CFO Actions in Response to COVID-19

Week of March 16, 2020

Early approaches and ideas shared by CFOs

In a situation as rapidly evolving as COVID-19, CFOs need quick perspective to ensure they are taking the right actions for their organizations, their employees, their shareholders and themselves.

Conversations among 150+ CFOs on March 17, 2020, revealed a number of actions underway in four areas:

Business operations	**Finance functional management**	**Financial performance**	**Communicating with the market**

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Business operations

Business operations

CFOs have been heavily focused on maintaining business continuity in recent weeks as the impact of COVID-19 on operations has deepened and government authorities have encouraged “social distancing.” This is often as part of a corporate “task force” set up to plan and set policies for work and employee support.

Their approaches fall into four areas:

- Ensure employees are given the support they need to manage through a challenging period: it is more than you think.
- Find creative solutions to ensure business continuity.
- Connect with leadership colleagues more frequently and separate COVID-19 from “business as usual.”
- Don’t rely on insurance.

Ensure employees are given the support they need to manage through a challenging period: It is more than you think

More than 30% of CFOs expect to extend full monetary compensation to hourly workers throughout any work interruptions caused by COVID-19 (see Chart 1).

CFOs mentioned a variety of actions to support employees:

- Expanding working-from-home policies and sick pay for at least the coming months. Allow adjusted work schedules and nonillness related flexibility (e.g., due to childcare responsibilities) in work hours to complete tasks and projects.
- Tracking benefits hourly workers are getting at the state and federal level if they can’t work.
- Considering allowing employees to donate sick leave to each other. Make sure you can track this.
- Considering providing child care for those employees who have to continue coming to work, as well as those who will have difficulty with remote work while children are at home.
- Encouraging managers to be more “forgiving” about disruptions during video-conferencing — “Videos are on, and if your dog is barking in the background, so be it; let’s move on!”
- Offering modems/Wi-Fi cards, routers and other equipment as needed.
- Tracking daily how much employees are being impacted (using simple “coding” like Level 1, Level 2).
- Asking leaders to connect with their teams at least once per day to understand where there are difficulties with productivity. Hold managers accountable to this standard rather than trying to track productivity metrics.

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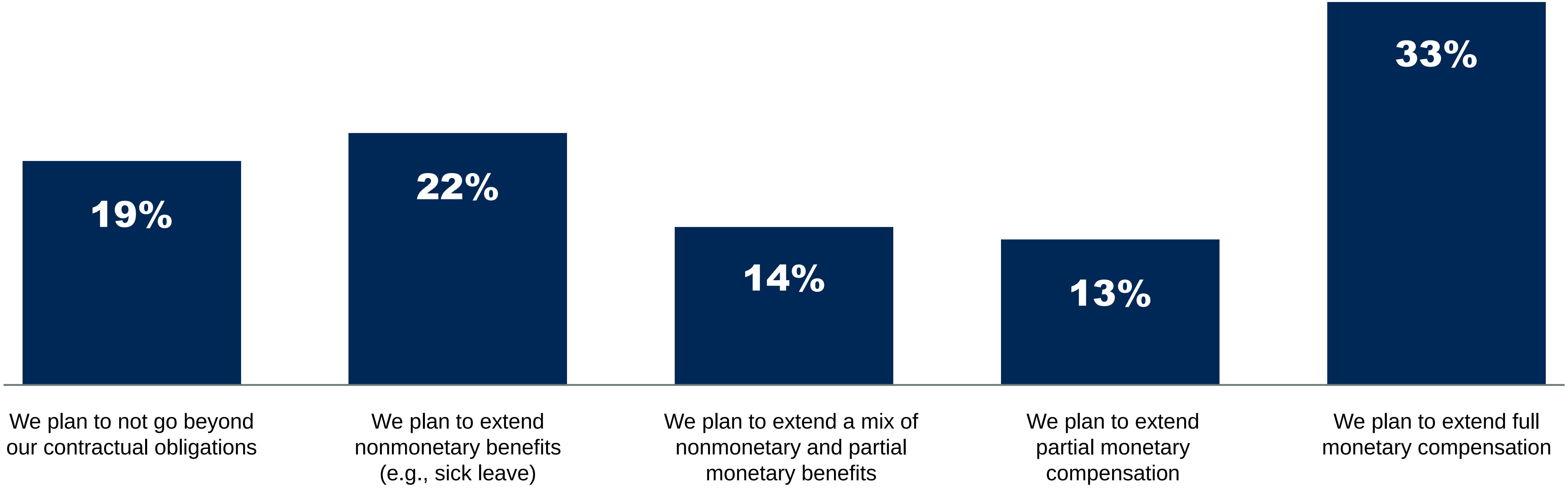
Chart 1: Which scenario for paying hourly workers do you consider most likely for your organization?



