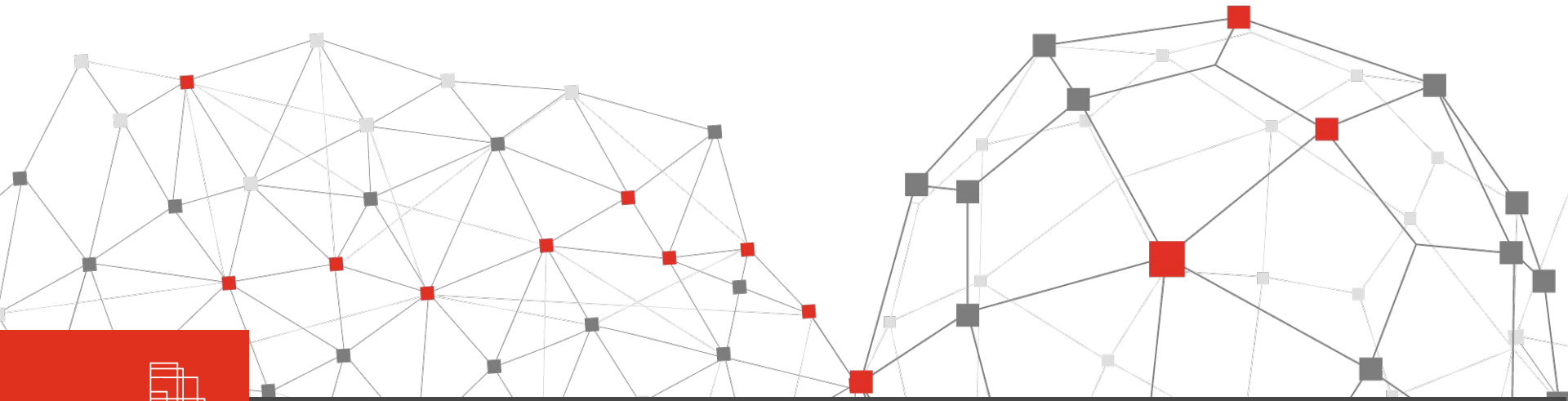


# COVID-19

## Impact on the Balance Sheet



# Topics we will cover today

## 1. Introduction – Reto Brunner

## 2. Key topics – what our experts are saying

- a. Valuation & Impairment Testing – **Marc Schmidli, Pascal Ziegler**
- b. Accounting & Financial Reporting – **Christophe Bourgoïn, Amanda Waddill**
  - Accounting complexities
  - Debt & liquidity considerations
  - Capital market considerations

## 3. Q&A – Marc Schmidli

## 4. Wrap-up – Reto Brunner



# Valuation & Impairment Testing: Capital markets response

Does the observed decline in stock prices imply a comparable decline in the company values?

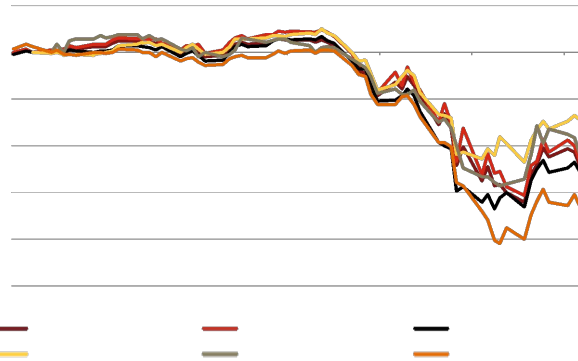
## Observations

“...drop of ~30% in global equity markets between 31.12.2019 and today...”

