

## Today's Webcast Presentation

# Private Companies Webinar Series: Beyond COVID-19 Implications for Business Moving Forward

*Presented by  
Deloitte*

*June 11, 2020*

## will begin shortly ...

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# Beyond COVID-19 Implications for Business Moving Forward

The Heart and Essence of Resilient Leadership

June 2020



# The *heart* of resilient leadership

In the crucible of crisis, resilient leaders are defined *first* by **who they are**....

**Five qualities** of a leader that distinguish between surviving and thriving amidst crisis

## MISSION FIRST

Stabilize today, and harness both the **energy and the constraints** of volatile conditions to spark innovation tomorrow.

- *How are you turning the COVID-19 crisis into an opportunity to emerge stronger?*

## SPEED OVER ELEGANCE

**Decisive action – with courage** – is often more essential than getting it perfect.

- *How are you empowering your teams to take courageous action in a volatile environment?*

## DESIGN FROM THE HEART ...AND THE HEAD

Serve the heart of your organization, your **purpose**, and your **societal obligations**, while simultaneously making **hard decisions to protect financial viability**.

- *How are you balancing both empathy and decisiveness to serve your employees, customers, communities and ecosystem?*

## OWN YOUR NARRATIVE

Paint a picture of a **compelling future and path forward** that your stakeholders can support and rally around.

- *How are you proactively filling the information vacuum to combat the spread of misinformation and rumor?*

## EMBRACE THE LONG VIEW

Stay focused on what's on the **horizon** to instill confidence and steadiness across your ecosystem.

- *How are you anticipating and responding to the new business models likely to emerge post COVID-19?*

