COVID-19: Insights and Guidance

An ABC webinar series featuring industry experts to answer your questions about the legal, safety and economic impacts of COVID-19.
SURVIVING AND REPOSITIONING THROUGH THIS CRISIS

ABC National

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CONSIDERATIONS AND ACTION PLANS

• Signs of a downturn from the owners’ perspective and the contractors

• Contractual considerations

• Cash flow management

• Overhead management

• Opportunities in a downturn for well positioned and capitalized contractors

• Proactive steps to take if things turn
SURVIVING AND REPOSITIONING

• Get positioned 6-12 months in advance

• Get clear on your strategy
  – Build it on your own facts
  – Balance your work mix

• Get feet on the street
  – Arm them with skills

• Create a robust go/no go—two steps of validation

• Give clients a business reason to pick you

• Create compelling win strategies
SURVIVING AND REPOSITIONING

• Classify customers & differentiate service levels

• Lock up key customers
  – Build customer loyalty
  – Make it expensive for competitors

• Start now
  – You do not have to lose money in a downturn
SURVIVING AND REPOSITIONING

• Actions to take while things are growing strong:
  – Invest in people
  – Invest in technology
  – Invest in best team of advisors
  – Know your clients and their funding sources
  – Listen to the street
    • Who is behind on benefits
    • Who is not paying suppliers
  – Keep your eye on KPIs and fundamentals (early warning is always helpful)
SURVIVING AND REPOSITIONING

• Signs that things are turning
  – Fundamentals/KPIs weaken or move differently than expected e.g.
    • Revenue down, AR up
    • Volume flat or down, AP up
    • Liquidity worse than expected in an otherwise ok performance environment
  – Payment delays from clients or increased demand from vendors
  – Slow down among architects and engineers
  – More or unusual bidders
  – Economic reports
  – Listen to the street
SURVIVING AND REPOSITIONING

• Actions to take when market turns: the 3C’s
  – Cash is king (counterintuitive but cash not profit should be the focus)
    • Integrated projections: cash (weekly) and accrual (monthly)
    • Assess overhead and take steps early to reduce
    • Assess and tightly manage CAPEX program/spend
    • Know your break even (expenses easier to control than top line)
  – Communicate internally and externally, regularly/frequently
    • Know your customers and subs and suppliers
    • Keep staff in the know
    • Get your advisory team briefed and engaged (don’t wait until it is truly a crisis)
  – Control your performance (KPIs, metrics: what gets tracked gets focused on)
  – Legal issues (read your contracts, protect your lien rights and understand force majeure clauses)
SURVIVING AND REPOSITIONING

• Actions to take when things go bad: the 3C’s redoubled
  – Conserve/maximize cash no matter what
  – Make a fair and honest assessment
  – Use your trusted advisor team: if they are good, they will provide value
  – Engage stakeholders early: owner, staff, clients, bank, surety
  – Make the tough cuts, not the easy ones
  – Stay out in front, don’t wait
  – Be visible, don’t hide
  – Continue to focus: when stress and crisis hit, most people hyper-focus on a few issues and they are often the wrong issues - use the 3C’s as a guide
PERSPECTIVE OF SURETY CLAIMS: SURVIVING AND REPOSITIONING

• Have the Right People
  – Retention of key employees
    • Find ways to lock up employees should things go south
  – Estimators are crucial
    • Margins are thin, especially during a downturn - you cannot afford mistakes
  – Trustworthy and honest advisors
    • Internal as well as external
PERSPECTIVE OF SURETY CLAIMS: SURVIVING AND REPOSITIONING

• Money Decisions
  – Liquidity and healthy working capital are the keys to survival
    • During a downturn, one issue at the wrong time can take you down
    • Cash on hand and a healthy bank line are vital
  – Controlled growth
    • Be able to seize opportunities, but don’t get out of control
  – Ability to cut overhead
    • Be flexible enough to reduce those costs that you can control
PERSPECTIVE OF SURETY CLAIMS: SURVIVING AND REPOSITIONING

• Business Decisions
  – Stick with the work you know - stay in your lane
    • The type of projects you can do well
    • Owners...
    • Stay in your region
    • Don’t stray into other trades
  – Dispute Resolution
  – Pursue smart business resolutions that keep your capital liquid and healthy
BANKING CONSIDERATIONS: SURVIVING AND REPOSITIONING

Most bankers are not contractor specialists. A banker’s ability to represent your company to his/her internal management and credit hierarchy is dependent on how well you’re able to educate the banker on your company and the industry:

• Get to know the “higher up’s” in the bank’s management chain

• Take time to develop a thorough Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis

• From that, create a business/turnaround plan (perhaps combined with a viability assessment)

• Ensure they understand your bidding pipeline, WIP and backlog

• Explain the nature of the claims against the company that differ from other industries - bank, surety, mechanics liens, union pension funds, etc.
BANKING CONSIDERATIONS: SURVIVING AND REPOSITIONING

- Lean on your financial advisor

- Establish a cash needs forecast on a rolling 13 week basis, including seasonal variations

- Develop a long term forecast with upside and downside analysis that shows how the company weathers a reduction (or increase) in construction. In conjunction with the cash forecast, this becomes the basis for estimating the appropriate size of credit facilities

- The forecast helps to establish baselines for financial covenants

- Work with your bank(s) to obtain committed credit facilities and to extend maturities of your facilities to reduce the possibility of having to extend during the downturn
TAKEAWAYS

• Collaborate with a contractor and prepare action plans to prepare for a downturn

• Strategies to deal with opportunities in a down market

• Plan B scenarios: best practices to follow if situations worsen
HELPFUL LINKS

ABC’s Coronavirus Resources
• https://abc.org/coronavirus
• https://abc.org/Safety/Emergency-Preparedness-Recovery-Resources

SBA Funding Information / Application Center
• https://www.sba.gov/funding-programs/disaster-assistance

CohnReznick Coronavirus Resource Center
• https://www.cohnreznick.com/insights/coronavirus-resource-center
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