ECONOMIC OVERVIEW AND IMPACT OF COVID-19
Presenter

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US economic outlook: recession and recovery

• U.S. Economy has suffered a series of shocks
  - Supply, demand and financial shocks
  - Near 7-standard deviation shock
  - Depression like shocks, but no depression
  - Recession will likely last 2-3 quarters

• Policy Response
  - Robust fiscal and monetary policy response
  - Main Street Lending Facility

• Shape of recovery
  - Unlikely to be a V-shaped recovery
  - Elongated and frustrating in some industries
Real economy shock: labor market

• **Labor market shock**
  - 24 million Jobs at Risk

• **Initial Claims**
  - 3.3 million for the week ending March 21
  - Forecast 1.5-5.3 million for week ending March 28

• **Unemployment**
  - Forecast 8% in May
  - Peaking between 12%-15%
Real economy shock: labor market regional impact
Real economy shock: labor market regional impact (cont.)
Spending, jobs, tax revenue losses in travel industry

- Lost jobs:
  - Air transportation: -175,000
  - Other transportation: -209,000
  - Lodging: -670,000
  - Recreation and amusement: -634,000
  - Retail: -214,000
  - Food service: -1.5 million
  - Travel planning: -74,000

- Lost spending:
  - Air transportation: -$66.5 billion
  - Other transportation: -$53.5 billion
  - Lodging: -$76.4 billion
  - Recreation and amusement: -$37.2 billion
  - Retail: -$33.9 billion
  - Food service: -$88.0 billion
  - Travel planning: Amount not indicated in analysis

- Lost taxes:
  - Federal: -$13.1 billion
  - State: -$6.8 billion
  - Local: -$4.3 billion
Fiscal response: 11.4% percent of GDP… and counting

• Phase 1: $8.5 billion
  - Medical, Scientific, R&D, SBA Catastrophe Fund

• Phase 2: $105 billion
  - Unemployment Insurance & Sick Leave

• Phase 3: $2.2 Trillion
  - $500 billion cash payout to individuals
  - $350 billion in small business loans
  - $425 billion bailout for industry
  - $454 billion backstop for the Fed

• Phase 4: $100 Billion Expected
  - Federal Agencies to help households, small business, hospitals
How long before US back to full production?

Depends on success of scientific and public mitigation efforts.

US economy should begin to recover in June/July period.

Below output production in 2020-2021.

China Provides Some Clues

November-December identification of health care risk.

March 31, 2020: Not back to full utilization of capacity to produce (85-90%).

Behavior change among public.

Slow recovery.
TAKING A STRATEGIC APPROACH TO COVID-19 RESPONSE PLANNING
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COVID-19 response framework

**RISK & UNCERTAINTY**
- Deploy COVID-19 internal response team
- Perform revenue analysis, including worst-case scenarios for sustainability and liquidity
- Understand and adapt to immediate changes in consumer behaviors
- Leverage the RSM COVID-19 Resource Center for updated insights

**LIQUIDITY**
- Forecast P&L and balance sheet impacts
- Develop multi-phase cost reduction measures, prioritizing flexibility and the ability to scale back up rapidly
- Optimize working capital and cash flow with a focus on inventory
- Identify any discount initiatives that will help maintain cash flow
- Manage credit lines, identify loan obligations, negotiate debt relief strategies

**WORKFORCE**
- Follow CDC employee safety guidance as it evolves
- Communicate support resources to employees
- Provide technologies to equip employees for remote work
- Design a retention strategy for key employees
- Execute near-term staffing changes and workforce reductions

**SUPPLY & DEMAND SHOCK**
- Focus on securing supply while prioritizing customer fulfillment
- Perform inventory optimization modeling that factors in expected supply and demand shocks
- Leverage supplier and customer relationships to minimize inventory impact and share burden

**POLICY & LEGISLATION**
- Monitor and comply with local, state and federal mandates for business operations, including workforce reduction rules
- Monitor and manage any economic stimulus and tax incentive programs
Prioritizing your efforts with a long term perspective