# Resilient leaders are *then* defined by **what they do** along three dimensions



## Priorities

The six functional areas most at risk during a crisis



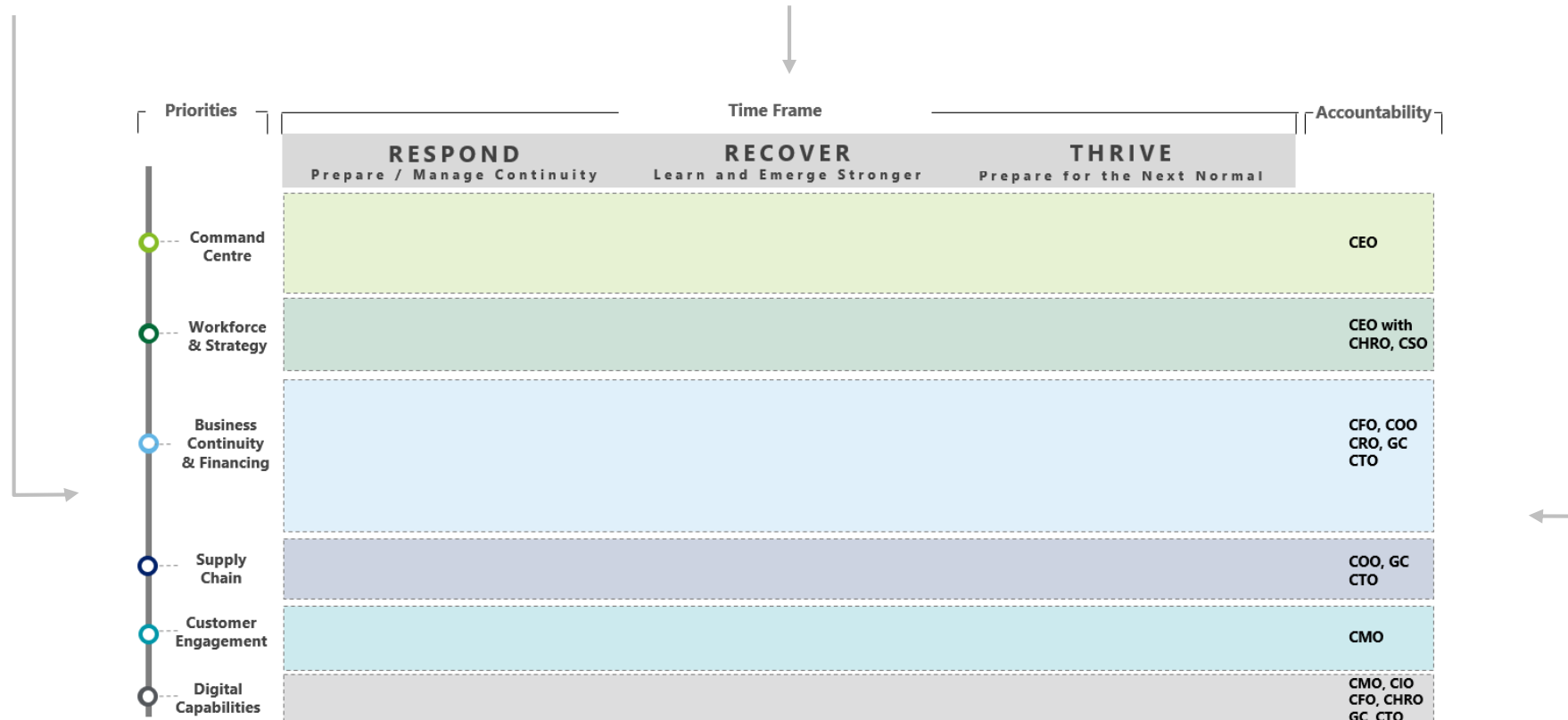
## Time Frame

Thoughtfully selecting when to pivot from Respond to Recover to Thrive



## Accountability

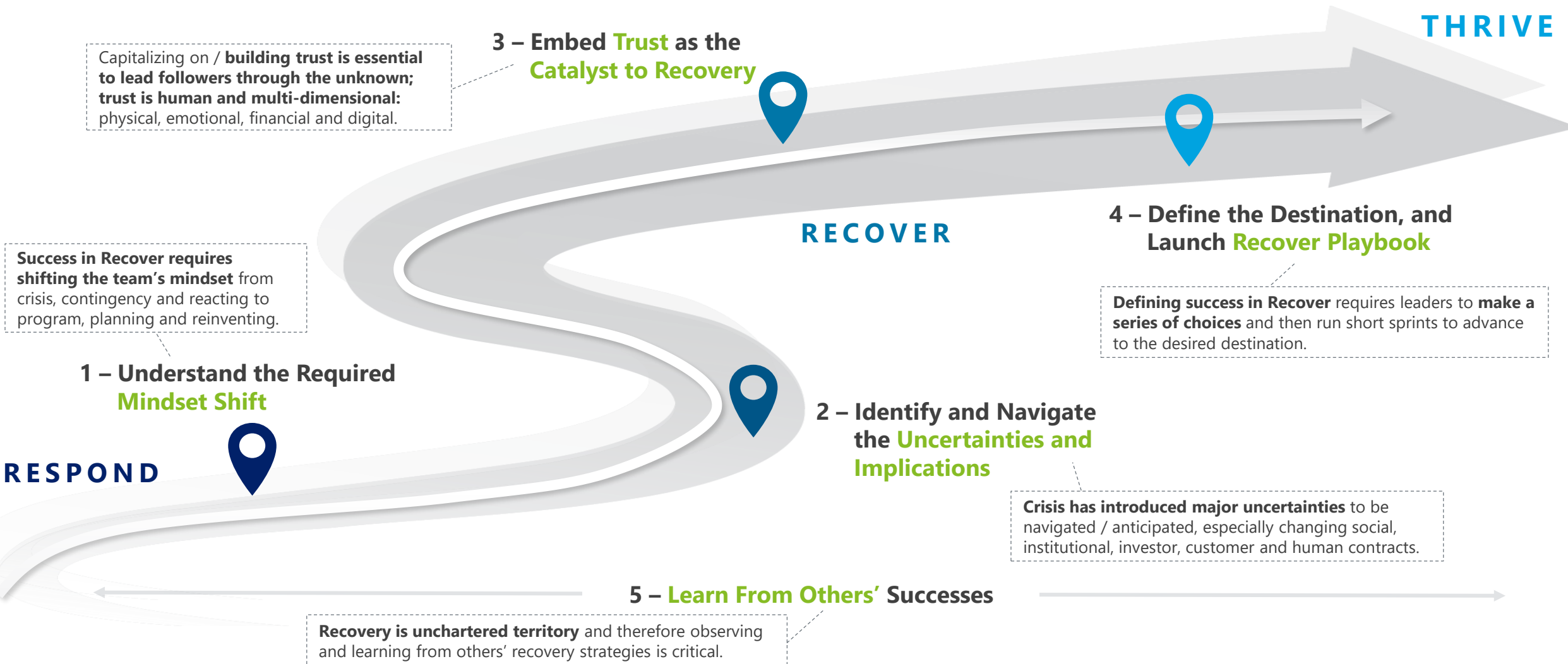
Defining who is responsible and accountable in the business



