Restarting Your Business

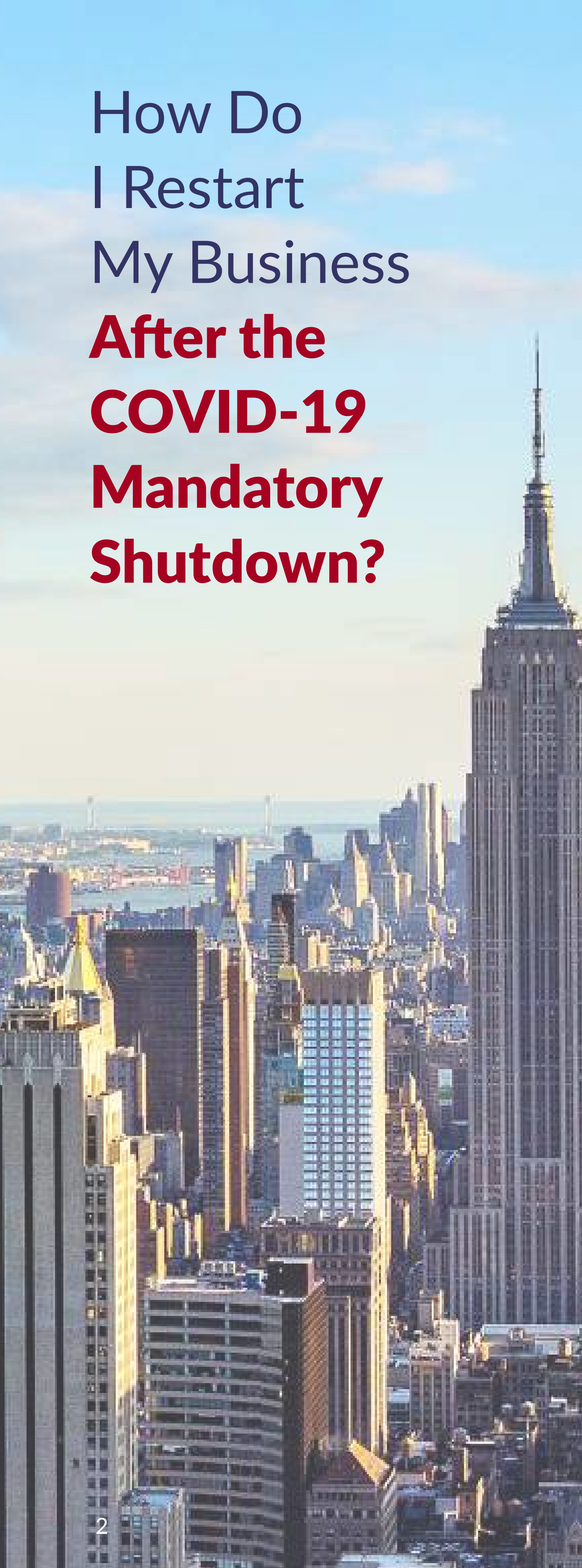
After COVID-19 Mandatory Shutdowns

Provided by: Capstone Capital Group, LLC

With nearly every state undergoing some form of lockdown

in response to the COVID-19 pandemic, hundreds of thousands of small and mid-sized businesses are now in the midst of a reopening process. Today, as governors are easing lockdown restrictions, business owners should be hitting the “restart” button by developing strategies to reopen their businesses, keep their employees and customers safe, and get back to what they do best.

If your business serves consumers directly like a gym or restaurant your challenges to reopen are greater than if you own a commercial enterprise that serves other businesses. This white paper will focus on the latter as there are too many variables to a consumer-oriented business that a small business owner cannot directly influence which affects their ability to reopen.