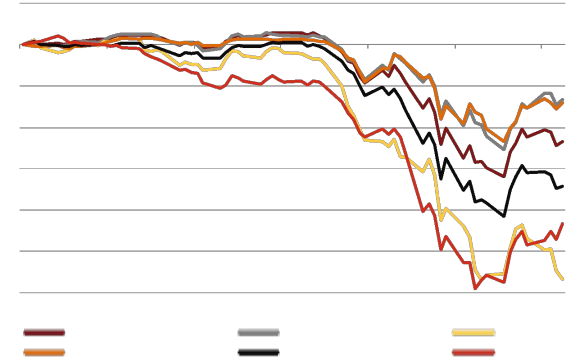
“...impact across all sectors with airlines and energy being most severely hit ...”

“...more than doubling in the number of companies in S&P Global 1200 with equity book value > market capitalization...”

Index performance (regional view)



Index performance (sector view: S&P Global 1200)



No. of companies in S&P Global 1200 with equity book value higher than market capitalization



# Valuation & Impairment Testing: Key valuation considerations

Two key considerations to adjust for COVID-19 with adjustment of business plan as preferred solution

1

Adjust business plan  
(incl. WACC update)

- Pre-COVID-19 financial projections **not applicable** for valuations
- Critical review and adjustment of business plan **required**
- Development of reasonable and supported financial projections to **account for high degree of uncertainty** is major challenge for clients
- **Sensitivity and scenario analysis necessary** to reflect increased market volatility
- Wide **valuation ranges** due to the increased volatility and uncertainty expected
- **WACC update** as of the valuation date based on **Capital Asset Pricing Model** required even in cases where business plan has been adjusted

2

Add COVID-19 risk  
premium only in  
exceptional cases

- **COVID-19 risk premium** (CVRP) adjustment on WACC **only** appropriate if company is unable to adjust cash flow projections

# Valuation & Impairment Testing: Business plan considerations

1

Business plan is to be adjusted in three steps to derive reasonable value ranges

## Assess key business plan items

- Full revenues in the short-term regarded as **lost** or can **catch-up effects** be justified?
- How do **additional costs** incurred or **possible countermeasures** (e.g. short-time work) influence future cost structure?
- Impact of **government support**?

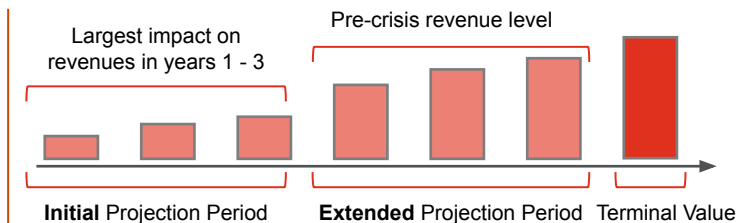
## Extend business plan period

- Is **going concern assumption still** valid?
- How is recovery anticipated to happen (**V-, U- or L-shape**)?
- What is a reasonable **extension** of discrete business plan period?
- When are revenues expected to be back at **pre-crisis levels**?

## Conduct scenario analysis

- Which assumptions are reasonable to define **best- and worst case** scenarios?
- Are potential **credit and liquidity risks** taken into account?
- Are increased **market volatility** and different **economic scenarios** considered?

### Illustrative Post-COVID19 Business Plan



# Valuation & Impairment Testing: WACC considerations

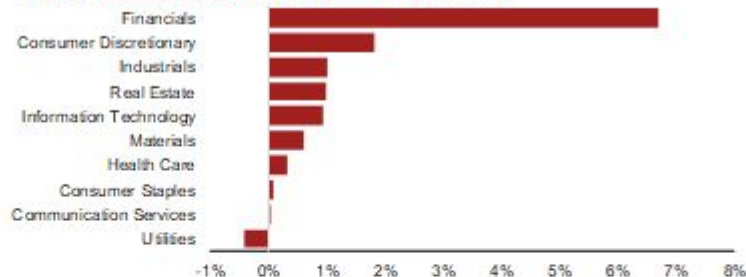
2

## COVID-19 risk premium on WACC only a fallback solution

- **Capital Asset Pricing Model** for WACC still valid and therefore should continue to be used
- Additional WACC adjustment with CVRP **only indicative fallback solution** in case financial projections cannot be adjusted
- Different **methods and tools available from PwC territories** to derive CVRP
- **Country-, industry- and company-specific** factors to be considered
- CVRP adjusted WACC to be applied on **full business plan period incl. terminal value**