Percentage of CFOs responding (n = 88 CFOs)

Find creative solutions to ensure business continuity

With staff working in different locations or at greater distances, and without all of their in-office equipment, CFOs are finding solutions to keep business running:

- Allowing critical employees (who cannot work remote) to go into the office in waves (e.g., half go in one week, then they stay home the next week and the other half go in), so that they can adhere to social distancing guidelines.
- Keeping offices open where possible (80% density) for employees for whom being in the office is easier.
- Building a "work-from-home guidebook" for employees, many of whom are experiencing it for the first time. These include guidelines for how to curb slowed network bandwidth. Some are even going as far as recommending not allowing children to use devices at home during working hours.
- Fever-testing employees at distribution centers and other facilities that need to remain open. Using thermal-imaging thermometers has become standard practice.
- Mobility is key in this crisis, but CFOs are concerned that employee data as well as customer data might be at risk as employees work from their home network, sometimes using their own devices. Data management security needs to evolve to take this new reality into account.

Connect with leadership colleagues more frequently and separate COVID-19 from “business as usual”

Most CFOs are participating in central task forces of company leaders monitoring the situation and issuing business guidance, often on a daily basis. These are typically focused on both the events of the moment, and business and employee performance.

Examples include:

- Executive meetings one to three times a day, and another meeting twice on Mondays, focused on business continuity and ensuring employees are positioned to work from home.
- Daily leadership meetings around initiatives and what’s happening in the news that needs response.
- State Regulation Tracking Committee: A daily task force to watch for changing state regulations and advise senior leaders on how they impact labor, unemployment benefits, etc.

Most CFOs report holding these meetings separate from and in addition to their regularly scheduled executive leadership committee meetings to prevent COVID-19 from crowding out other important business conversations and decisions.

Don’t rely on insurance

Pandemic is considered force majeure and not covered by most policies. Insurance has been found to be quite limited.

- Most companies will be drastically underinsured.
- Some small claims may be possible due to spoilage. Larger claims cover big event cancellations.
- Look at how you are covered going forward and revisit for the future after business has settled.

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Finance functional management

Finance functional management

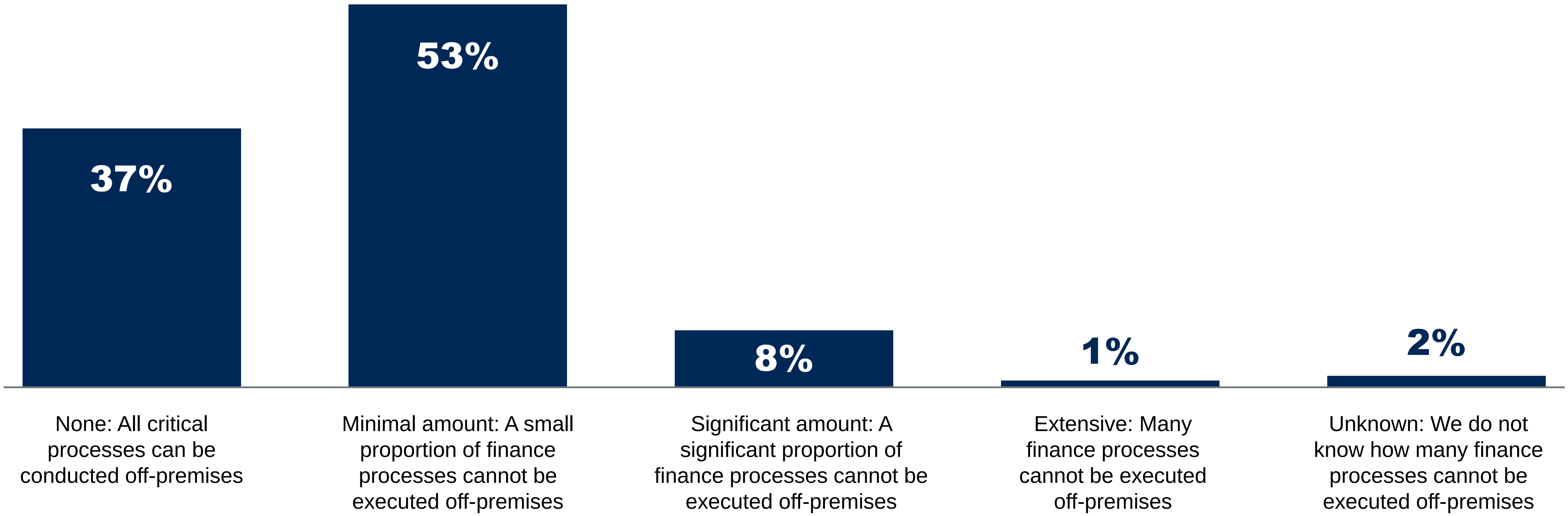
Most CFOs — 90% — report that at most a minimal amount of accounting close procedures cannot be executed off-premises (see Chart 2). However, some do require specialized equipment only available in office locations. CFOs are focusing on external parties, their teams, and the opportunities emerging from adapting work to the virus, specifically:

Partner with external parties more closely than ever.

Maintain as much of a sense of normalcy as possible.

Use the opportunity to fix what you've learned was broken.

Chart 2: What proportion of your key accounting close processes are currently not able to be executed off-premises?



Percentage of CFOs responding (n = 93 CFOs)

Partner with external parties more closely than ever

Finance teams have a number of critical partners that enhance their functional activities and ensure compliance. External parties have so far been understanding and flexible, whether it's vendors, auditors or customers. Now is a time for deeper collaboration with them, taking advantage of relevant solutions that have been "put off," and working together to solve both your and their challenges associated with more remote work.

CFOs have been putting in place a number of approaches:

- Using the opportunity to work with more vendors to use ACH, as opposed to check writing.
- Working with vendors to identify one-off (or continued) solutions for special cases where physical paychecks are required (e.g., first paycheck, last paycheck).
- Using technologies like FaceTime with auditors for physical inventories, and work with auditors to figure out creative approaches for working together, while keeping distance.
- Joining auditor conference calls to plot out a way ahead for upcoming audits as they are scheduled.
- Meeting personally with your collections team to advise them on how to act with customers in a way that respects their current challenges. Tell them to escalate to you if unsure.
- Pressure-testing how to change the tightness of payment schedules.

Maintain as much of a sense of normalcy as possible

CFOs report that there do not seem to be any warning signs regarding staff engagement dips as a result of remote work, but it's too soon to tell. A few CFOs discussed trying to maintain normalcy by moving in-person social events online.

- One CFO mentioned that they have a monthly "Thirsty Thursday" happy hour that they will take online to keep employee engagement up.
- Others are making considered use of Slack channels, Google Hangouts and video services like Zoom to keep productivity and engagement up. Use them for morning and afternoon close-out meetings.

Use the opportunity to fix what you've learned was broken

Finance teams are learning that most close processes, barring a few with face-to-face requirements, seem to be able to be done remotely. Many other similar realizations are occurring, and likely to occur in the coming weeks and months, regarding how processes and operations can be permanently changed for the better.

Some current CFO approaches:

- Considering weaknesses being exposed in continuity plans and extend lessons beyond this immediate crisis to inform revised plans.
- Taking stock of manual processes (like cash receipts, payroll, signatures on checks) that can't be done off-site currently, and look at options for the future (or simply medium term — lockbox, digital signatures).
- Viewing this moment as an opportunity to invest in more and new "virtual equipment" so more employee populations can work virtually than can currently.

Financial performance

Financial performance

The financial impact of COVID-19 is just beginning to be felt, and much remains unknown and uncertain. As companies begin to shift their attention away from immediate crisis mode and toward minimizing downside impact on the business, this is the next area of deep attention for most.

CFOs are trending toward three conclusions:

- Secure access to credit now.
- Model multiple scenarios and plan for all of them, even ones you do not think are possible today.
- Don’t worry about resetting internal targets — yet.

Secure access to credit now

CFOs are worried about access to credit. They're meeting with banks in real time to determine if they should draw on credit lines, and many are doing so now as a safety net in case it is not available later. Many don't currently expect to face a liquidity crisis like 2008, yet they also do not want to be left without cash if things get materially worse.

Some actions they are taking include:

- Modelling cash flow on a weekly basis and keep a close eye on profitability.
- Scrubbing debt covenants to better understand their terms and options. Become familiar with "materially adverse conditions."
- Establishing at least a general idea of where to park cash if drawing on credit lines.
- Where possible, renegotiating interest payments with banks for longer-term, lower rates.
- Ensuring they are prepared going into conversations with banks and ask for accommodations. Asking for something will ensure a better response and more attention from them.