# **The *essence* of resilient leadership**

# Resilient leaders view **Recovery as a journey** for their organization, teams and stakeholders

## FIVE IMPERATIVES WITHIN "RECOVER" TO GUIDE THE BUSINESS FROM "RESPOND" TO "THRIVE"





As they embark on Recover, resilient leaders shift the organization’s mindset from **today to tomorrow**

1 – Understand Required **Mindset Shift**



Resilient leaders understand that ***the only certainty is uncertainty*** and use this as an opportunity for reinvention

## 2 – Identify and Navigate the Uncertainties and Implications

### UNCERTAINTIES

#### ***Changing social contract***

Changing societal expectations of corporations to ensure the viability of all stakeholders

#### ***Changing roles – and rules – of institutions***

Businesses are doing government, government is doing business, and NGOs are doing both

#### ***Unpredictability in financing sources, uses and capital markets***

Needs are difficult to forecast amidst wide economic scenarios; sources shift amongst investor groups, institutions, and governments; capital moving across markets

#### ***Permanency of customer behavior changes***

How has the pandemic permanently altered behaviors, experiences, expectations, and the role of digital engagement

#### ***Expectations for physical, emotional, financial, digital safety***

The crisis has heightened stakeholders' sensitivities to safety along four dimensions

# Resilient leaders understand that **trust** is **foundational to their organizations' Recovery**

## 3 – Embed **Trust** as the Catalyst to Recovery

### ...TRUST IS HUMAN AND MULTI-DIMENSIONAL

Resilient leaders understand that Recovery is a **human experience** and in order to shift the mindset to Recovery, they need to understand the **Four Human Dimensions of Trust:**

## TRUST IS A **TANGIBLE EXCHANGE OF VALUE**...

It has **no value in isolation**, and represents value only in an interaction / relationships with others.

It is **accretive**: invested wisely and prudently, it grows in repeated affirming experiences; invested poorly, it rapidly depreciates.

It **yields results** such as economic growth and shareholder value, increased innovation, greater community stability, and better health outcomes.



# Resilient leaders guide their teams to make and deliver clear **choices** on the **destination** and **outcomes**

## 4 – Define the **Destination** and Launch **Recover Playbook**

### 1 Define the destination at the end of Recover

Host a **Recover Lab for senior leadership to co-design the Recover Plan** on an accelerated basis