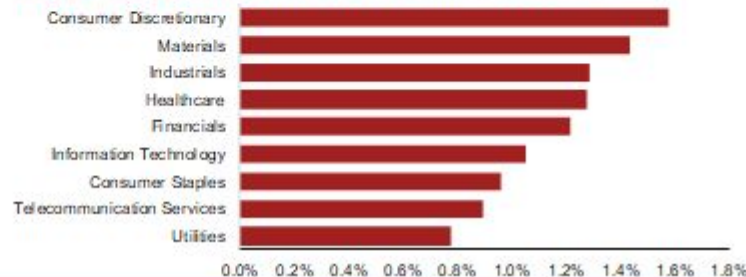
Change in industry-specific earnings yield may be used as indicator to adjust cost of equity

Change in earnings yield (31.12.2019 – 31.03.2020)



Change in rating-based CDS spreads may be used as indicator to adjust cost of debt

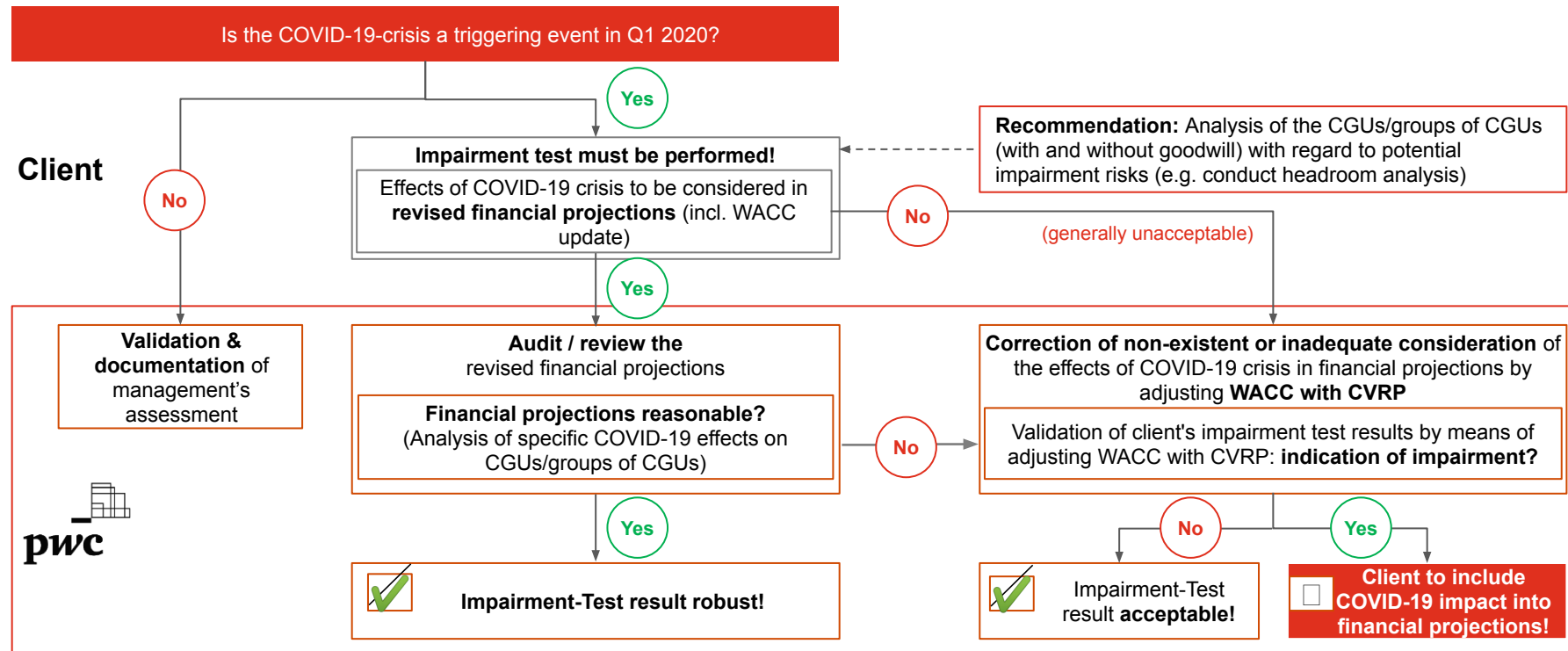
Change in ratings-based CDS spread (31.12.2019 – 31.03.2020)