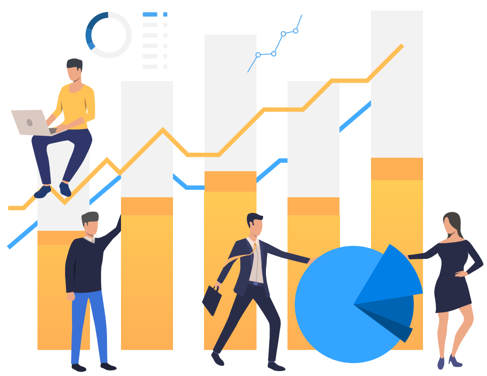


How Do I Restart My Business **After the COVID-19 Mandatory Shutdown?**

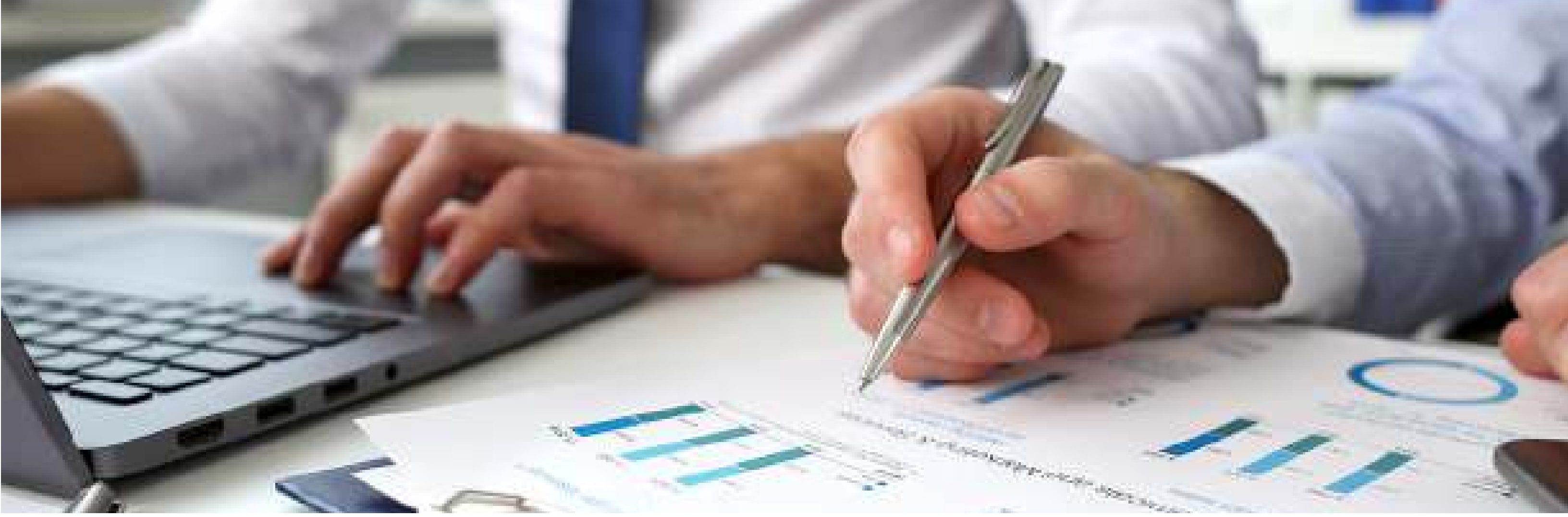
PHASE I - The Assessment Phase:

The primary threat to reopening your business is another shutdown due to spikes in the number of new COVID-19 cases within a given geographic area. Assuming your business can reopen, you must first determine if the government has placed any restrictions on your industry or geographic region of operation and at what capacity you can safely reopen.

You then must determine how many of your customers are resuming operations and what, if any, restrictions the government has placed on them that may influence whether or not they can operate at 100% of their capacity.



Prepare a spreadsheet of your major customers' pre-COVID-19 sales volumes and multiply it by the percentage they will be operating at to determine what you can expect in terms of sales. Be sure to take into account that reduced or curtailed operations for your customers may mean they cannot afford or do not need your services until they are back to regular capacity.



Based on the number of estimated sales you must determine if your pricing strategy pre-COVID-19 will hold or if you need to adjust your pricing strategy higher or lower.

Using the level of sales you can expect from your customer base, complete a breakeven analysis to determine if you can profitably operate your business.

The breakeven analysis will allow you to determine the proper number of employees you need to staff your reopened business, the cost of goods sold, the expected gross margin, and other operating expenses.