Model multiple scenarios and plan for all of them, even ones you do not think are possible today

Predictive models are dead because of this black swan event. CFOs are working to determine how to rebuild models based on new types of data.

This includes a number of actions, such as:

- Using both revenue declines and longevity of the pandemic as scenarios for modelling.
- Modeling revenue declines at multiple levels (anywhere from two to six scenarios): 10%, 20%, 30% and 40% versus earnings before interest, taxes, depreciation and amortization (EBITDA) and cash flow.
- Using these multiple downside scenarios to plan for liquidity.
- Using a historical comparator like 2008 or, potentially better, 2001, as a starting point for scenario planning/modeling.
- Focusing future forecasts on high-level numbers while cutting down on details.
- Making forecasting a much more frequent exercise.

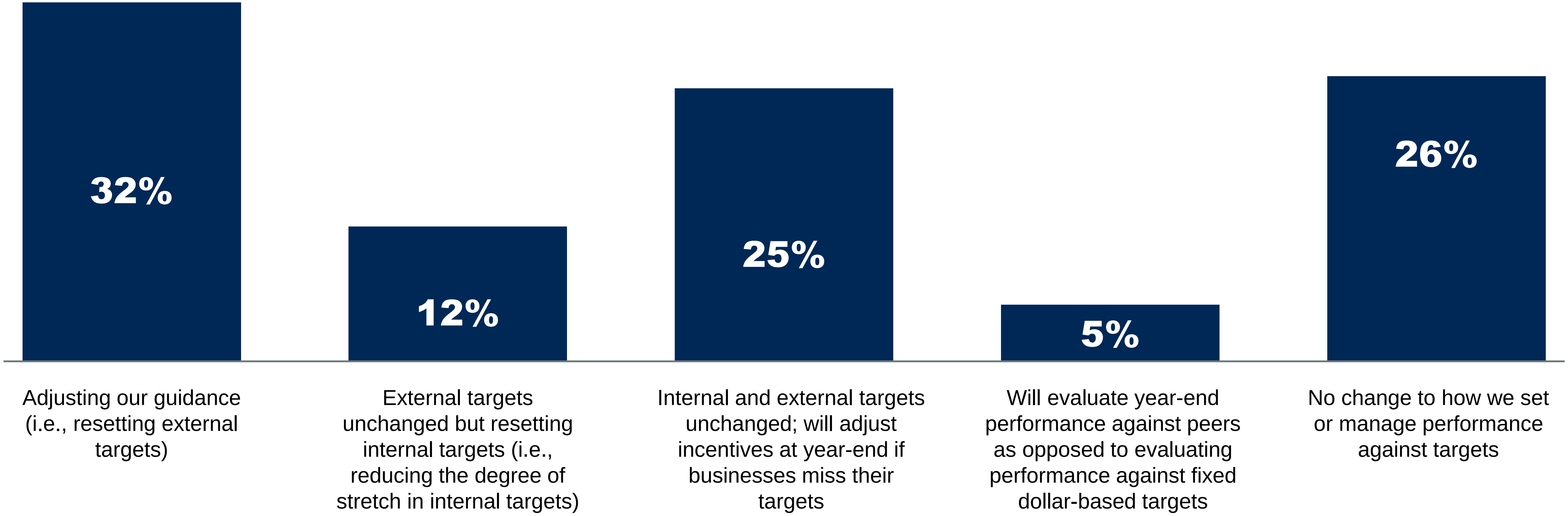
Don’t worry about resetting internal targets — yet

Most CFOs — 51% — have not yet changed internal targets even though there is little chance they will be met this year. They report that there is no good way to reset targets with any certainty.

They are pursuing these approaches in the short term:

- Following board concerns about interrupting the business and instead maintaining the overarching business philosophy
- Holding targets firm for now, even under pressure from business managers
- Waiting as long as year-end to adjust incentives if necessary in times like this
- Considering how to communicate new upside stretch targets

Chart 3: How is COVID-19 impacting the way you set or manage performance against annual targets?



