

## Introduction

Welcome to the latest edition of Corporate Advisory News. Over the last few weeks we have seen the first steps being taken out of lockdown, with more and more businesses able to reopen every week. We, like everyone else in the country, are keeping our fingers crossed that the gradual unwinding of lockdown continues to successfully return to some form of normality over the coming weeks.

We therefore concentrate in this addition of CAS News on looking to the future and how to plan for the ramping up of trade after several weeks of uncertainty. I have set out a Top Ten Tips: looking at the forward guidance issued by the government during May and how to create a route map to your business future. I hope you find this article as useful as many seemed to find the first Top Ten Tips we published in March for dealing with COVID-19 related financial distress.

Dominic Dumville has provided suggestions for navigating a business through disruption, while also offering his thoughts on planning your business's recovery, two useful, practical articles as we continue to move forward.

Mike Orton, our Corporate Finance Director, has produced an update on the government assistance schemes with an article of Bounce Back Loans, no doubt a vital source of much needed funding for thousands of businesses across the country as they prepare to re-open in the coming weeks.

Finally, please look out for our upcoming CAS News Technical update coming to an inbox near you shortly. We have been busy digesting the detail of the new Corporate Insolvency and Governance Bill, as well as considering other insolvency developments such as the Light Touch Administration Protocol and the impact of deferred HMRC debt on secured creditors should a change in HMRC's creditor status go live toward the end of the year.

All of the team at Mercer & Hole understand there will be some uncertainty for you when looking to future proof your business. Should you wish to talk through your plans with a member of our team please do not hesitate to contact us. Our team are always available to advise and assist you whatever your query maybe. Please contact me, Dominic Dumville, Chris Laughton, Peter Godfrey-Evans, Steve Smith or Mike Orton for guidance.

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# Planning your business's recovery

There are times to be spontaneous and times to plan. A lasting memory for me from having small children is the frustration at how long it took us to get out the door to go anywhere due to the necessary planning.

I've lost count of the number of times I didn't follow my wife's planning instincts and arrived at the park or similar with a coat-less or, on one occasion, shoe-less child.

With the Bank of England recently warning of a 14% contraction in the UK economy, I suspect we are going to find that lockdown, rather like parenting, is far more difficult to get out of than it was to get into. For anyone at the helm of a business, regardless of the sector or size, now is undoubtedly the time to plan.

While the disruption caused by the lockdown has been shockingly swift, disruption to a previously stable economy or industry brought about by a significant event in culture is not unprecedented. Take for example the advent of the Internet which quickly birthed competition for the high street, changed how we access information and eventually gave us apps for practically everything, from banking to ordering a taxi. Any step-change in culture which brings about disruption is followed by corporate casualties. I wonder however, how many of those casualties could have been avoided with better planning and a greater willingness to adapt.

Many are saying we will never get back to 2019 normal; social distancing looks to be with us into 2021 and flexible working has quickly become a minimum expectation from employees. It's time to formulate your plan.

I suggest you start by answering these questions:

- Will the market my business operated in return to the same size? Do I anticipate new entrants into my sector seeking to take market share?
- Has the business been forced to diversify into new markets? Can this change be sustained?
- To what extent will social distancing change how the business used to operate – take into consideration experience of employees and customer?
- How resilient is the business to the anticipated downturn in the wider economy?
- For those who have taken advantage of the furlough scheme: if and when the scheme is withdrawn or reduced, can the business afford to bring employees back on?
- Can you see an opportunity to exploit the inevitable surge in redundancies? Do you need specific skill sets or talent?

The answers to these questions should make clear whether 'Plan A', to return the business to a similar pre-lockdown state, is possible or if it's time to devise Plan B; perhaps a contracted or diversified version of the old business.

Which ever track you are on, I strongly recommend you forecast your cashflows for the coming 12 months, incorporating into your model as many scenarios and sensitivities as your Excel skills will allow. When first preparing a financial model there's one thing you know for sure; its wrong. But a financial forecast is a live document which becomes increasingly valuable over time as you tweak your assumptions and dial in your sensitivities. Then as Boris slowly lets us in on his master-plan the future of your business whether good or bad will start coming into focus, giving you ample time to react.

Regrettably, there will be those who will quickly discover that neither Plan A nor Plan B are viable; Brexit uncertainty had used up much of the breathing space in the economy and COVID19 will prove to be a near fatal blow. There is however a Plan C!

