

COVID-19:

Managing cash flow pressures



Managing your cash flow pressures

The COVID-19 outbreak has been **declared a pandemic** by the World Health Organisation, **causing huge impact** on people's lives, families and communities.

As the COVID-19 global response evolves, **organisations are experiencing significant** operational, financial and liquidity **challenges**.

In order to ensure these challenges can be addressed, a **key concern** expressed by our clients has been how they can **manage their cash flow requirements** to ride out the crisis.

The following **three key steps** could be considered by management teams as they seek to stabilise their cash position:

Rapidly understand the current financial position

1

Take action to protect the position

2

Manage internal and external stakeholders

3

Some **key considerations** and issues for each of these three steps, as well as information on the **recently approved Government support measures** aimed at helping businesses in Cyprus, is shown in the following pages.



Rapidly understand the financial position

1

Depending on the severity of the situation, an **assessment of available and trapped cash** may need to be made in a matter of weeks or even days. **Responding quickly is essential.**

Cash

Assess potential short and medium term financial implications of COVID-19 focusing on **liquidity** and **covenants**.

Consider the following:

- Immediate short term cash flow (8-12 weeks) forecast creation and/or review;
- Update business plans, budgets, forecasts;
- Identify potential worst-case scenarios and perform sensitivity analyses; and
- The capability or limitations of existing reporting tools and systems to allow real time reporting across multiple locations.

Funding flexibility / capacity

Review finance documentation and identify if there is:

- Flexibility on covenants, force majeure clauses;
- Additional borrowing capacity and unencumbered assets - inventory, receivables, intellectual property; and
- Scope to utilise Government support measures in relation to the temporary deferral of loan installments.

Contingency plans

- Update your financial position and resource planning analysis to assume staff sickness;
- Assess what measures could be undertaken around cost reduction, cash conversion / stock liquidation, deferral of planned CAPEX; and
- Develop operational contingency plans to minimise disruption to your business, inclusive of reviews of authorised personnel to manage bank and system processes and controls.

Stakeholder management

- Review of key supplier and customer contracts;
- Identify if there is contractual flexibility to amend payment and pricing terms (for both sides) and engage with suppliers / customers accordingly;
- Reassess payment priorities and consider time to pay arrangements;
- Consider the position of other key stakeholders e.g. shareholders, trade unions, employees, regulators (where appropriate); and
- Check insurance policies for business interruption clauses.

Action steps to protect the cash position

2

Once clarity on the cash position has been obtained, the directors and **management teams** should **take immediate action to ensure** they can (at a minimum) **maintain this position**, alongside identifying **opportunities to access new money**, if required.



Consider the **utilisation of Government support measures** voted by the Parliament on 27 March 2020 that aim at supporting businesses such as deferral of VAT, special unemployment benefits etc. (for more information, please refer to pages 6, 7 and 8).



Negotiate loan restructuring with your lenders. Obtain consent from lenders for short term **financial covenant waivers or relaxation** in anticipation of potential or forecast covenant breaches. Consider the **utilisation of Government support measures** in relation to the temporary deferral of loan installments (for more information, please refer to page 6).



Implement **cash conservation** measures (e.g. cancelling non essential orders, shift rationalisation) and **rapid optimisation of working capital** to preserve liquidity.



Implement rapid cost reduction plans based on the financial position; the severity of cost reduction levers and time execution will be dependent on available liquidity.



Depending on the size of your business, **set up a Project Management Office** to coordinate all action steps/ monitor progress.

Manage internal and external stakeholders

3

Alongside stages 1 and 2, organisations will need to quickly **understand** who their **key stakeholders** are (internally and externally).

Management of stakeholders can often be challenging in a stressed scenario, particularly where interests are conflicting and there are significant demands for real time information.

Communication

Develop a **clear communication plan** to ensure consistent messaging across all channels.

Consult with internal risk and marketing teams, as appropriate.

Internal channels
(staff)

External channels
(customers, suppliers, shareholders, Government, other stakeholders)

Stakeholders

Identify all **key external stakeholders**; **engage early** and **proactively manage**.

Understand their **current position**; how they may act and any associated issues which may arise.

Assess the impact of these issues on your business and work with the stakeholders to minimise or mitigate the impact.

Financial stakeholders

Banks and shareholders

Operating stakeholders

Landlords, suppliers, customers, insurers and regulators

Government support measures

Government support measures have been approved, the **aim** of which is to **alleviate businesses** from the **negative cash flow impact** of the COVID-19 outbreak, **boost liquidity in the economy** and **maintain employment**.

