# Business Voice Webinar Series

## Recovery from the impact of COVID: Access to funding & restructuring

31 March 2022

# Agenda

| | |
|---|---|
| 01 | **Introduction & Survey Overview** |
| 02 | **Fundraising** – Dara Kelly, Partner, Corporate Finance |
| 03 | **Tax issues** – Vic Angley, Partner, Tax |
| 04 | **Restructuring** – Aengus Burns, Partner, Restructuring |
| 05 | **Q&A** |




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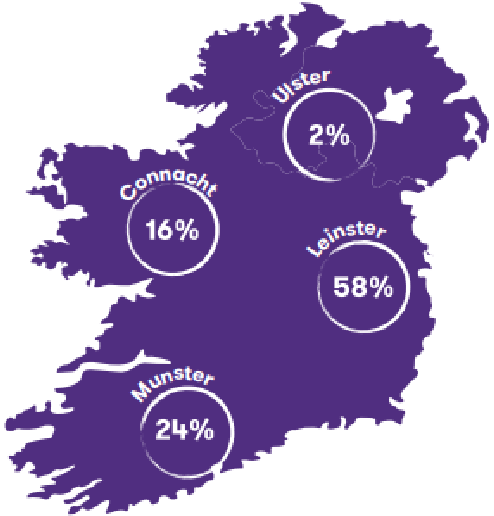
# Introduction

264
responses

## The Grant Thornton Business Voice Programme

- established to support Irish businesses in key areas following the unprecedented and rapid change of landscape over the past year, by teaming up with local Chambers of Commerce
- the aim of the programme is to address these issues in order to arm businesses with the right tools and advice to move to the next stage of their success
- in June, the programme was initiated through the launch of a short survey containing 12 questions. Irish owned businesses around the country were invited to complete the survey to voice their concerns and to highlight the obstacles facing businesses in Ireland
- the Irish Business Voice Programme report was developed by Grant Thornton, where the business profile of the respondents is outlined followed by more in depth analysis into the areas of note from the survey.



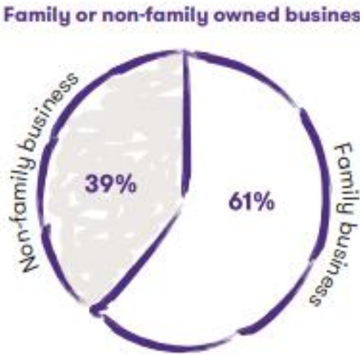
# Overview of Survey Findings

## Background

The survey contained a number of questions that sought to portray the business profile of the respondents in addition to asking more insightful questions relating to the challenges faced by businesses in the current climate, including Brexit and COVID-19 focused questions.

## Profile of Businesses Surveyed

- Of the 264 respondents, the majority (61%), were family owned
- The survey respondents represented the full spectr of business sectors within Ireland
- The sector most represented was:
    - professional services; followed closely by
    - financial services; and
    - retail/consumer goods.
- The middle spread of sectors included:
    - manufacturing;
    - technology;
    - healthcare;
    - education services;
    - media;
    - construction; and
    - hospitality and tourism.