UK insolvency legislation is a world leader in its focus on rescue and turnaround. My restructuring partners and I are confident we will be helping many to formulate and execute Plan C over the coming months using the tools in the Insolvency Act to salvage viable businesses but for the lockdown rot. Granted plan C is not an ideal outcome as there will be losers, but this is a less than ideal environment and we say rescue is better for many stakeholders than the alternative, and insolvency legislation agrees with us.

At Mercer & Hole our Corporate Restructuring team have a wealth of experience in helping rescue distressed businesses.

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# Bounce Back Loan scheme

Since our last update on the government backed schemes to support businesses and the economy, the Bounce Back Loan scheme (BBLs) has gone live.

With the Coronavirus Business Interruption Loan scheme (CBILS) due to end in September and the BBLs in early November, business owners need to continue closely monitoring their cash flow requirements.

It seems longer than 2 months ago that CBILS went live. We have been supporting clients through that application process and it continues to be a different experience each time! We also have a number of clients who are waiting to see how the government will ease the lockdown restrictions and the impact that might have before they make applications.

In the meantime the BBL scheme has also gone live. In overview the key features of the scheme are as follows:

- Loans range from £2,000 up to 25% of turnover, capped at a maximum of £50,000
- Lender provided with a full government backed guarantee (100%), both capital and interest
- Government will cover the first 12 months of interest payments
- Interest rate set at 2.5% per annum
- Length of loan is 6 years but early repayment is allowed without fees being charged
- Lenders not permitted to take personal guarantees
- No fees to access the scheme for either businesses or lenders
- Businesses which receive a loan from the BBLs can also still access the CBILS, but the loan from BBLs must be repaid.

The aim was to keep the BBLs application simple for borrowers, mainly through online portals. However, we are hearing that lenders may have to enhance their review procedures as many applications have been fraudulent.

One point to note is that, as with CBILS, applicants should check whether they meet the eligibility criteria (which are broadly consistent with CBILS). However, we have had a client who was unsuccessful in obtaining a loan under CBILS but got one under BBLs.

As our experience of accessing the various schemes grows we are able to guide business owners through the process. If you require support accessing CBILS or BBLs please get in touch.

Lastly, continuing a thread from our last update, it remains key that business owners and management continue to plan for cash flow requirements beyond these government backed schemes. Business planning is critical, as is having the facilities in place to fund working capital demands, we are here to help please get in touch.

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# Forward guidance and a route map to future: Our Top Ten Tips

On Sunday 10 May the Prime Minister outlined the first steps to the easing of lockdown and over the subsequent days more detailed guidance emerged about how the nation could expect the plan to unfold.

In addition, the Chancellor announced that the furlough scheme, a lifeline for 1,000's of businesses (and millions of employees) during the crisis, was to be extended until 31 October.

A few more days have now elapsed since the announcements and many businesses are hard at work reading the government guidance and preparing for a COVID secure resumption/ramping up of trade.

Every industry and every business will have its own challenges to overcome during the coming weeks and months as financial support packages are withdrawn and the accrual of debt during the lockdown becomes a reality. However, now is a time to look forward, to plan for a brighter tomorrow, and to decide where you and your business want to be as normal life returns during the second half of 2020.

The old adage, failure to plan is planning to fail, has never been more apt and with this in mind I am pleased to set out below my Top Ten Tips to consider when planning a route of lockdown for your business. I hope you will find the below as helpful as our initial Top Ten Tips for dealing with financial distress published at the outset of the crisis.

1. Safety first – be COVID secure, read the guidance and put in practice a safe working/trading environment.
2. Where is your business today? It is important to start off on a firm footing even if it is going to be uncomfortable understanding the extent of the damage caused by coronavirus. Decisions and plans can only be made from a position of knowledge. Key issues to identify will be:
  - a. Cash/current funding available
  - b. Liabilities accrued
  - c. Debts to be collected -acceptable payment plans from customers

- d. Products/services you will start to supply
- e. Supply chains and your route to market

A clear, viable route map can only be based upon a solid understanding of where your business is today. You will need stakeholders to buy into your journey during the coming weeks and months and they will only believe in your proposals if they are realistic.