#### Launch Recover PMO

*Consider shift in skill set from crisis PMO in Respond*

#### Model financial impact of the Recover Playbook

*Incorporate economic case scenarios*

### 2 Anticipate the macro outcomes

#### OUTCOMES

Recover and Grow Revenue

Increase Margins and Profitability

Optimize Assets, Liabilities, and Liquidity

Accelerate Digital Transformation

Support The Workforce and Operating Structure

Manage Stakeholder Expectations

### 3 Run short sprints

Iterate on the Recover Playbook

Consider the **where and the when of business model changes**

#### Incorporate key qualities of resilient leadership:

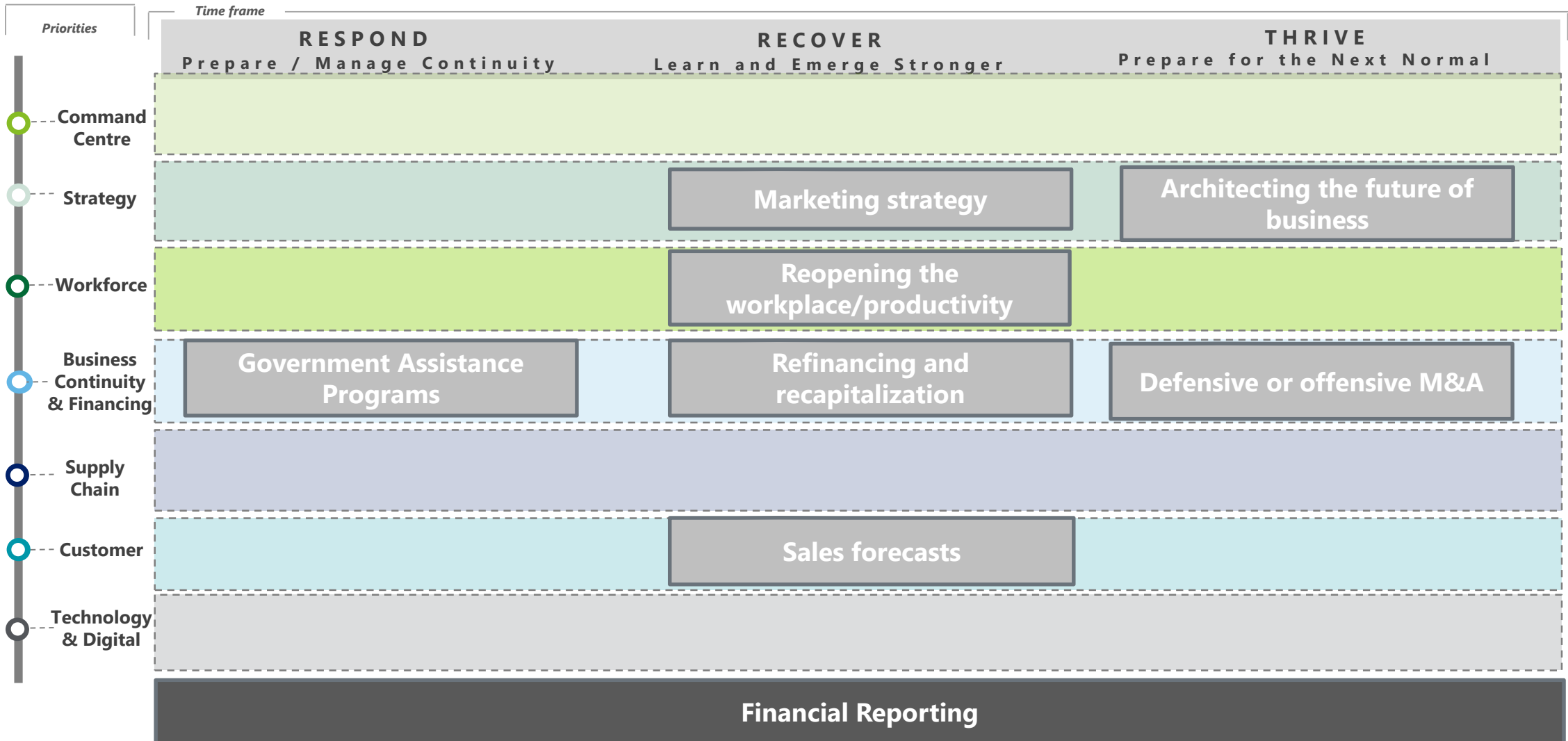
- Design from the heart...and from the head
- Mission First
- Speed over elegance
- Own your narrative
- Embrace the long view

### 4 Incorporate key elements of the Trust Framework

# The *perspective* of resilient leadership

# Resilient leaders in a crisis *take specific actions* across these three dimensions

Additional resources for each of the priorities can be found on [Deloitte.com](https://www.deloitte.com)



Hot Topics for private companies

# Among the top concerns of executives in recovering their businesses is **reopening the workplace**

- In a recent **Deloitte survey of 163 global executives**, **42% of respondents indicated that they have plans to reopen offices at headquarters**, with a majority of those reopening by July 2020
- Of these executives, **97% have indicated that they have prerequisites in place to reopen**: local regulations (88%); physical distancing (71%); reduced capacity (44%); protective equipment and health monitoring are other prerequisites

## TOP ISSUES RECOVERING THE WORKFORCE



### Work

- *Are we returning to the way we worked before, or adopting new ways of working?*
- *What tools and platforms continue to be most effective for supporting a blend of physical and virtual work?*
- *How are we understanding employee preferences?*



### Workforce

- *How can we address rapid changes in work norms (e.g. email volume, long hours) to support employees?*
- *How are we ensuring employees feel safe as they re-enter the workplace?*
- *How do capacity, capability, and affordability affect workforce design after the crisis?*



### Workplace

- *How are we ensuring PPE effectiveness and compliance?*
- *What protocols might we need to ensure that employees maintain distancing while in the office?*
- *What did we learn about working when the boundaries between work and life are blurred?*

## SUCCESSFUL REOPENING WILL REQUIRE DIVERSE CAPABILITIES



Commitment to safety



Employee reassurance and support



Visibility into risk factors



Agility to execute and pivot



Building trust stakeholders

# Addressing short and medium term **financing and capitalization** concerns will be a key determinant of a company's ability to emerge stronger and thrive

## CAPITAL CRUNCH

- Over \$10trn of non-financial corporate bonds will be rated junk by H2 FY20, and \$2trn of S&P rated maturities to be refinanced / repaid annually.