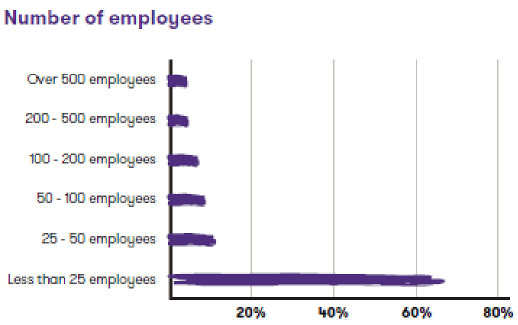


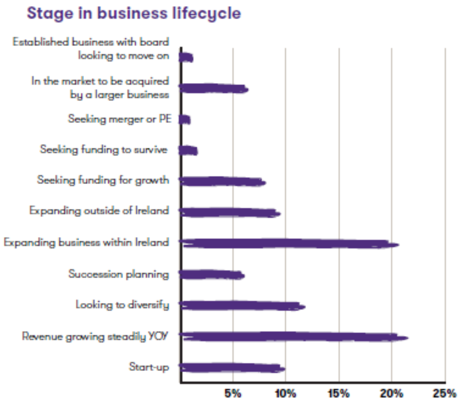
 

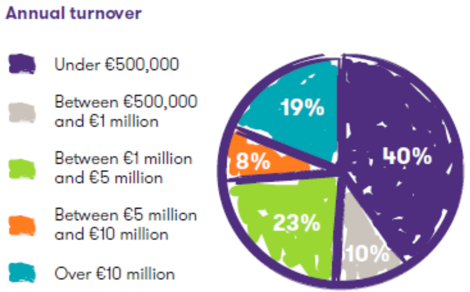
# Overview of Survey Findings

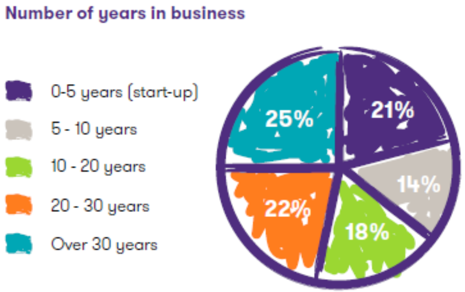
## Results

- The majority, 70%, of those start-up businesses are family owned, with nearly 100% having turnover of less than €500,000 and fewer than 25 employees.
- In fact, the majority of respondents to the survey, 66%, have fewer than 25 employees and 40% have turnover of less than €500,000.
- the majority of businesses that are over 30 years in business have a turnover of greater than €5 million. Employment numbers within these businesses are reflective of their turnover, with 54% of these respondents having more than 100 employees.



# Areas of Focus

## Key Concerns

- Through the analysis of the survey several key areas of note were identified. We took a closer look at the respondents' sentiments on a range of business factors. The survey results point to the pertinent issues facing Irish commerce today, and signal reasons for pessimism as well as optimism moving forwards. The figure below outlines the sentiments of the business respondents across 15 areas:

**Business sentiments of all respondents (2021)**

# Fundraising & optimum cash management


**Dara Kelly**
**Partner**
**Corporate Finance**

# Fundraising

## Key supports available

The Irish Government introduced mechanisms to provide funding support to help businesses cope with the liquidity challenges posed by the Covid-19 pandemic restrictions, including:

- Enterprise Ireland Business Financial Planning Grant
- SBCI Credit Guarantee Scheme – applications close date is 30 June 2022
- Microfinance Ireland Covid-19 Business Loan
- Non-Bank Lenders
- **Pillar Banks – Allied Irish Bank, Bank of Ireland and Permanent TSB**

# EI Business Financial Planning Grant

## Overview

### Features

- Strategic intervention for companies to work with third party consultants to prepare a detailed financial and business plan with forecasts and assumptions.
- Grant up to €5,000 (ex. VAT) to cover related consultant expenses (max. €900 per day).

### Uses cases

✓ Engage an external financial advisor to:
  - ✓ Understand immediate liquidity issues;
  - ✓ Create 3 year financial plan to secure external finance; and
  - ✓ Develop framework to manage the finances of the business and mitigate the effects of the current crisis.

✗ Expenditure incurred prior to the date of receipt of application in Enterprise Ireland.

✗ General consultant expenses.

✗ Sales related expenses, trade fair participation costs.

✗ Any internal costs of the company (e.g. salaries & overheads).

### Available to

✓ All Enterprise Ireland and IDA clients as well as other businesses that operate in manufacturing or internationally traded services that employ 10 or more full time employees
  - ✓ Business must have been viable as at 31 December 2019; and
  - ✓ Materially impacted by the Covid-19 outbreak.

# SBCI Credit Guarantee Scheme (CGS)

## Overview

### Features

- Provides an 80% guarantee to participating banks (AIB, BOI and UB), mitigating credit risk or need for collateral.
- Available on facilities from €10,000 up to €1m (up to €250k unsecured).
- Terms of up to 5.5 years.
- Eligible loan types: Term Loans, Demand Loans and Performance Bonds.
- Optional interest-only repayments in first 3 – 6

### Uses cases

- ✓ The Credit Guarantee Scheme can be used by businesses to obtain loans to support changes they need to make to their business in response to Covid-19 who may be facing barriers to funding, including:
  - ✓ Inadequate collateral;
  - ✓ Novel business market, sector or technology which is perceived by finance providers as higher risk under current credit risk evaluation practices; or
  - ✓ Need for refinancing caused by the exit of an SMEs lender from the Irish market
- ✗ Business involved in primary production in agriculture, horticulture, fisheries.
- ✗ Refinancing of existing debts.
- ✗ Property-related activities.

