (60 months) for newly issued debt securities/liabilities.
   - Acquisition of "silent partnership interests" or other equity components.
   - Subscription of subordinated debt securities, hybrid bonds, profit participation certificates or convertible bonds.
4. If they are accepted the beneficiaries must demonstrate that they comply with certain conditions, e.g. the use of funds, further borrowing, etc.
5. The measures are for the benefits of entities in various legal structures. Joint share companies benefit from some facilities, such as the issue of preference shares and exemptions for majorities and subscription terms.

These are just some examples of the action being taken by the federal government. The individual German states also offer a wide range of instruments for smaller companies and the self-employed.

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