Based on Swiss Performance Index

# Valuation & Impairment Testing: Impacts in Q1/2020

PwC to support clients in assessment of COVID-19 effects on impairment tests



# Accounting & financial reporting

## Accounting complexities

Challenges	Key topics	What companies are doing
<ul style="list-style-type: none"><li>• Value of intangible and tangible assets</li></ul>	<ul style="list-style-type: none"><li>• Impairment (goodwill, other intangible and tangible assets)</li></ul>	<ul style="list-style-type: none"><li>• Disclosures</li><li>• Consistency of assumptions used and sensitivity analysis</li></ul>
<ul style="list-style-type: none"><li>• Value of inventories</li></ul>	<ul style="list-style-type: none"><li>• Net realizable value</li><li>• Idle capacity</li></ul>	<ul style="list-style-type: none"><li>• Modelling of scenario</li><li>• Impact assessment</li></ul>
<ul style="list-style-type: none"><li>• Accounting for government assistance</li></ul>	<ul style="list-style-type: none"><li>• Grants or not</li><li>• Timing for recognition</li><li>• Presentation</li></ul>	<ul style="list-style-type: none"><li>• Overview for completeness</li><li>• Assess details of country specific schemes (e.g. “Kurzarbeit” in CH, rent-free periods)</li><li>• Options in presentation</li></ul>



# Accounting & financial reporting

## Accounting complexities (continued)

Challenges	Key topics	What companies are doing
<ul style="list-style-type: none"><li>• Additional liabilities to be recognized</li></ul>	<ul style="list-style-type: none"><li>• Restructuring provision</li><li>• Onerous contracts</li><li>• Future operating losses</li></ul>	<ul style="list-style-type: none"><li>• Modelling of scenario</li><li>• Impact assessment</li></ul>
<ul style="list-style-type: none"><li>• Uncertainty about revenue and related recognition</li></ul>	<ul style="list-style-type: none"><li>• Transactions in scope of IFRS 15 or not</li><li>• Variable consideration and constraint on recognition (“only to the extent that it is highly probable that a significant reversal of revenue recognized will not occur in the future”)</li></ul>	<ul style="list-style-type: none"><li>• Scrutiny on customers monitoring</li><li>• Increased awareness and coordination for consistent judgment to be applied</li></ul>
<ul style="list-style-type: none"><li>• Employee benefits and share-based compensation</li></ul>	<ul style="list-style-type: none"><li>• Pension assets</li><li>• Discount rate</li><li>• Modifications / new plans</li></ul>	<ul style="list-style-type: none"><li>• Anticipation of pension valuation</li><li>• Impact assessment of modifications as well as new plans being introduced</li></ul>