Source: Bloomberg / The Economist

## KEY LEVERS FOR MEETING NEAR TERM FINANCING NEEDS



COVID-19 government emergency support programs



Strong relationships with existing capital providers (PEI and VCs)

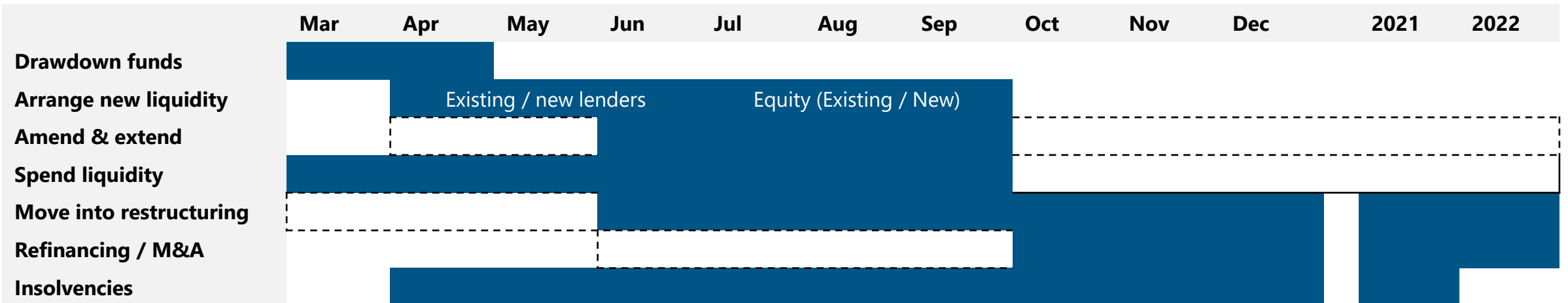


Traditional credit opportunities (lower rates)