**INITIAL STABILIZATION**
Adapting to the rapidly changing environment and adjusting operations to the new normal.

### Steps to take:
1. Organize a war-room to provide a decision making platform and directional clarity for all functions
2. IT enablement of a large scale transition to a remote workforce and access to key systems/data
3. Ensure workplace safety during short-term environment changes
4. Validate proper cyber security –
5. Provide guidance on scheduling, workforce adjustments, while meeting regulatory (e.g. FMLA) obligations

**SHORT TERM**
Analyze changes in demand and supply profiles to assess options for maximizing liquidity.

### Possible Steps to take:
- Perform what-if scenario modeling to enable management to make best decisions to maximize revenue and manage costs
- Monitor changes in customer buying behaviors and align operational strategy to product/mix channels
- Identify lender and creditor obligations, lines of credit and assist with renegotiation
- Perform inventory optimization and capacity modeling to help address changing customer trends
- Identify and implement immediate cost reduction initiatives (CapEx, OpEx, Hiring freeze, labor scheduling and furloughs, etc.)
- Manage tax implications, incentives and economic relief opportunities
- Plan for and quantify impacts of phased labor reduction strategies and subsequent recruitment and re-hiring initiatives

**LONG TERM**
Reposition the company back into the marketplace for future growth and market share gains.
CARES ACT

Loans for small and middle market businesses
Coronavirus Aid, Relief and Economic Security (CARES) Act

• Increases access to loans for small and middle market businesses

• Three programs
  - Small Business Administration (SBA) Economic Injury and Disaster Loan Program (EIDL)
  - Paycheck Protection Program (PPP) third-party loans with SBA guarantees
  - Temporary Corporate and Small Business Liquidity Facility (TCLSLF)
    • Section 4003 of the CARES Act calls for special assistance for eligible midsize businesses with guidance to be published in the near future
SBA EIDL Program

• Eligibility
  - Businesses unable to meet existing financial obligations as a result of COVID-19 crisis
  - Most manufacturing companies with 500 or fewer employees and most non-manufacturing businesses with average annual receipts under $7.5 million (exceptions by industry)

• Amount
  - Up to $2 million for working capital and ordinary expenditures (actual amount tied to economic injury from COVID-19)

• Rate
  - 3.75% for small businesses and 2.75% for non-for-profit
  - Loans are not forgivable

• How to apply
  - Apply online directly with the SBA

Note: Borrowers are precluded from receiving SBA funding under PPP and EIDL for the same purpose
Paycheck Protection Program (PPP)

• Eligibility
  - 500 employees or less (including affiliates)
  - Meets applicable employee size standards based on NAICS (including affiliates)
  - 500 employees or less by location in accommodation and food service industry (NAICS 72x) or for any business acting as a franchise that is assigned a franchise identifier code by SBA
  - Sole proprietors, independent contractors and other self-employed individuals, including “gig economy” workers

• Amount
  - 2.5 times a borrower’s monthly payroll costs or $10 million (whichever is smaller)

• Rate
  - Not to exceed 4%
  - Loans issued through June 30, 2020 defer payment of principal and interest for at least six months and up to one year
  - Loans are forgivable provided certain criteria are met

• How to apply
  - Apply through a participating lending institution (list available at www.sba.gov)
  - Sample applications forms are available on the US Treasury website

Note: Borrowers are precluded from receiving SBA funding under PPP and EIDL for the same purpose
Can I apply for a PPP loan?

- Loan needed to support ongoing operations? Does not already have EIDL loan for the same purpose?
  - NO
  - Not eligible

- 500 employees (or other number as determined by NAICS code) including affiliates?
  - YES
  - 500 employees not including affiliates?
    - NO
    - Not eligible
    - NO
    -Franchise, NAICS code 72.x, SBIC portfolio company?
      - NO
      - Not eligible
      - NO
      - NAICS code 72.x?
        - NO
        - Not eligible
        - YES

May apply for a PPP loan with an SBA approved lender

Note that lenders will make ultimate determinations about eligibility.
Can my PPP loan be forgiven?