# SBCI Credit Guarantee Scheme (CGS)

## Overview (continued)

### Features

- Provides an 80% guarantee to participating banks (AIB, BOI and UB), mitigating credit risk or need for collateral.
- Available on facilities from €10,000 up to €1m.
- Terms of up to 5.5 years.
- Eligible loan types: Term Loans, Demand Loans and Performance Bonds.
- Optional interest-only repayments in first 3 – 6 months.

### Available to

- ✓ SMEs meeting the following criteria:
  - ✓ Are involved in a commercial activity
  - ✓ Are a sole trader, partnership, franchise, co-operative or limited company
  - ✓ Have few than 250 employees
  - ✓ Have a turnover of €50 million or less (or €43 million or less on their balance sheet)
  - ✓ In the lender's opinion have a viable business proposal
  - ✓ Are able to repay the facility

### Application process

- Speak with a participating bank about a loan covered by the CGS.
- The participating bank assesses the viability of the loan i.e. the business' ability to repay in line with its normal assessment criteria.
- The participating bank will make all decisions on lending.

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# Microfinance Ireland Covid-19 Loan

## Overview

### Loan Features

- Loans from €5,000 – €50,000 (subject to max credit exposure).
- Terms up to 3 years.
- No repayments and no interest for first 6 months.
- Interest rate 5.5% (4.5% for applications via Local Enterprise Offices).
- Fixed repayments with no penalty for early repayment.

### Uses cases

✓ The loan is designed to support businesses who have been impacted negatively by Covid-19 in Ireland

### Available to

✓ Businesses meeting the following criteria:
  - ✓ The business is a "microenterprise" i.e. a business with less than 10 full time employees, annual turnover of up to €2m, and net assets of less than €2m;
  - ✓ The business is not in a position to avail of finance from Banks and other commercial lending providers; and
  - ✓ 15% of actual or projected turnover or profit is negatively impacted by COVID-19.

### Application process

- Application via the Microfinance Ireland website or a Local Enterprise Office.
- Required documents include
  - Covid-19 Business Plan and cash flow forecast;
  - Last 6 months bank statements;
  - Credit reports.

# Optimum cash management

## Monitor, project and stress test cash flows

## Working capital

### Debtors

- Request **quicker payments**
- Focus on customers **outside of credit terms**
- Offer early payment **discounts**
- Enforce late payment **penalties**
- Speed up **invoicing**
- **Cash on delivery** an option?
- Increase **AR resourcing**
- Frequent **monitoring**

### Stock

- Ensure **no excess ordering**
- **Return to supplier or discount** sell excess or non core
- **Offer discounts** to reduce stock days
- **Stock equity** to obtain banking facility?

### Creditors

- **Prioritise trade critical** creditors
- Request credit **term extensions**
- Stop any **early payments!**
- **Slow POs** & documentation
- **Revert to cheques** from SEPA
- **Are late payment fees** worth the extra time?

### Other creditors

- **File VAT3 & P30 but defer payments** (as per Revenue guidance)
- Defer non critical payments **e.g. pension**
- Change annual payments to **monthly direct debit e.g. insurance**
- **Cancel non essential standing orders** E.g. office suppliers where staff working from home
- **Utilise Covid-19 employment refund schemes**

## Other cash management

### Assets

- **Sale & leaseback** options?
- Discounted sale of **non core assets**
- **Leverage unencumbered assets** to raise facilities

### Facilities

- **Seek moratoriums, partial C & I or interest only**
- Explore **Microfinance Ireland & SBCI** Covid-19 facilities
- Obtain or increase **credit card limits or overdraft facilities**
- Cancel **leases** on non essential assets or defer on others
- **Release equity** in assets or stock
- **Discuss ID facility** thresholds with bank

 

# Appendices

A. Effective Cash-flow Forecasting

B. Cash-Flow Forecasting – Practical Tips

C. Do’s & Don'ts

 

# A. Effective Cash-flow Forecasting

## Questions to consider when implementing cash flow modelling

- Do we plan **scenarios** to cater for a range of risks?
- Does liquidity at times **constrain strategy execution**?
- Do we have a cash flow or liquid **reserves policy**?
- How well does my organisation's **cash generation** compare to others in the sector?
- Does management have a clear understanding of the organisation's **working capital structure**?
- Does the quantity of **data** from the ERP system overwhelm our ability to structure it in a way that could support a model?
- What are the **key drivers** of cash flow in the business; where can we source the required data to support the forecast?
- Do we have the **expertise and capacity** to create and maintain a cash flow model?