Consider alternative funding sources

## Illustrative sequencing of progressive financial impact on businesses ...

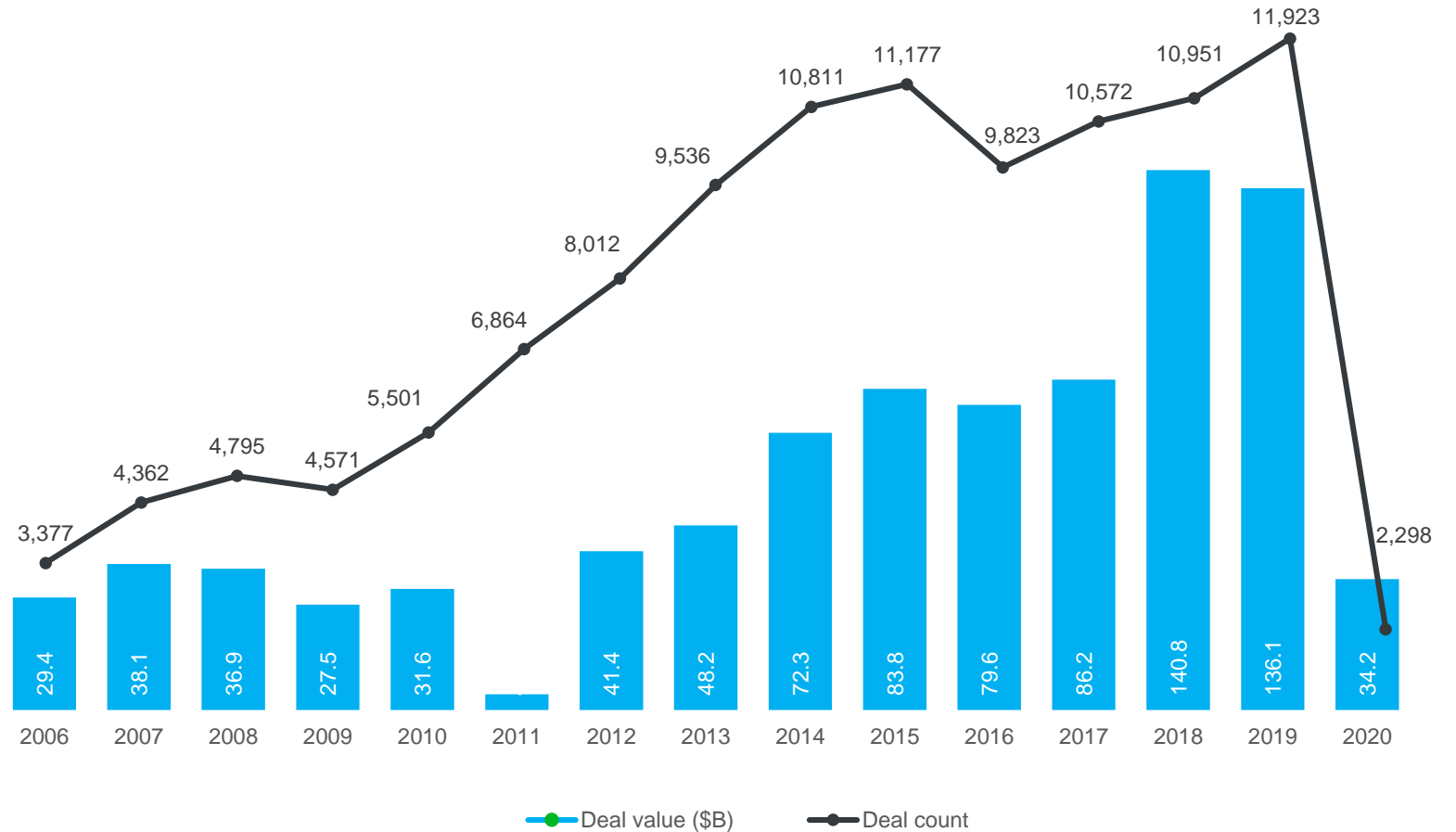




# U.S VC deal activity – *historical deal value and count*

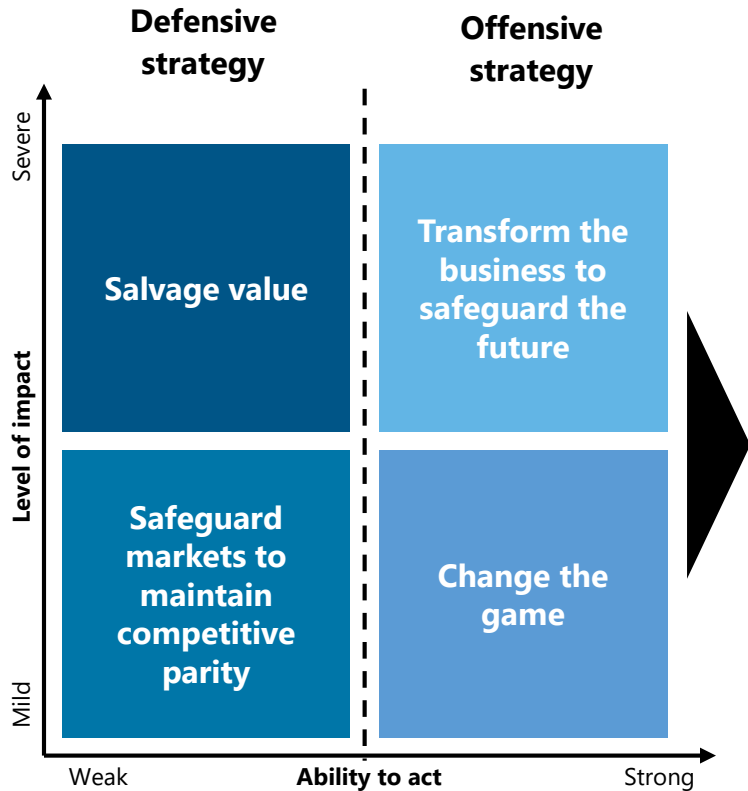
## NOTABLE INSIGHTS

- Topline numbers from Q1 2020 might not reflect disruption in the startup ecosystem
- Q1 deal count saw a significant decrease



Source: Pitchbook – March 31, 2020

**Defense or offensive M&A strategies** are tools of the resilient leader to buoy medium term capital constraints, or to proactively address industry disruption



