



# Challenges arising from the COVID-19 pandemic

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Huey leads the Restructuring & Turnaround practice and COVID-19 Rapid Response Team at KPMG in British Columbia. Prior to joining KPMG, Huey was a restructuring partner at a national firm with over 18 years of experience in Toronto and Vancouver.

His dedicated practice involves corporate restructuring and advisory services. He acts across industries where he has led strategic planning, turnarounds, M&A, and formal restructuring proceedings including cross-border mandates.

Huey also has several years of commercial and corporate banking experience at a leading international bank with a specific focus on lending and trade finance.

Huey is a Chartered Professional Accountant, Chartered Insolvency & Restructuring Professional and a Licensed Insolvency Trustee.

# Agenda

- Provincial outlook – British Columbia
- Construction Associations - kick-starting the economy
- Restructuring and turning around your business
  - Balance sheet restructurings
  - Operational restructurings
- Formal restructuring options
- CECRA
- Key takeaways

# Provincial outlook – British Columbia

With the focus now shifting to the shape of the recovery, B.C. enjoys an edge relative to other large provinces. It has been among the most successful in bending the COVID-19 curve

- For instance, B.C.'s **manufacturing sales** fell by a cumulative 14.7% through March and April. This compared favorably with the drastic 35.5% drop seen nationally. In March, **retail sales** fell by 4.6%, compared to 10% nationally. Mobility data have outpaced those of Central Canada, and restaurant activity is gradually picking up
- B.C.'s **economy** still faces notable pressures. The province's reliance on its tourism sector, where prospects remain challenged over the near term, is among the highest in Canada.
- B.C.'s home prices have showed some resilience during the pandemic. However, a likely slowdown in population growth due to reduced immigration and tightening to mortgage rules is expected to weigh on prices in the upcoming quarters**
- B.C.'s **diverse economy** has allowed for some pockets of relative strength. Its non-residential construction sector has also seen scaled back activity and employment. However, progress on key projects such as the TransMountain pipeline, the Site C Dam, and LNG Canada, has reportedly either remained on track or experienced only minor setbacks
- B.C.'s **fiscal position** remains the envy of other provinces. B.C.'s government has responded to the crisis by earmarking about \$5 billion, with dedicated funding to the post- COVID recovery (\$1.5 billion). This package comes on top of a hefty 2020/21 capital spending plan. Coffers are taking a substantial hit, but its net debt/GDP ratio is expected to be among the lowest in the country as it exits the crisis

British Columbia Economic Forecasts			
[ Annual average % change, unless otherwise noted ]			
	2019	2020	2021
Real GDP	2.8	-5.6	5.4
Nominal GDP	5.3	-3.1	7.4
Employment	2.6	-7.1	6.8
Unemployment Rate (%)	4.7	9.0	6.6
Housing Starts (000's)	45.1	35.0	35.4
Existing Home Prices	-1.5	3.3	-2.5
Home Sales	-1.5	-15.6	22.6

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics



Source: TD Economics Provincial Economic Update (June 2020)

# Construction Associations - Kick-starting the economy


The Canadian and Ontario Home Builders' Associations (CHBA and OHBA) and the Building Industry and Land Development Association (BILD) have submitted a 20-point plan to the Ontario Jobs and Recovery Committee to help kick-start the Canadian economy post COVID-19.

	1. Transferring mortgage tenancy to the date of occupancy for new condominiums		2. Eliminating security deposits for Ontario Land Transfer Tax on affiliated transfers		3. Freezing municipal increases to Property Tax Reassessment and development charges
	4. Free up monies that would otherwise be stuck in such things as municipal agreements (refundable deposits paid by developers) and replace them with surety bonds		5. 30-year amortizations for insured mortgages		6. Adjusting the mortgage stress test for both insured and uninsured mortgages.
	7. Removing the GST on new homes purchased for 2020 and 2021 would also be a timely catalyst for new home construction.		8. To foster job creation, incentives for a Home Renovation Tax Credit for people making upgrades to their homes		9. Refundable Tax Credit for expenses to upgrade buildings in Ontario and for repurposing facilities in Ontario because of COVID-19. These initiatives would be self-funding by freezing out the cash operators in the renovation industry

Source: Canadian and Ontario Home Builders' Associations

# Restructuring and turning around your business

At a high level a business restructuring can take two forms

1 

**Balance sheet restructuring**

Balance sheet restructurings improve the capitalization of the business

2 

**Operational restructuring**

Operational restructurings enhance the profitability and cash flow of the business



# Restructuring and turning around your business

## Balance sheet restructurings

- Balance sheet restructurings can involve:
  - Forgiveness of debt; or
  - Debt to equity conversion; and/or
  - An equity injection
- There can be significant tax implications with debt forgiveness and/or debt conversion
- It is difficult to effect a balance sheet restructuring in today's environment
  - The economic impact of the pandemic is still unclear, so the final size of the “capital fix” may not have been reached
  - There is skepticism as to the ability to accurately project a company's economic performance over the next few years given the macro environment
  - Attracting new equity could be very dilutive

# Restructuring and turning around your business

## Operational restructurings

Operational restructurings typically involve a review of all areas of the business with the objective of improving profitability and enhancing or unlocking liquidity.