Temporary deferral of loan installments (both principal and interest)

- Beneficiaries of this scheme are companies, self-employed and individuals whose loans as at 29 February 2020 were not in arrears by more than 30 days and they subsequently faced loan repayment difficulties as a result of the COVID-19 outbreak.
- The suspension of payments is effective from the date of the Decree (i.e. 30 March 2020) and for the period up to and including 31 December 2020.
- Beneficiaries will have to file a written request to their lender(s) in order to participate in this Scheme.
- The amounts suspended (principal and interest) will become payable following the end of the suspension period through an appropriate revised repayment schedule rather than immediately.

General Healthcare System - Suspension of increase in the special contribution for the General Healthcare System

- The increase in special contribution to the General Healthcare System is suspended for three months.
- The suspension will apply for the months of April, May and June 2020.
- For the month of March 2020, the increased contribution rates will apply.

Government support measures

Settlement of overdue contributions to social insurance related funds

- Payment of the installments for the months of March and April 2020 will be suspended and the deadline for settlement is extended by two months for liabilities to social insurance related funds for which a repayment plan was active by 1 March 2020.

Tax Measures

(a) VAT measures - Obligation to pay VAT

- Temporary suspension of the obligation to pay VAT for reasons of business liquidity, without the imposition of any penalties and interest for the periods ending 29 February 2020, 31 March 2020 and 30 April 2020, until 10 November 2020, provided that the relevant VAT returns are submitted within the prescribed deadlines.
- The temporary suspension of the obligation to pay VAT will apply to all taxable persons, established and non established in Cyprus, with the exception of taxable persons whose activities fall within the prescribed trading codes as defined in the relevant legislation.

Tax Measures

(b) Direct Tax Measures

- Extension of the deadline for submission of tax returns as well as the deadline for settlement of tax liabilities (details to be provided in Ministerial Decrees to be issued in the next few days).

Tax Measures

(c) Settlement of overdue taxes:

- Law for settlement of overdue taxes has been amended on 14 February 2020, and tax returns up to and including 2015 may be submitted up to 30 June 2020 in order to qualify for a payment plan.
- The number of installments that may be missed without resulting in the cancellation of the payment plan has been increased from three to five.

Government support measures

Postponement of Excise Duty Payment

- It relates to the payment of excise duty payable in accordance with the provisions of the Excise Tax Act 2004, for energy products, tobacco products and alcohol and alcoholic beverages, subject to the terms and conditions.
- An application should be submitted by the interested parties according to the terms and conditions outlined in the relevant notification together with a bank guarantee for the amount of the excise duty and the additional fee which will become payable as soon as the postponement period expires.
- A person qualifies for the postponement if his/her business activity is the production, importation or acquisition from member states of excise goods, with an annual turnover exceeding €3,500,000, and paying excise duty through the Theseas system.
- The Minister of Finance may extend the deadline for payment of the deferred amount up to 60 days if this is considered necessary during a period of crisis.

Business and Other Measures:

Emergency measures taken by the Ministry of Labour, Welfare and Social Insurance

- Benefits provided include: (i) special unemployment benefit, (ii) special sickness benefit, (iii) special leave for the care of children and (iv) other emergency measures that may be decided.
- The Minister of Labour, Welfare and Social Insurance will assess during the period from 16 March 2020 to 16 May 2020, the conditions, the amount and the way in which such benefits will be granted.

Business and Other Measures: Amendment to the Statutory Tenants Law

- Any eviction process shall be suspended (and new eviction orders will not be issued) until 31 May 2020.
- The law only applies to premises built before 31 December 1999.
- The suspension of the eviction does not affect the right of the owner to bring legal action after 31 May 2020 against the tenant for the unpaid rents during the period March - May 2020 (tenants remain fully liable to pay the rent for the months of March, April and May).
- The suspension of eviction does not apply to tenants who have defaulted on payment of rents until 29 February 2020.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:



Constantinos Constantinou
Partner
Advisory Leader
constantinos.constantinou@pwc.com



Vassilios Vrachimis
Partner
In charge of Banking Industry
vassilios.vrachimis@pwc.com



Michalis Stephanou
Partner
Advisory, Deals
michalis.stephanou@pwc.com



Socrates Paschalis
Director
Advisory, Deals
socrates.paschalis@pwc.com



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