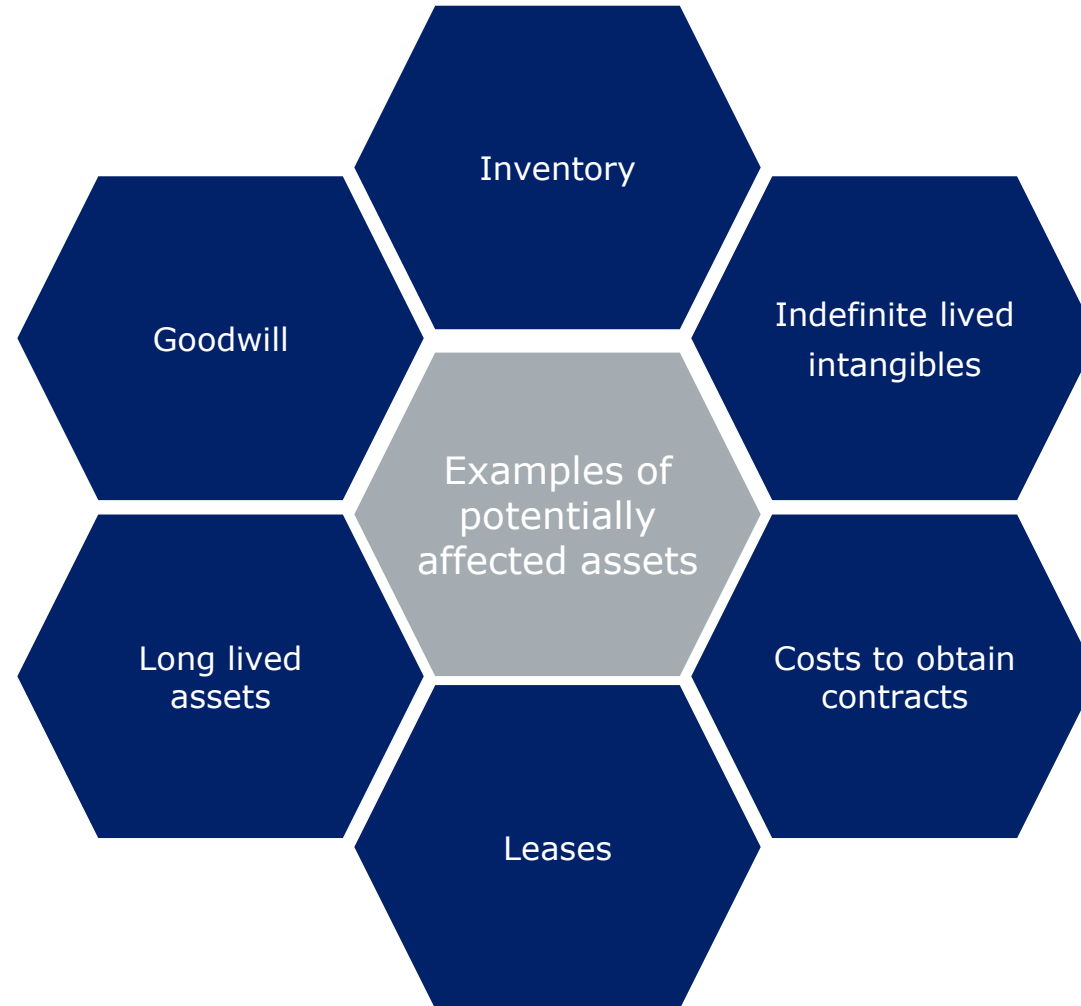
|               | CEO Priority                                     | Potential Responses   | M&A deal archetypes  |
|---------------|--|---|--|
| Defensive M&A | Salvage value                                    | Identify ways to raise capital  | <ul style="list-style-type: none"> <li>Divest non-core or distressed assets</li> <li>Wind down underperforming businesses</li> </ul>   |
|               |  | Improve operational efficiency or increase business flexibility                             | <ul style="list-style-type: none"> <li>Identify rapid turnaround situations to optimize portfolio</li> <li>Explore JVs and alliances with suppliers and partners</li> </ul>  |
|               | Safeguard markets to maintain competitive parity | Adjust operating models in response to competitive dynamics                                 | <ul style="list-style-type: none"> <li>Pursue deep synergies from recent acquisitions</li> <li>Develop partnerships for non-core capabilities</li> </ul>   |
|               |  | Prepare the business for the "new world order"  | <ul style="list-style-type: none"> <li>Pursue co-investment opportunities for capital intensive projects</li> <li>Pursue opportunistic deals to safeguard core markets</li> </ul>  |
| Offensive M&A | Transform the business to safeguard the future   | Rebalance your portfolio  | <ul style="list-style-type: none"> <li>Pursue acquisitions to facilitate vertical integration</li> <li>Close gaps in portfolio through strategic acquisitions</li> </ul>   |
|               |  | Capture additional revenue in adjacencies   | <ul style="list-style-type: none"> <li>Acquire distressed underperforming peers and early stage companies</li> <li>Acquire capabilities to accelerate digital transformation</li> </ul>  |
|               | Change the game                                  | Define the "new world order" through power of networks<br><br>Invest to scale at the "edge" | <ul style="list-style-type: none"> <li>Orchestrate a web of multilateral partnerships and alliances</li> <li>Capture new opportunities resulting from sector convergence</li> <li>Acquire high-growth businesses from the innovation ecosystem</li> <li>Curate a portfolio of investments on the "edge" of your core business</li> </ul> |