## Establish Lines of Communication

### Working capital operational review

1. **Identification of all components** of working capital and cash utilisation
2. Detailed **analytical review of working capital operation** across;
   a. Accounts receivable
   b. Accounts payable
   c. Inventory
3. Identify **opportunities to shorten the cash conversion cycle** or reduce cash invested in working capital through process improvements
4. Identify opportunities to reduce cash tied up in working capital and **improve liquidity and cash flow**

### Working capital and cash flow management

1. **Cash flow projections,** scenario analysis and stress testing
2. Identification of **funding gaps and requirements**
3. **Working capital efficiencies and opportunities to protect cash balances**
4. **Review of facilities** in place and other available facilities to assist with cash flow and overall funding of the business through a challenged trading period with a view to being well positioned to take advantage of future return of activity

# B. Cash-Flow Forecasting – Practical Tips

1. **Cash flow is more important to monitor than profits (don't confuse the two).**
   - Your P&L is important, but it's not an accurate picture of the cash flowing into and out of your business.
   - You can't create a useful cash flow forecast until you first learn the ins and outs of your business's cash flow statement.

2. **Know your company's cash conversion cycle.**
   - Understanding your company's cash conversion cycle is essential to managing and maximizing your cash flow.
   - The accuracy of the forecast depends on knowing the timing and amounts of revenue and expenses that affect your cash flow.

3. **Don't forget seasonality.**
   - Chances are your business experiences some seasonality.
   - Seasonality can have a material effect on the cash flow of your business.
   - A good cash flow forecast will anticipate when cash outlays and cash receipts are higher or lower so you can better manage the working capital needs of the company.

4. **Create multiple scenarios.**
   - Craft a few different cash flow scenarios so you are not caught off guard if client demand slows.
   - Having a couple of models will help you act decisively — rather than react defensively — to mitigate any adverse effect on your company's cash if revenue slows.

5. **Build (weekly), monthly, quarterly and annual forecasts.**
   - The needs of the business will dictate which time frame is the most valuable.
   - Weekly projections will be essential for companies scaling up or going through significant changes

6. **Review. Adjust. Repeat.**
   - Once you build a forecast, review it often, and revise as needed.
   - Revisiting the forecast will help you respond and adapt faster than the competition.

 

# C. Do’s & Don'ts

| Actions to take / Dos | Actions to Avoid / Don'ts |
|---|---|
| • Develop a model that facilitates analysis and reporting | • Avoid blind faith and optimism – don’t rely on modelling only one scenario |
| • Develop a driver-based model and assign accountability for driver targets, to encourage the right behaviours across the organisation | • Don’t rule out the effect of environmental factors such as inflation and currency exchange rates |
| • Create policies, processes and procedures that support sound cash awareness, stewardship and targets. | • Avoid developing a cash flow model in isolation of the balance sheet and P&L. The rigour of balancing the balance sheet increases assurance that the cash forecast is realistic |
| • Reconcile long- and short-term cash flows | • Don’t make cash flow management a purely financial function. Communicate with wider management to avoid a culture focused on the top and bottom lines of the P&L |
| • Communicate regularly with the treasury function, to ensure cash availability. | • Avoid regularly exceeding creditor settlement terms – credit ratings will reflect this to the possible detriment of the organisation’s cost of capital and ability to attract new capital. If necessary, formally agree longer settlement terms with creditors |
| • Keep a history of driver actuals to ensure patterns and trends are understood | • Avoid taking an optimistic view when forecasting drivers; instead, form an independent view and ensure expenditure is aligned to this |
| • Maintain a rolling forecast, updating period opening positions with actuals to improve short-term forecasting accuracy | • Don’t assume that the credit rating of your organisation or group is accurate – proactively manage your organisation’s ratings with the ratings agencies |
| • Regularly share cash forecasts and performance information with lenders, to encourage their support in lean times | |
| • Report, in MI, on the security of, and risks associated with, sources of funding. Monitor the creditworthiness of key (or new) customers, taking action if credit risk increases If the organisation is planning a fundamental change, eg a restructure, merger or acquisition, get involved from the start, focusing on cash model impact | |

