SBA Paycheck Protection Program Overview

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What is the Paycheck Protection Program ("PPP")?

The $349 billion Paycheck Protection Program expands loan eligibility under the Small Business Administration’s (SBA) 7(a) program.

Intention is to assist businesses with covering costs related to payroll and interest on existing debt.
Operations of the Paycheck Protection Program

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What size business can qualify for a PPP loan?

To qualify, the business must have no more than 500 employees

This threshold includes all employees: Full-time, part-time, and any other status

Special Circumstances

• If the business is in the accommodation and food services sector (NAICS beginning with 72), the 500-employee rule is applied on a per physical location basis

• If the business is operating as a franchise or receives financial assistance from an approved Small Business Investment Company the normal affiliation rules do not apply
Operations of the Paycheck Protection Program

What can the loan be used for?

- Payroll costs (excluding amounts above a prorated annual salary of $100,000, for employees who make more than that amount)
- Mortgage interest payments
- Rent payments
- Utilities payments
- Interest on any other debt obligations incurred before the covered period
What is the maximum size of the loan?

The maximum loan amount is the lesser of:

- 2.5 times the borrower’s average monthly payroll costs; or
- $10 million

Payroll costs are defined as the compensation of an employee (such as salaries, paid sick or medical leave, retirement benefits, insurance premiums) and payments to independent contractors.
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What will the loan terms be?

All loans under this program will have the following identical features:

- Interest rate of 0.5%
- Maturity of 2 years
- First payment deferred for six months
- 100% guarantee by SBA
- No collateral
- No personal guarantees
- No borrower or lender fees payable to SBA
Is there a loan forgiveness provision under the PPP?

Yes, there is the potential for the loan principal (and interest accrued thereon) to be forgiven up to the amount spent on payroll costs and/or certain mortgage/rent and utilities payments during the 8 weeks after the issuance of the loan.

At least 75% of the forgiven amount must have been used for payroll.

The amount of the loan forgiveness will be reduced if there is a reduction in the number of employees or wages during the period.
How do I gain access to the PPP?

Commercial Bank (CB) will be administering the program for the firm’s existing credit and depository clients who are eligible for the program.

We are working as quickly as possible to build the system; once SBA terms are known, we will be able to issue loans.

**Application deadline:** The CARES Act creates a deadline of June 30, 2020 for PPP loans.
Eligible borrowers will be required to make a good faith certification that:

1. The loan is necessary due to the uncertainty of current economic conditions caused by COVID-19
2. They will use the funds for the intended purposes per SBA guideline
3. They are not receiving duplicative funds for the same uses from another SBA program

- Work with your advisors/counsel to prepare to certify eligibility
- Prepare basic financial data e.g. Number of employees and payroll costs
- Maintain dialogue with your banker
Small business fact sheets for borrowers, lenders and application can all be found here:

https://home.treasury.gov/cares
Business Management through Covid-19
# COVID-19 Business Owner Dashboard

## Financial Management
- **Cash is king**
  - Collect receivables; consider offering quick pay discounts
  - Minimize cash disbursements as much as possible
- **Identify and monitor KPIs**
  - Quick / Current Ratios, Customer Orders, Equipment Utilization, Receivables, Operating Expenses, Cash Buffer Days, Working Capital
  - Prepare 13- and 26-week cash forecasts and stress test underlying assumptions
  - Assess eligibility for Government and private sector relief
- **Revenue - Defend against declines**
  - Find alternative or non-traditional revenue
  - Re-allocate resources to areas of current and future growth, online and beyond
- **Expense Optimization**
  - OpEx
    - Audit spending and eliminate unnecessary items
    - Determine what segments are working and what are not
    - Convert fixed to variable costs, where possible
  - CapEx
    - Revisit capital expenditure plans
    - Reduce / curtail lower ROI efforts
    - Ensure investment in critical innovation for the future
  - Flag non-recurring expenses
- **Review existing insurance policies**

## Credit Management
- **Communication with lenders is critical during this time**
- Cash flow analysis including severe downside scenario to determine funding gaps that could be filled with bank financing and/or an injection of equity
- Carefully review financial covenants, definitions and calculations in loan documents, and discuss any challenges early with lenders to avoid a default and mutually develop a solution
- Regulators' decision to delay troubled debt restructuring reporting provides flexibility
- Employers can issue interest-free loans up to $10k to employees and gross up employees for imputed income on W-2 for greater amounts

## Operational and Risk Oversight
- **Daily monitoring and contingency planning for the health and safety of workforce**
- **Review corporate governance provisions to assess business continuity in the event of a catastrophe affecting founder/business owner (including PDAs, payroll/signing authority, etc.)**
- **Constant communication with management and key employees**
  - Assess workforce requirements for now and when business ramps up
  - Guard against fraud and cyberfraud
  - Counterparty risk assessment
  - Force Majeure and MAC clauses