5. Destination – There are a lot of decisions which will be needed over the coming weeks and months. It is important to retain an overall vision of where your business is headed so that short term decisions do not unnecessarily impede your long-term future.
6. The journey – how do you get from where you are now to your destination? In order to plot your journey you will need certain supporting information:
  - a. Stress tested cashflow and profit forecasts
  - b. An understanding of which employees you need to return to work and when, and a communication plan for your employees
  - c. Stakeholder management programme – what needs to be communicated to whom and when.
7. Documentation – documenting steps 2 – 4 above gives directors a defence should things move against you. It shows that at the time of making the decision to continue to trade there was a route map back to a successful viable company, which will provide some protection against claims where it is alleged you did the wrong thing.
8. Don't lose the unexpected gains – while predominantly the last few months have been a testing time, some benefits have accrued. The use of technology, flexible working, and innovation have resulted in efficiencies and potential for new products and services.

9. Opportunities – you may be able to improve market share, undertake key vertical integration to secure supply chains or sales services, shrink property or non-essential overhead cost, rationalise group structures and focus on core products or those with maximum potential, leaving behind cost and resource-intensive services.
10. Funding – money is cheap and available, bounce back loans and CBILS, as well as traditional lending streams can provide you with the cash required to undertake the restructuring your plan requires to move to a brighter future.
11. Negotiation – solid plans allow you to focus on the most important areas of your business and understand where you are happy to walk away. This will allow you to understand your negotiating position with all stakeholders, will make for best outcomes for your business, and ultimately your stakeholders as you move from survival mode to being able to thrive.
12. Plan B – Steps 1 - 9 above will also help you to assess points of weakness and stress within your plan if turnover doesn't hit a certain level, if certain negotiations are unsuccessful or if a second wave hits the economy. Knowing the falling off points will help you to act quickly and decisively should it be necessary.

When you need to seek advice, it will be on the basis of assessing the prospect of rescuing the company as a going concern, or perhaps restructuring debts into manageable, realistic repayment plans. To protect the company or the business you may be advised

to consider a company voluntary arrangement or administration. Neither would be a sign of failure, but rather a spell of intensive care, being looked after by specialists. Having a plan B is essential for SMEs to ensure that directors do not sleepwalk into a position of personal liability.

For advice on planning your route map to recommencement of trade, or establishing your Plan B, please do not hesitate to contact one of our business advisory or restructuring partners.

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# Suggestions for navigating a business through disruption

Life in the UK has seen a seismic shift these past two months and we are living through, and managing businesses through, a time that is unlike anything that has come before.

It follows therefore that business owners and directors are finding themselves in new uncomfortable territory.

As a restructuring and insolvency advisor, there are a number of tips and suggestions that I often give to businesses facing disruption. Below are a few of these tips and suggestions, which are now relevant to almost everyone contemplating trading through the coming months.

**Look forwards** – While difficult to do at the present time, it is vitally important that businesses forecast their expected outcome. A well-prepared forecast will highlight if and when the business is going to face a cash shortage, giving the directors the chance to do something about it. Simply hoping for the best doesn't cut it in an environment that is anything but 'business as normal'.

**Speak with key stakeholders** – Who are the people and entities, internal and external, that are critical to your business' success? Speak with these stakeholders and find out how they are coping. Can they continue on current terms for the coming months? If it's a supplier, can they handle you stretching or varying your payment terms? It's true, cash is king, but a director who stops paying without warning is eroding hard-earned goodwill and at danger of losing friends. Like people, businesses need friends now more than ever.

**Document decisions** – Directors have been making more decisions about their businesses than normal, whether they realise it or not; even by continuing to trade when the rest of the world has turned on its head is a decision. Directors and the companies they run are distinct from one another and the former has a duty to act in the best interests of the latter. Decisions made

during times of uncertainty need to be documented, especially when there was no obvious choice and a 'reasonable director' could well have acted differently. When making these records, a Director should reference the factors within their consideration which affected the decision made.

**Get help** – The last two months have been exhausting for many directors and the next two look to be equally demanding. Any business owner or director who begins to feel they are out of their depth should get help from those with the expertise they need. We professional advisors mightn't know the first thing about running the daily operations of your business but we have made a career out of assisting directors of all kinds of businesses to solve problems. It could be the difference between a right or wrong decision or a successful or failed negotiation.

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