 

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# Code of Practice for Compliance Interventions

New Framework Overview

31 March 2022

# Overview & Key Changes

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# Overview

## Key Points of Note in New Code

### Levels of Intervention

| Level | Objective | Disclosure |
|---|---|---|
| Level 1 | Supporting Compliance | Unprompted Qualifying Disclosure |
| Level 2 | Challenge Non-Compliance | Prompted Qualifying Disclosure |
| Level 3 | Tackle High risk cases | Non Qualifying Disclosure |

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### Approach / Objective of new Framework

New code sets out a “**carrot and stick**” type approach to non compliance with language used tying in to 2021 – 2023 Statement of Strategy indicating Revenue’s strong desire for a culture of **self-review** by taxpayers

### Intervention type & Disclosures

Aspect queries have been re-categorised as Level 2 Risk Reviews – which can to avail of non qualifying disclosure provisions

### Timing

“New” Code effective from 1 May 2022 - Interventions commenced before this date continue to be governed by the 2017 Code

# 01 Key Changes – The 2022 vs the 2017 Code

## Notice of Intervention

- **Increase** from 21 days to **28 days notice** of a Level 2 intervention
- Notice period to request time to make a disclosure **increased** from 14 days to **21 days**

## Type of Intervention

- Majority of old “non audit interventions” removed from Code. No mention of assurance checks, sectoral reviews, JIUs, unannounced visits, etc.
- Aspect Queries will cease to exist - Risk Reviews (formally aspect queries) now on all fours with a Revenue Audit

## Publication Threshold

- Increase in publication threshold from €35,000 (tax, interest and penalties) to **just tax** of **€50,000**



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# 01 Key Changes – The 2022 vs the 2017 Code

## Disclosures

- No change to disclosures available but Risk Review (aspect query) now at Level 2 – **unprompted voluntary disclosure no longer available**
- Disclosures can now be made relating to offshore matters

## Penalties

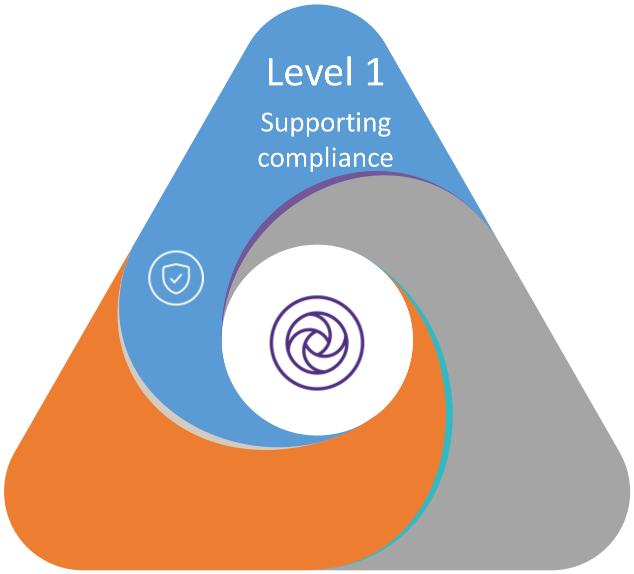
- More penal outcome than under previous in respect of what were previously regarded as aspect queries by virtue of their new Level 2 categorisation

## Other

- CoP applies to all taxes and duties (excl. Customs – EU Union Customs Code and EU legislation)