This breakeven analysis will be your guide going forward and should be used as a comparative analysis tool. The ensuing threat from COVID-19 is unpredictable therefore you may want to structure the breakeven analysis on a weekly basis so you are able to adjust staffing accordingly and also identify positive or negative trends. Use the analysis to determine if you are meeting your financial goals, specifically your sales and operating estimates for the week/month in terms of actual expenditures versus projections.

Reviewing your accounts receivable aging report is required and will help establish realistic breakeven estimates. You must determine if any of your customers are currently paying beyond terms, are expected to pay beyond terms, and if you will continue offering credit terms. There is every reason to suspect some businesses will fail under the burdens they will be facing not just due to the shutdown but the added costs of doing business in a post-COVID reopening.

When dealing with customers, particularly those with credit terms, you need to assess the collectability of their accounts receivable. Customers may need some flexibility in payment terms as well. It may be prudent to create a repayment program where established customers stay current on new account receivables while paying a fixed amount of the past due account receivables until paid in full over the next 60 or 90 days. The repayment time frame should be based upon the magnitude of the past due amount. If payment terms will not work for your business you can consider placing your customers on Cash On Delivery payment or providing shorter terms such as 'net 10 days' until they are caught up.

It takes a tremendous amount of sales to cover bad debt so it will be beneficial to speak with your customers about what weekly or monthly payment amount they can realistically afford to pay you. This is a double-edged sword because you might need the customer's sales to restart your business but at the same time, you cannot afford to extend credit if they cannot afford to pay you.

Some of your existing account receivables may not be collectible.

Speaking with the CEO or President of your customer about the state of their financial condition will be necessary.

Calling the accounting department to collect may not yield the same amount of information from speaking with the CEO or President. There is a high likelihood that your customers are probably in a similar financial situation as you and are more likely to be frank and honest with you about what they can or cannot financially handle. In addition, they may have questions for you about your ability to keep providing them with services given what has happened to the economy and businesses in general. This meeting can also be a great opportunity to see if there are any additional services you can provide to your customers as business owners will need to determine if they have maximized revenue and profitability with their current customer base. Your customer's needs may have changed so you should look for other goods or services to supplement their demand. You should reach out to your customer base and determine their foreseeable needs for the next three to six months to allow you the opportunity to modify your reopening plan.

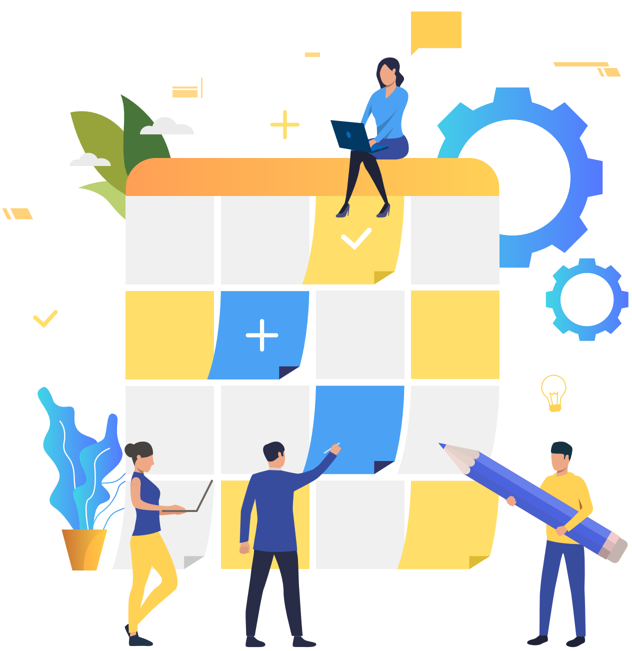
Have you been able to keep your **payables current during the shutdown?**

The next step is analyzing your accounts payable aging report. Have you been able to keep your payables current during the shutdown? For most companies, the answer is "no." If you have not been able to pay your accounts payable due to the shutdown then you must establish a vendor priority list and identify the most critical vendors. It would be beneficial to take a proactive approach and discuss payment arrangements with them once you know what your cash flow is will look like. Make sure when you are negotiating that you do not over-commit. By over committing you will end up losing credibility if you are not able to pay. Ensure you give yourself more than enough room to make payments based on your accounts receivable analysis.

