

Looking beyond COVID-19

Grant Thornton

20 May 2020



Introduction

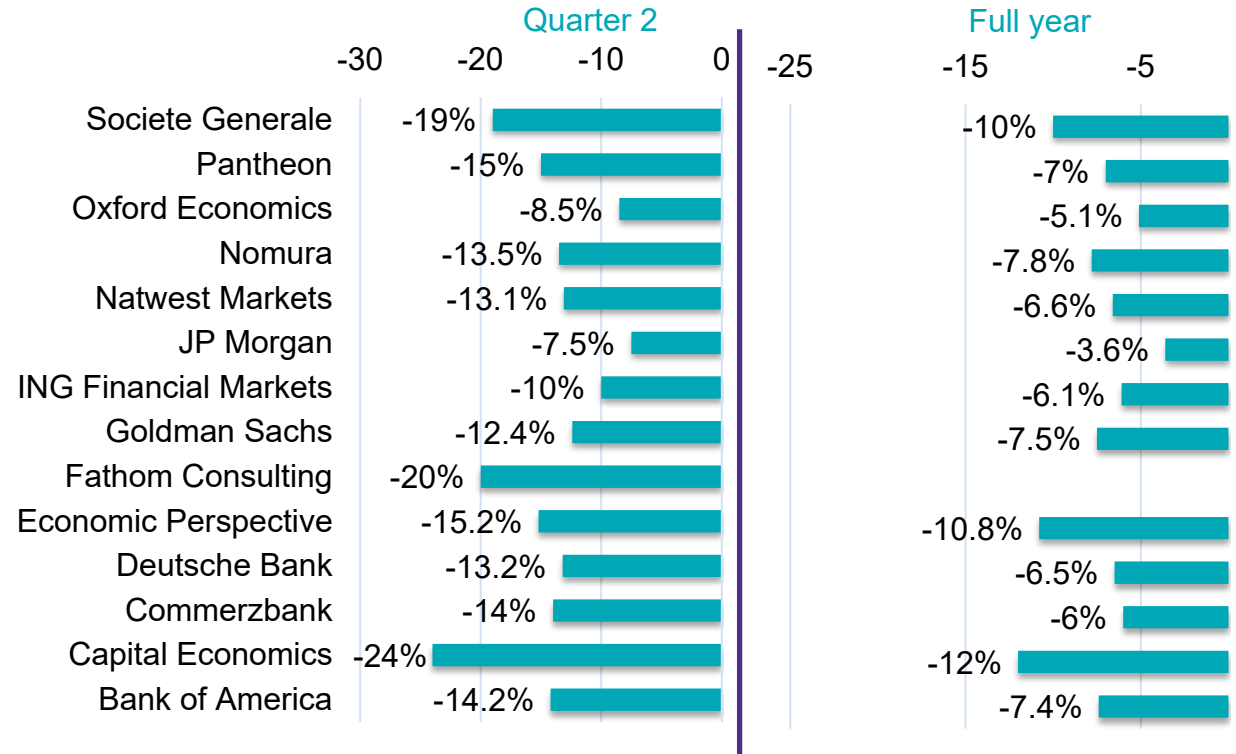
Patrick Gallen
Partner, People & Change

The economy after Covid-19 - challenges and future direction

Andrew Webb
Chief Economist

A deep and damaging decline

- Projected declines for quarter 2 range from -7.5% to -24%
- Average for quarter 2 is -14%
- Figures for the full year look set to record a dramatic decline