# Compliance Intervention Levels

# 02 Compliance Intervention Levels

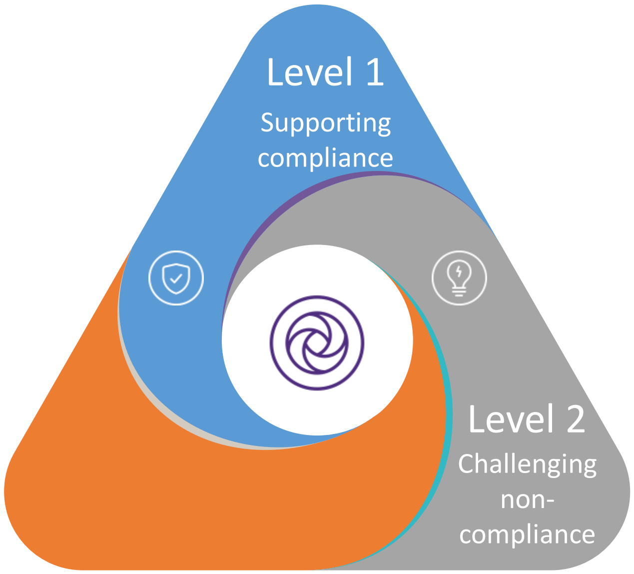



## Level 1

| | | |
|---|---|---|
| Supporting Compliance | **Activity** | • Self-reviews<br>• Profile Interviews<br>• Bulk non-filer reminders<br>• CCF Engagements |
| | **Disclosure Position** | • Unprompted Disclosure available |
| | **Corrective Actions** | • Payment of liability<br>• Self-correction<br>• Filing / amendment of relevant returns |

# 02 Compliance Intervention Levels

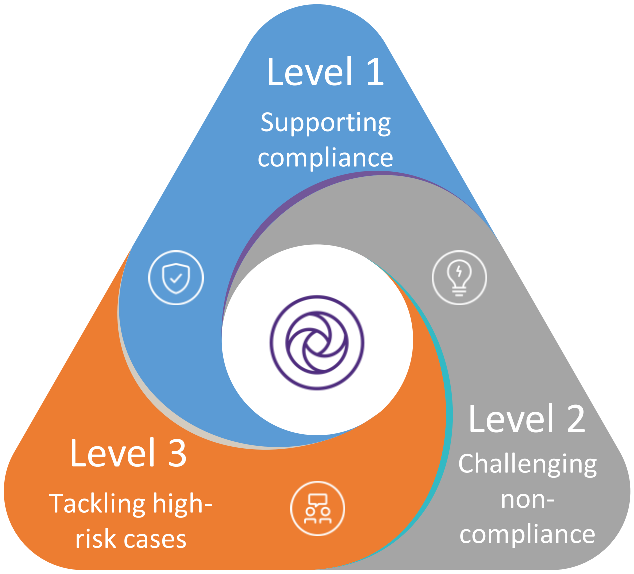



## Level 2

| Challenge Non-Compliance | | |
|---|---|---|
| | **Activity** | • Risk Review<br>• Audit |
| | **Disclosure Position** | • Prompted Disclosure available |
| | **Corrective Actions** | • Payment of liability<br>• Filing / amendment of relevant returns |

# 02 Compliance Intervention Levels




## Level 3

| Tackling high-risk cases | | |
|---|---|---|
| | **Activity** | • Investigation |
| | **Disclosure Position** | • No Qualifying Disclosure |
| | **Corrective Actions** | • Payment of liability<br>• Filing / amendment of relevant returns |

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# Regularising Tax Defaults

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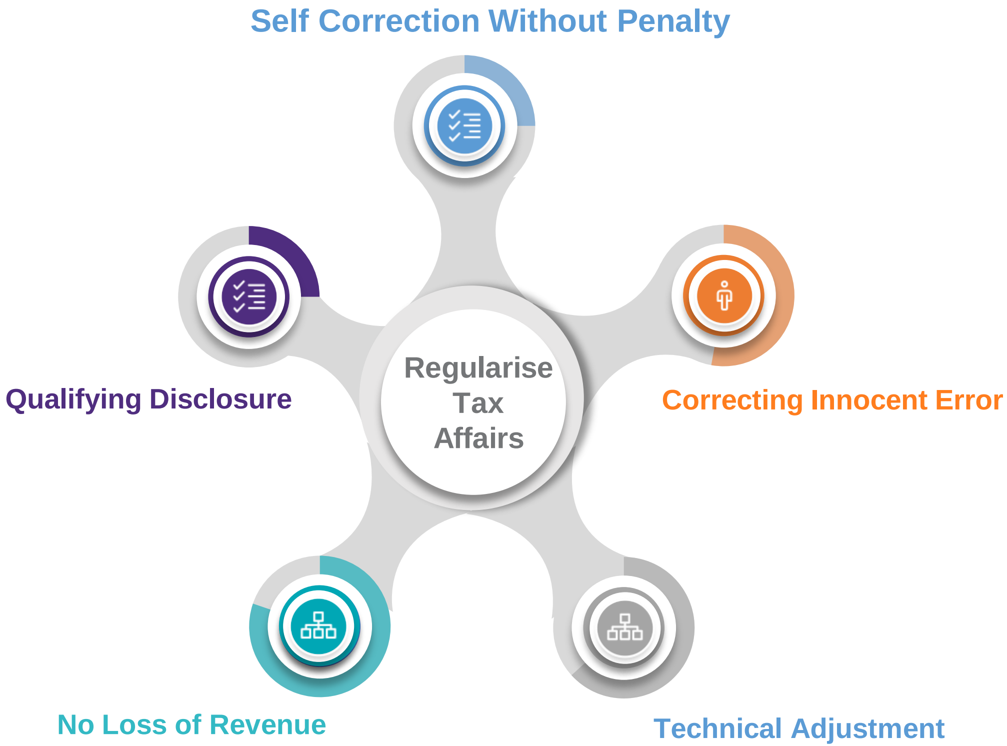
# 03 Regularising Tax Defaults