### Select **short-term initiatives**

- Working capital optimization
- Elimination of discretionary spending
- Rationalization of product offering
- Rent deferral
- Deferral of capital expenditures
- Labour cost reductions
- Revisit purchasing practices and buffer stock levels
- Temporary reduction of interest rate and/or principal amortization on operating and/or term loans
- Government sponsored programs





# Restructuring and turning around your business

## Short-term cash flow forecasts and longer term financial projections are essential

- Improved management decision making, identification of liquidity constraints and improved lender discussions
- The details:
  - 13 week cash flow forecast and an integrated monthly financial projection for two to three years
  - Not the status quo, re-evaluate for the current and future environment
  - Incorporate implemented and intended restructuring initiatives, including:
    - Market changes to cash collections
    - Discretionary spending
    - Capex deferrals
    - Government support programs
  - Ensure that these documents are robust and will allow for various scenarios
  - On a periodic basis compare your actual and projected results and if necessary change your assumptions
- Plan for the restart – working capital requirements will be strained in many sectors as the economy reopens, make sure this is incorporated into your projections.

# Formal restructuring options

A company has a few **formal restructuring alternatives available** to it in order to control a rapidly deteriorating cash position, right size a business, and/or bring key stakeholders to the negotiating table.

**Restructurings** using the *Companies' Creditors Arrangement Act* and *BIA* Division I Proposals **are debtor led**, meaning that an **existing ownership group** is able to **retain control of its assets and operations** through the restructuring process.

## ***Companies' Creditors Arrangement Act (CCAA)***

- Available to company's with debt of \$5.0 million or more
- Stay of proceedings granted by Court, initially 10 days but can be extended indefinitely thereafter to provide necessary time to restructure
- Court officer is appointed to monitor the affairs of the company and assist with the restructuring plan. The monitor is independent and represents the Court and the company's stakeholders
- Company's are able to access debtor-in-possession financing
- The process can be expensive
- No automatic bankruptcy, but if stay lifted creditors can enforce

## ***Bankruptcy and Insolvency Act Division I Proposal***

- Available to company's of all sizes
- Stay of proceedings automatic, no Court application
- Court officer is appointed to monitor the affairs of the company and assist with the restructuring plan. The monitor is independent and represents the Court and the company's stakeholders
- Company's are able to access debtor-in-possession financing
- Stay is limited to 30 days, with the option to extend in 45 day increments thereafter to a maximum of 6 months.
- Failure results in deemed bankruptcy

# Key takeaways

- Cash is king.
- Implement short term initiatives to preserve and unlock cash.
- Prepare short-term cash flow forecasts to identify liquidity constraints and improve near and mid-term decision making.
- Prepare multi year financial projections that are robust and dynamic to allow for scenario analysis. This should allow you to determine whether your company should be considering a restructuring.
- If you believe your business will require a formal balance sheet restructuring or substantive operational restructuring, it will take time and funding. It is best to determine the end objective of the restructuring and work backwards to understand the steps and time to complete.

# Canada Emergency Commercial Rent Assistance (CECRA)

The CECRA program provides commercial landlords with forgivable loans up to 50% of monthly gross rent owed by their impacted tenants for April, May, June and July 2020.

- **Deadline for application is August 31, 2020**
- **Reduce the gross rents to 25%** for April, May and June (and July if applicable) and agree a moratorium on eviction with qualifying tenants.
- **Eligible tenants/Sub tenants**
  - monthly gross rent of no more than \$50,000 per location;
  - gross annual revenues of no more than \$20 million on a consolidated basis at the ultimate parent level;
  - 70% reduction or more in pre-COVID-19 revenues (comparing revenues in April, May and June of 2020 to the same months in 2019, or if not in business then compared to average revenues for January and February 2020); and
  - in business since March 2020 and with intention to continue their lease beyond August 31, 2020.
- **Use of the loan funds**
  - to refund any amounts paid by the small business tenant exceeding 25% for April, May, June or July 2020; and
  - to pay operating costs and expenses on the property, including general business purposes (except distribution to shareholders/payment of dividends or bonuses) after reimbursing tenants.

# Our observations on CECRA

## Pros

- Broad interest from landlords of all types and sizes
- Property owners can receive some income while helping their tenants (some of whom cannot be evicted for arrears of rent due to various eviction bans across provinces).

## Cons

- Heavy lifting required by landlords to collect information and forms from every tenant.
- Some landlords may be lacking administrative support and may be overwhelmed by the CECRA data and collection requirements.

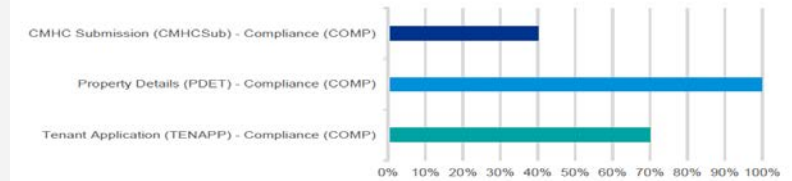
# Our technology solution

At KPMG, we have developed an automated CECRA technology tool to help streamline the application process.

The KPMG CECRA Tool provides **individual tenant portals** and helps landlords to:

- Determine which tenants are eligible;
- Collect all required tenant information;
- Coordinate completion of rent reduction agreements;
- Track all properties and tenants in one place; and
- Prepare and submit the application for each property.

## End-to-end process coordination



## Workflow to manage collaboration

Entity	Due Date	Status	Period Start	Period End	Region
Tenant 1	7/26/2020	●	1/4/2020	30/06/2020	Property Beta
Tenant 2	7/8/2020	▲	1/4/2020	30/06/2020	Property Alpha
Tenant 3	7/20/2020	●	1/4/2020	30/06/2020	Property Beta



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