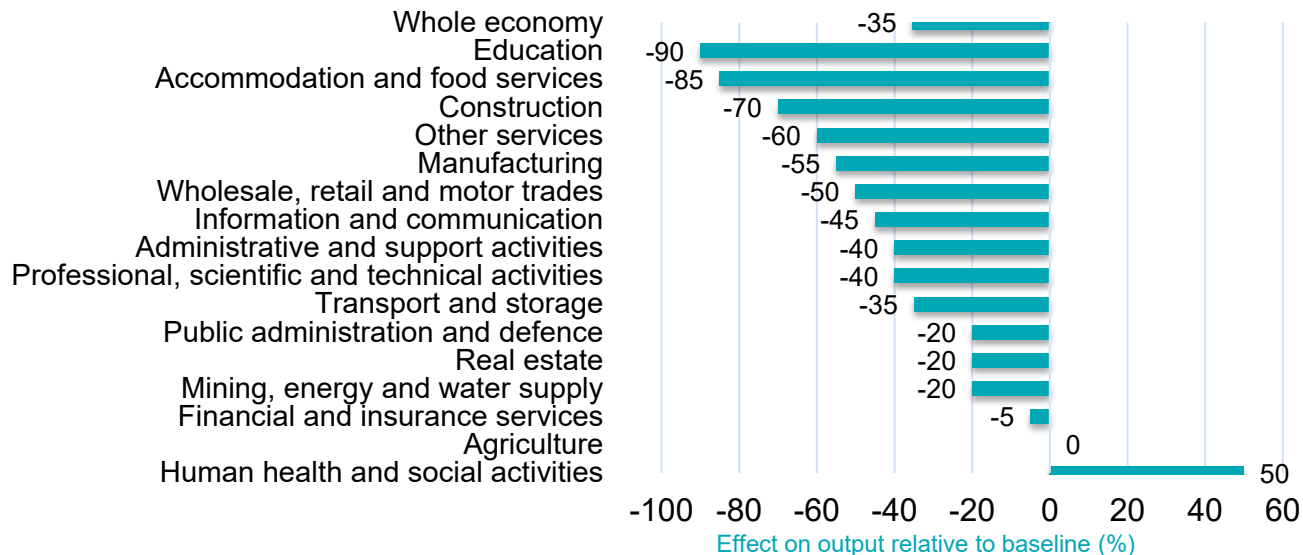


Source: HM Treasury

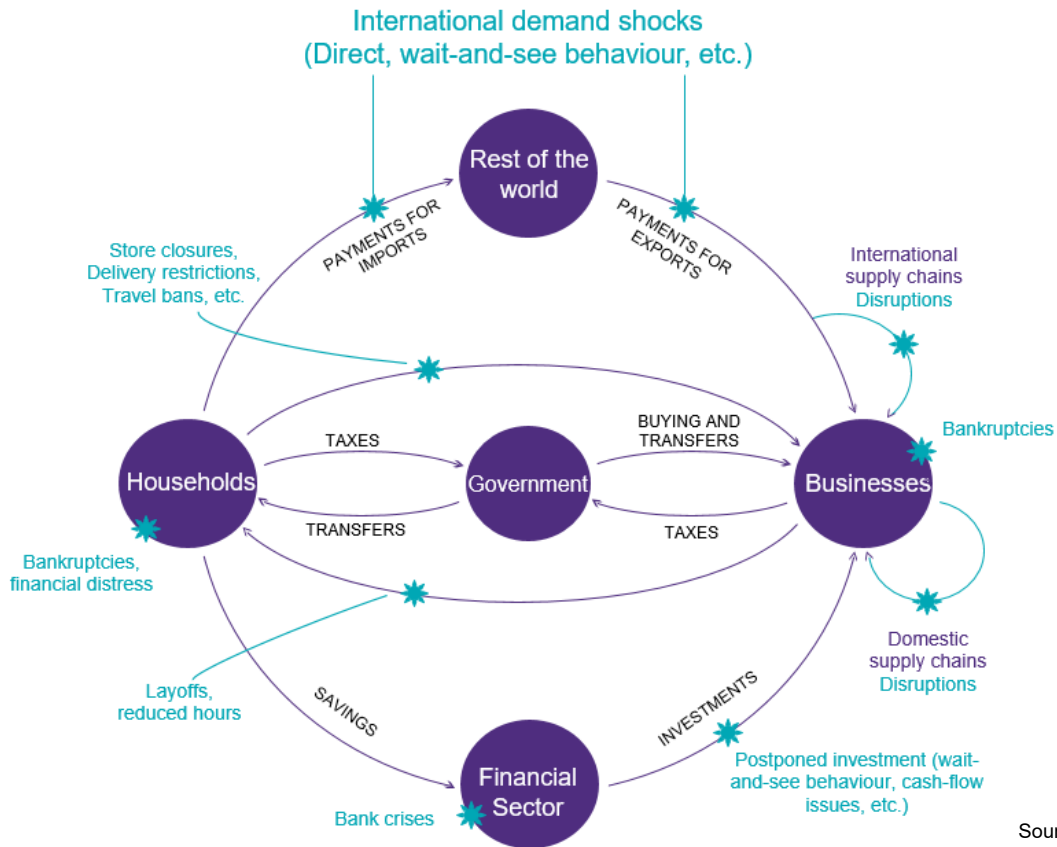
Education and Tourism and hospitality bear the brunt