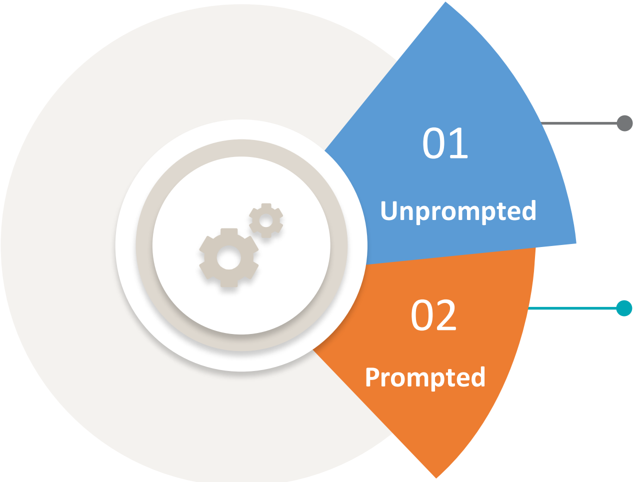

 

# 03 Regularising Tax Defaults

- Disclosure of **complete** information regarding liability to tax giving rise to a penalty

- Made in writing accompanied by:
  - ➢ Declaration information is **correct and complete**
  - ➢ **Payment** of tax/duty & interest

- Benefits:
  - ➢ Reduced penalties;
  - ➢ Non-publication;
  - ➢ Revenue not initiate criminal proceedings




- Made before Level 2 / 3 notification issues
- Up to 60 days to make disclosure once notice made to Revenue

- Made between notice of Level 2 intervention & commencement
- 28 day notice period - extended to 60 days

# Key Actions

# 04 Key Actions

## Pre-implementation of New Code

- “New” Code from 1 May 2022 - taxpayers should take this time to “go under the bonnet” and undertake **extensive review of their tax affairs** and discuss any issues identified with their advisors

## Post-implementation of New Code

- Clearly unprompted disclosures are best outcome. Therefore, regular self-review (annual or biennial basis)

- Engage with advisors to develop appropriate **Tax Control Framework** to self-review their affairs and detect any areas of concern **before** it comes to Revenue attention

- If there is an issue – get advice and **prepare a Qualifying Disclosure**. Due to Revenue’s technology capabilities, probability of issue being discovered by Revenue has increased dramatically

# 04 Key Actions

## Upon receipt of Intervention Notification

- Identify type of correspondence and Level;
- Engagement with client / advisor and review of issues identified in correspondence;
- Early engagement with Revenue;
- Identify timelines and possible extensions;
- Agree an appropriate strategy with respect to client circumstances, e.g. grey point of legislation;
- Identify best avenue of rectification (i.e. self-correction / disclosure, etc.);
- Identify potential penalty exposure;
- Co-operation with revenue to mitigate penalties

# Current Area's of Focus for Revenue

# 05 Issues Frequently Identified in a Self Review

- VAT Rates
  - Incorrect use of composite rate
  - Incorrect rates due to coding errors
- Recovering VAT on non deductible expenses
  - Disallowable Expenses
  - Personal Expenses
- Failing to self account for import VAT
- Timing of VAT payments
- Apportionment of Costs
- Property sales