## Green Shoots (Future / Recovery Implications)
- Consider realigning incentives with key employees that may be underwater
- Assess appetite to grow through acquisitions given the impact COVID-19 will have on deal value and structure
- Invest in technology to improve efficiencies and enhance margins when conditions begin to rebound
- Consider adding new assets cheaply or displaced employees/talent more readily
- Business transformation
  - Rethink the Company's operating model and revenue models
  - Product / service / marketing / investments / monitoring macro trends / customer behavior

## Wealth Transfer
- Take advantage of lower valuations and higher lifetime exclusions via wealth transfer structures which can be even more efficient with additional private company discounts for lack of control and marketability

## Customer / Supplier Connectivity
- **Supply chain management and contingency plans for future disruptive events**
- **Communicate frequently directly with customer and supplier base**
  - Be true to your brand and purpose
  - Develop new ways of working with your Customers / Suppliers (Zoom, Jabber, BlueJeans)
  - Anticipate and meet new Customer needs
Business owners and their key management need to assess various macro timing scenarios (external) and corresponding business plan strategies (internal) to determine the cash flow runway / buffer they will have until in the red.

### Macro Scenarios (Outside Our Control)

| Plan A  
| No change to plan |
|---|---|---|
| Scenario A  
| 3 months lockdown X% Revenue Loss |
| 12 months runway |

| Plan B  
| -15% OpEx |
|---|---|---|
| Scenario B  
| 6 months lockdown Y% Revenue Loss |
| 12 months runway |

| Plan C  
| -25% OpEx |
|---|---|---|
| Scenario C  
| 12 months lockdown Z% Revenue Loss |
| 12 months runway |

Columns represent drops in operational expenditures, rows revenue losses.
### Key Performance Indicators

#### Cash Balances

<table>
<thead>
<tr>
<th>Difference in cash buffer days</th>
<th>Capital Intensive</th>
<th>Labor Intensive</th>
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</thead>
<tbody>
<tr>
<td>38 Days</td>
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<tr>
<td>31 Days</td>
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<td>19 Days</td>
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<td>12 Fewer Days</td>
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<td>15 Fewer Days</td>
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<td>23 Days</td>
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<tr>
<td>27 Days</td>
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#### Working Capital

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<tr>
<th></th>
<th>5th PER</th>
<th>25th PER</th>
<th>MEDIAN</th>
<th>75th PER</th>
<th>95th PER</th>
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<tbody>
<tr>
<td>Days AR (All Industries, Annual Revenue $10MM to $1B)</td>
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<tr>
<td>Days AR</td>
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#### Median cash buffer days

- Days Payable Outstanding (DPO)
- Accounts Receivable Turnover KPI
- Inventory Turnover KPI
- Liquidity/Working Capital Ratios
- Cash Conversion Cycle
- Current Ratio KPI
- Operating Cash Flow KPI

#### Popularity of working capital metrics

- Fastest growing firms
- Total middle market

Sources:
- Left: Cash is King: Flows, Balances, and Buffer Days, J.P. Morgan Chase
The M&A playbook for private business owners in the current market environment

- For now our recommendation is to delay going to market
- Advisor communication is key with business owners assessing the viability of a sale in current environment

<table>
<thead>
<tr>
<th>Conviction to sell <strong>now</strong> for deals already underway</th>
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<tr>
<td><strong>Resetting Expectations</strong></td>
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<tr>
<td>• Active Sellers in this environment need to reset their expectations with respect to the sale process including the number of interested acquirers, valuation, structure, and timing</td>
</tr>
<tr>
<td><strong>Valuations</strong></td>
</tr>
</tbody>
</table>
| • Expect to revisit purchase price/valuation with prospective acquirers  
  • Likely to see increased sale proceeds in the form of earn-outs or rollover equity  
    ▪ Need to extend the time of calculation and add partial credit or catch-up provisions |
| **Due Diligence**                                    |
| • Transaction due diligence is likely to require an increased timeframe as acquirers look to assess the current and future impact on the target Company  
  ▪ Travel difficulties and work-from-home impacting the ability of advisors to conduct/complete confirmatory due diligence |
| **Material Adverse Conditions (MAC) clauses**        |
| • MAC provisions are routinely included in deal agreements but are less often relied upon  
  • Sellers should consider specific language in the Force Majeure and MAC definitions to exclude COVID-19  
  • Operating the Company in the normal course (layoffs, working capital, leverage, etc.) |
| **Reps & Warranties Insurance (RWI)**                |
| • RWI insurers have been specifically excluding business losses related to COVID-19  
  • If insurers are unwilling to provide coverage, then the allocation of risk between buyer and seller becomes a critical negotiating point |