• Under two conditions
  - Funds must be used in an **eight-week period** following loan origination for the following
    • Payroll costs
    • Interest payments made on any mortgage incurred prior to February 15, 2020
    • Payment of any lease in force prior to February 15, 2020
    • Payment on any utility for which service began before February 15, 2020
  - Existing employees are retained at or near current salary levels
    • Employee cuts or wage reductions will reduce forgiven amounts
    • Employers are allowed to rehire employees previously let go without penalty
Temporary corporate and small business liquidity facility

- **Eligibility**
  - 500 – 10,000 employees
  - Additional eligibility requirements are forthcoming
  - Act requires good faith certification of items listed on the next slide

- **Amount**
  - Details to be published

- **Rate**
  - Annualized interest rate not to exceed 2%
  - For the first six months (or longer as determined by the Secretary) no principal or interest is due and payable
  - Loans are not forgivable

- **How to apply**
  - Application details are forthcoming
Temporary corporate and small business liquidity facility (cont.)

- Requires good-faith certification that:
  - The uncertainty of the economic conditions as of the date of application makes necessary the loan request to support the ongoing operations of the recipient
  - The recipient is an entity or business domiciled in the United States with significant operations and employees located in the United States
  - The funds the recipient receives will be used to retain at least 90% of its workforce, at full compensation and benefits, until September 30, 2020
  - The recipient intends to restore not less than 90% of its workforce that existed as of February 1, 2020, and to restore all compensation and benefits to the workers of the recipient no later than four months after the termination of the public health emergency declared by the Secretary of Health and Human Services on January 31, 2020
  - The recipient is not a debtor in a bankruptcy proceeding
  - The recipient will not pay dividends with respect to the common stock of the eligible business, or purchase an equity security that is listed on a national securities exchange of the recipient or any parent company of the recipient while the direct loan is outstanding, except to the extent required under a contractual obligation that is in effect as of the date of enactment
  - The recipient will not outsource of offshore jobs for the term of the loan and two years after completing repayment of the loan
  - The recipient will not abrogate existing collective bargaining agreements for the term of the loan and two years after completing repayment of the loan and will remain neutral in any union organizing effort for the term of the loan
Temporary corporate and small business liquidity facility (cont.)

$1 trillion facility to provide low-cost loans to help small to medium-size enterprises impacted by Covid-19

Main Street Funding LLC
-$1.0 trillion of liquidity to protect the U.S. economy and jobs

U.S. Treasury –
1st loss equity capital

$85 billion U.S. Treasury investment

$915 billion of conditional liquidity from the Fed (committed funding line)

Federal Reserve –
Senior Secured Funding Facility 13-3 program

Option A –
Sell performing
loans to the facility at [100] after origination

OR
Option B –
Hold loans on
balance sheet and sell non-performing
loans to the facility at a price TBD

U.S. Banks participating in TCSLF

Unsecured loans

U.S. mid-size corporation

Banks participating in the TCSLF program make unsecured loans to their existing mid-size corporate and small business customers at a 2.5% rate

Unsecured loans

U.S. small business

U.S. Banks originate and service new loans to their mid-size and small corporate customers to meet liquidity needs
CARES ACT TAX CONSIDERATIONS TO PROVIDE LIQUIDITY AND MORE
Presenter

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• For businesses:
  - Deferral of Federal Income Tax Filings & Payments – July 15
  - NOL Carryback Provisions – 5 Years and Tax Rate Arbitrage
  - Refundable AMT Credits - Immediate Benefit
  - Easing of limitations on Interest
  - Easing of limitations on Active Losses
  - Easing of limitations on Charitable Donations
  - Retail Glitch Fix (Technical Correction) - Refund Opportunity Now
CARES Act - summary of government relief: tax provisions (cont.)

• For businesses:
  - Delay of Employer and SE Payroll Taxes
  - Payroll Tax Offset / Reimbursement for FMLA & Paid Sick Leave
  - Advanced Funding of Paid Sick Leave and Extended FMLA credits
  - Employee Retention Payroll Tax Credits
CARES Act - summary of government relief: tax provisions (cont.)

• For individuals:
  - Deferral of Federal Income Tax Filings & Payments – July 15
  - Recovery Rebate Credits
  - Exclusion of Student Loan Repayment Benefit
  - Waiver of Early Withdrawal Penalty for Retirement Plans
  - Easing of limitations on Charitable Donations
• For state and local tax:
  - State and Local Tax Changes and Conformity
  - Credits and Incentives
Thank you!

- Please join us for our future webcast in this series taking place at 1pm EDT on April 8

- For more information on these topics and more, visit our Coronavirus Resource Center, updated on a daily basis.