# 05 Issues Frequently Identified in a Self Review

- Operation of Benefit in Kind
  - Directors Loans
  - Company Cars
- Self employed vs Employee
  - Subcontracting companies which do not pay salaries
  - PRSI Class
- Inclusion of Foreign/Mobile/Cross-border employees on payroll
- Mileage & Subsistence Payments
  - Rates of payment
  - Detailed documentation
  - Drivers Returning to base
- Personal Expenses of Director/ Shareholders
- Provision of Vouchers

# 05 Revenue Area's of Focus

## REAL TIME INTERVENTION

- Reviews of payroll
  - ✓ Missed Payroll – All
  - ✓ First 6 Months due 2021,
  - ✓ Review latter half
  - ✓ Conference Call
    - Amending for Trivial issues
    - BIK Potential
    - No Error Approach

- Reviews of Covid Supports
  - ✓ Employer Supports
  - ✓ Turnover Issues
  - ✓ Debt Warehousing?

# Restructuring


**Aengus Burns**

**Partner**

**Restructuring**

# The Restructuring Toolbox

- Company led Liquidation, Examinership and Schemes of Arrangement
- Creditor led Liquidation and Receivership
- Personal Insolvency Solutions
- Small Company Administrative Rescue Process (SCARP)

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# Negotiating a Restructuring

## Formal Insolvency a last resort

- Multiple Creditors harder to all agree
- Outcome on Liquidation a base position
- Put new investment in now or after settlement?
- Future Viability




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# Priority of Creditor Claims

## Insolvency Waterfall

**Priority of Claims in a Liquidation**

- Secured creditor
- Costs arising in the winding up
- Super-preferential creditor
- Preferential creditors
- Debenture / Floating Charge
- Unsecured creditors
- Shareholders

**Different Treatment of creditors**

- Landlord - leases
- Bank - secured
- Leasing – ownership of assets
- Creditors with Retention of Title
- Employees - Indemnified
- Revenue – Preferential and Warehoused
- Rates - Attaching

 

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# Corporate Rescue

## Examinership

**Purpose**

- ✓ To facilitate the survival of the whole or part of business/company, by dealing with historical liabilities through a scheme of arrangement and the future profitability of the business/company by:-
  - ✓ injection of adequate working capital
  - ✓ removal / renegotiation of onerous contracts such as leases, changes by agreement to work practices
  - ✓ a scheme of arrangement with creditors
- ✓ It is not the sale of assets for the highest price, as in a liquidation or a receivership

**Reasons why**

- Legacy issues
- Onerous contracts
- Broken Balance Sheet
- Landlord leases
- Protect Business and Employment

**Key characteristics for success**

- Strong underlying business
  - "Reasonable prospect of survival"
- Ability to attract sufficient investment
- Positive Independent Expert Report
- Positive Cashflows

# Rescue Process

## SCARP

**Steps**

- ✓ Statement of Affairs (SOA) prepared by Company directors
- ✓ Process Advisor provides reports on survival prospects
- ✓ Directors' resolution appointing Process Advisor and ceasing payments to creditors
- ✓ Process Advisor consults with creditors and prepares a Rescue Plan
- ✓ Meeting of Members and Creditors by Day 42 and Voting– up to Day 49
- ✓ 60% in number and 50% in value of one class of creditors needed
- ✓ If creditor objection (unfairly prejudiced) within 21 days then apply to Court for confirmation

**Eligibility**

- Annual turnover up to €12m
- Balance Sheet total up to €6m
- Up to 50 employees
- Insolvent or likely to become insolvent
- Reasonable Prospect of Survival

**Features**

- Less costly than Examinership
- Court involvement not required
- Can repudiate landlord leases
- Apply to Court for stay on creditor action
- "Best interests of creditor" test




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# Personal Insolvency

## Options available

**Debt Relief Notice**

- ✓ Debt must be under €35,000

**Debt Settlement Arrangement (“DSA”)**

- ✓ Arrangement for people who have unsecured debt (not a mortgage)
- ✓ A PIP acts independently to negotiate the best deal
- ✓ The term is usually 5 years but this can be less

**Personal Insolvency Arrangement**

- ✓ Secured (i.e. Mortgage) and unsecured debts
- ✓ The term is usually 6 years but it can be less
- ✓ Long term solution for the family home and stops any repossession hearings
- ✓ Unsecured debt written off and negative equity written off the family home

**Bankruptcy**

- ✓ Term is 1-3 years depending on the individual arrangement

 

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# Discussion
# Q&A