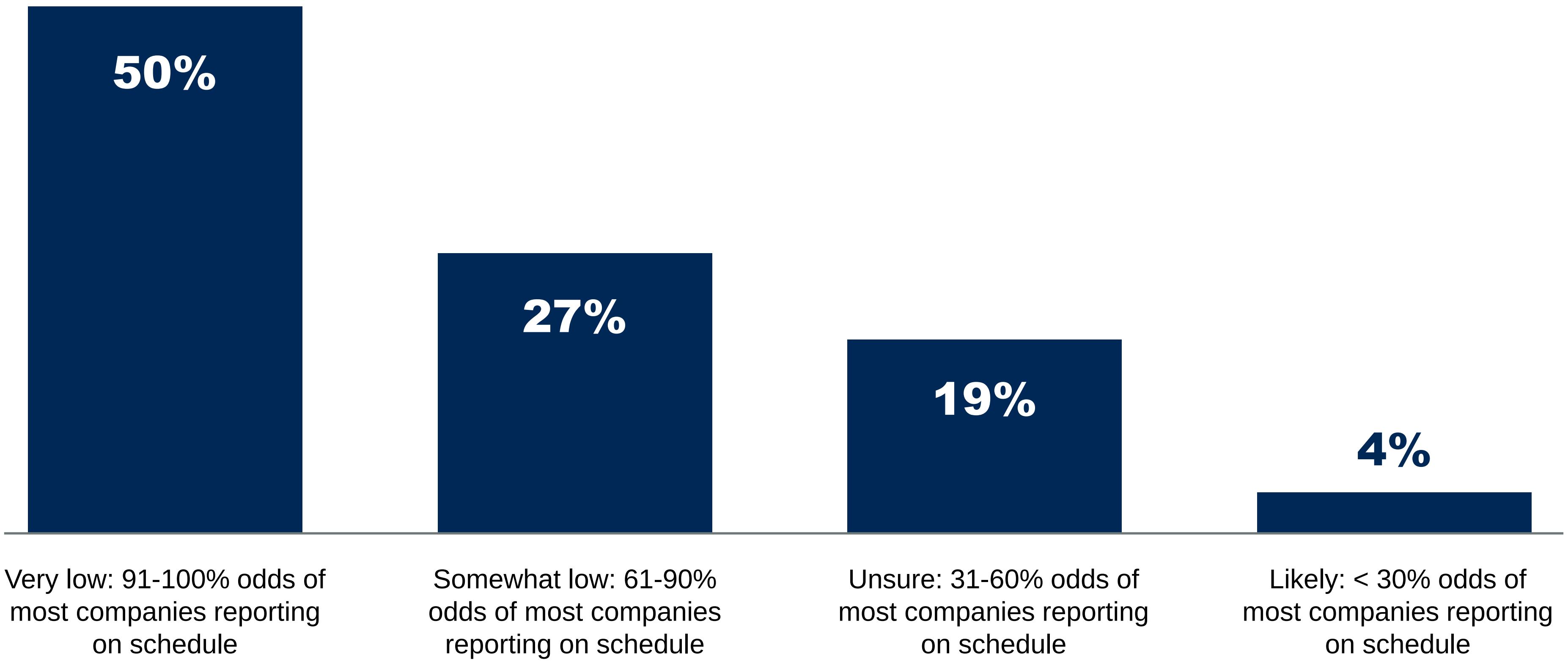
Percentage of CFOs responding (n = 81 CFOs)

Communicating with the market

Communicating with the market

Most CFOs — 77% — see a somewhat low or very low likelihood that they will need to delay earnings reporting (see Chart 4). Many companies expect to hit or be very close on Q120 performance but are unsure beyond that. To some extent, there is little reason to do so, as few investors are expecting much certainty from companies at this stage.

Chart 4: What expectation do you have of a significant disruption to the usual Q1 earnings release schedule?



Percentage of CFOs responding (n = 52 CFOs)

Don’t worry about specific messaging — yet

CFOs are currently not experiencing issues with or pressure from investors. Few are giving investors much specificity regarding how COVID-19 will impact the company.

- Some CFOs anticipate that 1Q20 earnings will be reported closer to the board meeting than usual.
- They are expecting investor patience to begin to wane by 2Q20 earnings season.

Tell investors and other external parties whatever you can tell them — be transparent

Investors still have questions and expectations regarding what information they should be gaining from companies.

CFOs are pursuing two approaches here:

- Maintaining the normal pace of meetings with analysts, to avoid setting a panic by refusing to talk to them
- Using press releases and the corporate web site to communicate business developments, customer behaviors and important operational adjustments you are undertaking

Questions on the horizon

Questions on the horizon

How are people balancing the natural desire to help with the reality of cash becoming critically important? How do you balance those considerations?

How do we communicate to staff that they can/should still work during this disruption, particularly if federal assistance grants paid time off?

To what extent will employee attitudes toward travel permanently shift? Everyone now favors online meetings; the expectation is that all big meetings will be cancelled through the end of the year.

What pressures are banks we work with facing as they close down their own operations?

How do I engage the board for strategies to plan in an unplannable time?

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