# Accounting & financial reporting

## Debt and liquidity considerations

Challenges	Key topics	What companies are doing
<ul style="list-style-type: none"><li>Valuation of financial assets and expected credit loss (ECL) model</li></ul>	<ul style="list-style-type: none"><li>Financial assets in scope</li><li>12-month or lifetime ECL</li><li>Estimate of ECL (risk, exposure, loss)</li></ul>	<ul style="list-style-type: none"><li>Determination of forward looking information</li><li>Update models and assess impact</li></ul>
<ul style="list-style-type: none"><li>Considerations for debt modifications</li></ul>	<ul style="list-style-type: none"><li>Application of IFRS 9 guidance</li><li>Derecognition / modification gain or loss</li><li>Discontinuation of hedge accounting</li></ul>	<ul style="list-style-type: none"><li>Consider classification and impact</li><li>Identify all cross-default clauses</li><li>Plan ahead (e.g. treatment of waivers as subsequent events)</li></ul>
<ul style="list-style-type: none"><li>Government assistance</li></ul>	<ul style="list-style-type: none"><li>Scope</li><li>Interest free loan</li></ul>	<ul style="list-style-type: none"><li>Assess details of country specific schemes</li><li>Options in presentation</li></ul>
<ul style="list-style-type: none"><li>Breach of covenants</li></ul>	<ul style="list-style-type: none"><li>Impact</li><li>Disclosures</li></ul>	<ul style="list-style-type: none"><li>Checking contracts</li><li>Sensitivity analysis</li></ul>

# Accounting & financial reporting

## Capital market considerations

### Challenges

- Ad'hoc publicity

### Key topics

- Suspended 2020 guidance
- Profit warning

### What companies are doing

Across all topics:

- Benchmarking
- Finalization of impact assessment
- Discuss communication strategy

- Alternative performance measures (APMs or non-GAAP measures)

- Impact of Covid-19
- Recent SIX directive

- Other means of communication

- Disclosure outside the financial statements

# Summary

Second priority is to stabilise your organisation

## Assess your situation

- Where is your organisation now, focus on critical points (impairment, other impacts on financial statements, communication)
- Use our published guidance, it is there to help you get an overview and ideas to set up your approach

## What you can do now

- Ensure all critical topics impacting your financial reporting are on your radar
- Gather all relevant facts
- Match facts and guidance to determine recommended options

## Other things to consider

- Stay informed: situation is constantly changing
- Focus your effort on transparency and external communication
- Align with other functions to streamline the process (e.g. Investor Relations, etc.)

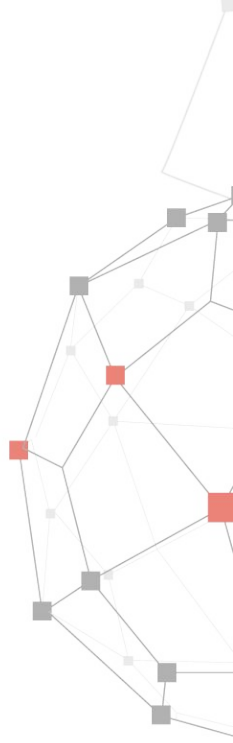
PwC tools & links that can help you:



Publicly available information:



# Q&A



# Thank you

## One Point of Contact:

Via our crisis helpline and **PwC Switzerland website** ([EN](#) | [DE](#) | [FR](#) )

## Our experts:



**Marc Schmidli**  
Partner  
[Email](#)



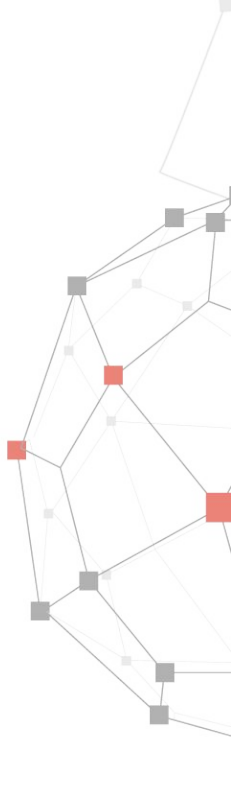
**Pascal Ziegler**  
Director  
[Email](#)



**Christophe Bourgoïn**  
Partner  
[Email](#)



**Amanda Waddill**  
Director  
[Email](#)



# Thank you

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