If you do not own the real estate your business occupies, contact your landlord and find out what, if anything, they can do to assist you with rent reductions, rent abatements, or rent rescheduling. Typically, in exchange for one of these discounts, the landlord may require you to extend the lease, or they may let you pay later in the month without charging late fees. Perhaps you need more or less space because there is a restriction on how many employees can safely operate within close proximity of each other due to social distancing guidelines. Have your legal counsel review your lease and advise of any rights you have to downsize or upsize. Remember, the worst your landlord can say to any of your proposals is "no" which leaves you no worse off than you currently are. Provided the landlord considers your proposal, whatever that may be, it could result in lower operating costs for your business.

The key to reopening is restarting your cash flow; anything that allows you to operate with less pressure is helpful until you get back to 100% capacity with your customer base.
Your business may have other specialized areas that you will need to analyze cost and revenue potential during this assessment phase. Once the assessment phase is complete you will have a broad plan in place so you can identify potential cash inflows and outflows.

Most companies laid out their original business plan for 2020 with certain projections, goals, and benchmarks. With all that thrown out of the window, it is important to immediately determine what the "new normal" will look like for you, financially. Take a realistic view of what you can anticipate for expenses and how quickly your business cash flow will meet the needs of those expenses. Armed with the information garnered above from customers, vendors, and the breakeven analysis, you will be ready to determine whether or not you have ample financial resources to cover your operating costs during the reopening of your business.



To determine how much additional working capital is required for your business you must prepare a set of projections using the sales estimates received from your customers, the cost of goods sold from your vendors plus your fixed costs and labor.

When Capstone receives cash flow projections from clients every company always shows that they make a profit. While that is obviously the goal, it is not the real purpose of a cash flow projection.

> **The purpose of a cash flow projection is to determine how much cash or working capital is required to run your business for the period covered by the projection.**

In our experience, your first projection will result in negative cash flow. This negative number is very important because it is the amount of money you need to raise either through debt, equity, or factoring to have enough cash flow to properly run your business and pay your suppliers, employees, and overhead.

If your goal is to restart your business immediately then raising equity is probably not a short term solution.

Raising equity will take a significant amount of time and effort which may distract you from the immediacy of doing what is necessary to restart your business. Further, most equity investors have large minimum investment requirements which may be more than you require for your short-term working capital requirements.

Depending on your collateral the best options are either an Asset Based Loan (ABL), Bank Line of Credit, or a Factoring facility. All of these financial structures use your current assets for collateral, while ABLs and Bank Lines of Credit will also tie up the rest of your balance sheet. If your balance sheet is not very strong or you have experienced losses as a result of the COVID-19 shutdown your best option will be a Factoring facility.

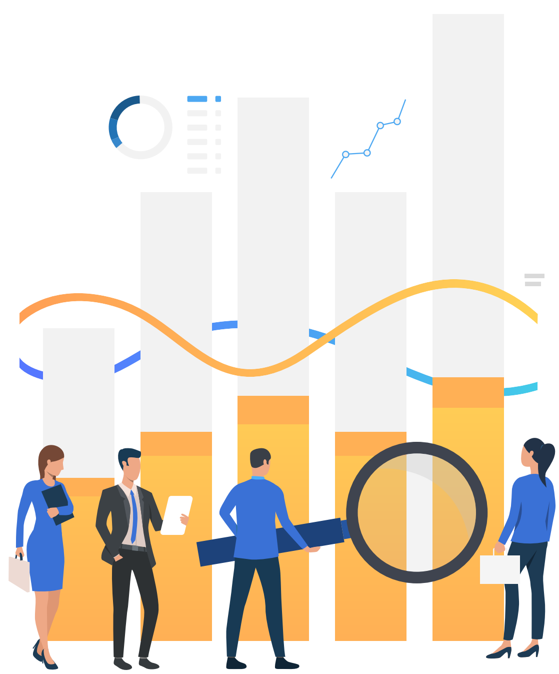
Factoring facilities can be broken down into two categories, recourse and non-recourse.