Recent M&A deals



## **Non-Financial asset impairment** – Examples of potentially affected assets

- Many different types of non-financial assets that must be assessed for impairment
- Preparing forecasts for use in impairment testing may be particularly challenging
- Document judgments as they are made



## **Financial asset impairment** – Examples of potentially affected assets

- The impairment models applicable to debt securities (both AFS and HTM), loans and receivables, and net investments in leases depends on adoption of ASC 326 (CECL)
- Assets measured at fair value through net income do not have further impairment guidance (e.g., equity securities with readily determinable fair value values, debt securities classified as trading, loans for which the fair value option was elected)



## Financial reporting – *Accounting for income taxes*

### **Most common issues expected to impact income tax accounting (General):**

- Valuation allowances
  - Cumulative loss determinations
  - Forecasting challenges
  - Evaluating historical results

### **Most common issues expected to impact income tax accounting (CARES Act)**

- Modifications to carryback rules for NOLS
- Modifications to limitations on deductibility of NOLS
- AMT Credit Acceleration

## Financial reporting – *Other areas*

### **Common areas for additional consideration (General):**

- Insurance recoveries
- Restructuring costs
- Employee benefits
- Exit and disposal costs
- Loss contingencies
- Future losses
- Going concern
- Bankruptcy accounting

### **Common areas for additional consideration (CARES Act):**

- Financial instruments (Lending activities, Loan guarantees)
- Accounting models for government assistance

# Architecting for Thrive – designing the tangible future

## HOW TO APPROACH THRIVE

### 1 – Design in the Thrive phase means

*Innovating something new,  
to fulfill a specific purpose,  
subject to constraints*

2 – In Thrive, the resilient leader **plays three roles** simultaneously...



Architect



Designer



Builder

## FIVE KEY DESIGN PRINCIPLES

- 1 Design for abundance not scarcity
- 2 Design for strengths not problem solving
- 3 Design for impermanence
- 4 Design with the whole system
- 5 Design for human flourishing

# Resources



# Additional *Resources for Leaders* on Deloitte.com

## RESOURCES FOR LEADERSHIP



*Resources for resilient leadership*



*The heart of resilient leadership*

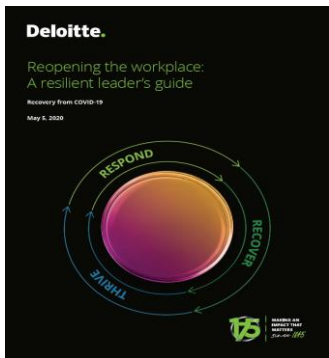


*The heart of resilient leadership: Responding to COVID-19*

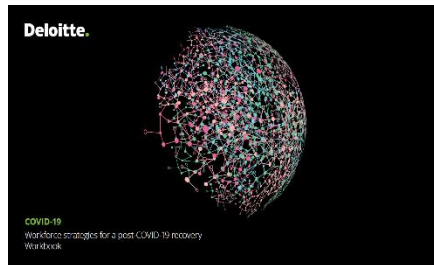


*The essence of resilient leadership: Business recovery from COVID-19*

## WORKFORCE RECOVERY RESOURCES



*Reopening the Workplace: A Resilient Leader's Guide*



*Workforce strategies for a post-COVID-19 recovery: Workbook*

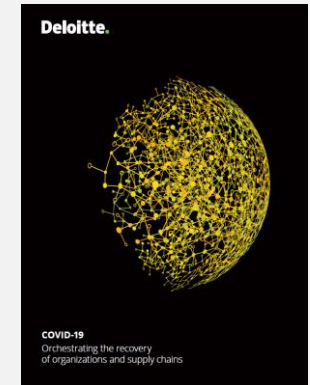


*Workforce Strategies for Post-COVID Recovery*

## RECOVER PLAYBOOKS



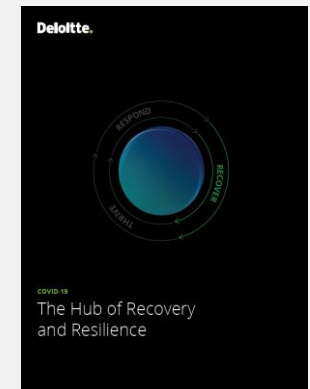
*A Human-First Approach as you Recover & Thrive*



*Orchestrating the recovery of organizations and supply chains*



*Shaping the Future Through Digital Business*



*The Hub of Recovery & Resilience*

# Q&A

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