To qualify for a recourse Factoring facility, you will need to demonstrate that you have positive equity on your balance sheet. Recourse factoring requires your company to maintain specific loan collateral to value ratio. In the event that your customers do not pay, the Factor will expect that after a certain aging period you will repurchase the receivables back or pledge additional receivables in its place.

Non-recourse Factoring facilities do not require your company to maintain specific loan collateral to value ratio, instead the focus is placed on the credit of your customer. This is extremely beneficial for companies that are not in a strong financial position. The non-recourse Factoring facility is probably the best way to bring in working capital quickly because it allows you to pick and choose which receivables to factor.

Be sure when choosing from these financing options that you pick the solution that works best for your business.

For example, if your projection shows that you will be back on your feet at 90% capacity in three or four months, it may not make sense to sign up for a multi-year ABL and incur the expenses of carrying that facility after you no longer need it. A non-recourse Factoring facility may work best in that scenario because there is no contract is required and it's available to you down the line if things take a little longer to get back online than originally projected.



PHASE III - The Implementation Phase:

After you have decided how to cover your working capital by using one of the financing techniques discussed above you can complete your projection and begin the process of implementing your Restart Plan. The implementation phase is all about getting it done based on the plan you have in place. Below is a listing of steps to get your business back online as quickly as possible:

Step 1

Contact the employees that are required to execute under your plan and determine if they are still available for work.

Step 2

Contact your customers and start executing contracts or receiving purchase orders, work orders, etc. Ensure that they are still available and are open for business.

Step 3

Let your vendors know what they can expect in terms of old payments and new business from you to make sure they will continue to supply your company on open account terms.

Step 4

Contact the finance source of your choosing based on your current financial situation and line up the working capital you need to execute your plan. Be sure to share the financial projection and cash flow you prepared earlier with them as it will speed up their underwriting and ensure you are speaking to the right financier.

Step 5

Keep track of your progress and compare your weekly projection with your weekly results. Make adjustments based on a higher than expected sales volume or lower than expected sales volume, or changes in the cost of goods sold or services provided and track whether the trends are positive or negative.

Step 6

Make changes to your projections based on actual results. The main goal is to stay operational and to make sure you have access to adequate capital to do so.

Step 7

If your plan is working properly and you are making money, survey your competition to see how they weathered the COVID-19 shutdowns. If they have not restarted or have experienced financial difficulty you may consider taking on more business as a result of their absence in the market place and growing your business.

Step 8

Stay up to date on current events and monitor your industry to ensure if a second shut down were to occur what that would mean for your business and how you could mitigate the risks associated with it. We all are facing new challenges for the first time. While we do not know what the next several months will bring, what we do know is that “normal” will not look the same. Whether your business is already reopened, or you are phasing in a reopening plan, the road ahead is paved with uncertainty. You need to be ready with a solid plan which will help you get back to as normal as possible in a post-COVID business environment.

Conclusion:

It is not uncommon following a recession to see less competition. If you have planned your restart properly there will be opportunities to grow over the next 18 months. You may find yourself in a position to capture the market share of some of your competitors or to buy/merge with one of them. If you share any vendors with your competition, having a good track record of keeping up with your payables works very well in your favor. Your vendors will most likely extend your company additional credit because you paid them in full during the worst of times while your competition may have failed to do so.

Your customers will realize that you are a valuable resource in their supply chain and will most likely increase the amount of business they give you because you were probably one of the few companies that, regardless of the economic difficulties, continued to supply them with quality products and services.

Capstone Capital Group, LLC is a leading commercial finance company that is focused on providing capital to growing companies in need of working capital solutions. As a private finance company, Capstone is committed to assisting clients with cash flow issues. We understand businesses have unique financial needs and we provide specific financing solutions to fit those needs. Some of our products include Purchase Order (PO) Financing, Factoring Services, and International Trade Financing. We work with businesses offering services and products that bill their customer through “process billing” type contracts, typical for those in the construction trade, publishing, service businesses, suppliers to government agencies, staffing companies, as well as wholesalers. Each of our divisions handles a different aspect of business with one goal in mind: to help our clients grow and remain competitive by ensuring they have access to the capital they need.