Only one sector is projected to grow in the coming quarter

Output losses by sector – Quarter 2 2020



Far reaching consequences

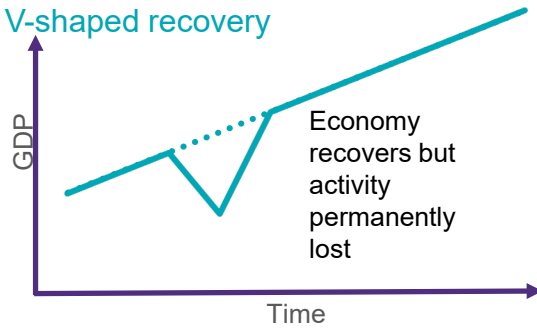


★ Areas of impact

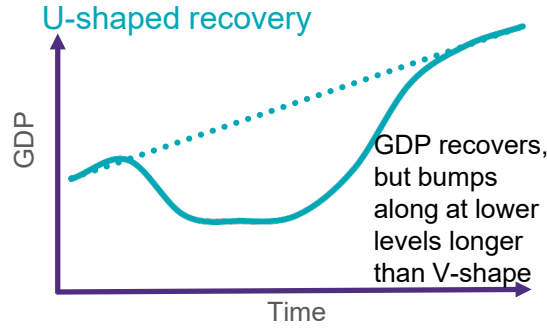
Source: Adapted from Chicago Booth

Recovery alphabet

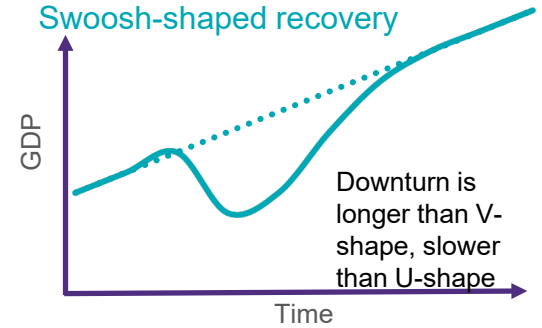
V-shaped recovery



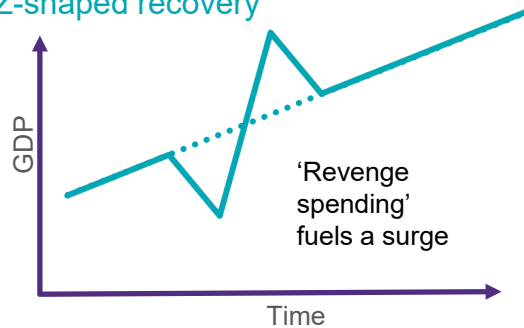
U-shaped recovery



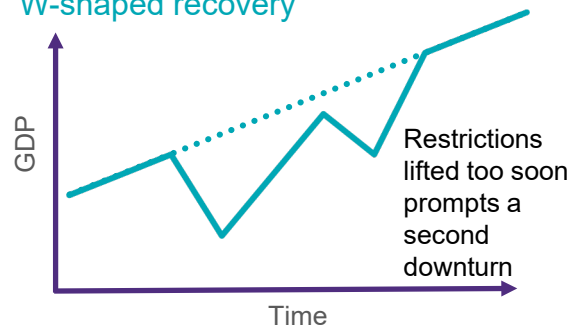
Swoosh-shaped recovery



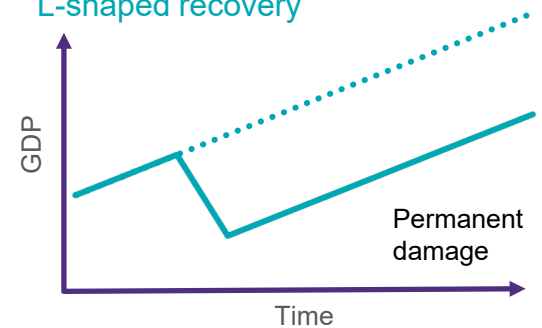
Z-shaped recovery



W-shaped recovery



L-shaped recovery



Post Covid-19: Emerging Considerations

- Learning where the fault lines in our businesses are
- Smaller commercial footprints?
- From the sharing economy to the isolation economy?
- Localism replacing Globalism?
- Rise of the Robots?



Utilising innovation and R&D tax reliefs to assist your cash flow

Eugene O'Neill
Director, Tax

SME or RDEC

Approximate tax credit per qualifying expenditure



SME

Up to 33%

Dependent on whether you are profit or loss making



RDEC

10.53%

On expenditure incurred on or after
01 April 2020

Common errors in R&D claims

- Documentation / Supporting evidence
- Research and Development Allowances are missed 9 times out of 10.
- Qualifying costs are missed, such as;
 - Test / Production labour
 - Qualifying indirect labour
 - Labour costs incorrectly identified
 - Material costs incorrectly identified
- Cash extraction



Salary vs Dividend

Two shareholders taken current salary at basic rate band, want to take out additional £150K each, salary or dividend?

£62K

Total tax due if salary taken.

£103K

Total Tax due if dividend taken.

New Constructions

How we can maximise the Capital Allowances claim



90% upwards

Wind farms, power stations, water treatment, petro chemical, biomass, tidal, combined heat and power, solar and certain regeneration projects
Tax deductible*



50% – 80%

Hi-tech manufacturing, processing buildings, research facilities, and retail and office fit-outs
Tax deductible*



40% – 70%

Pubs, restaurants, leisure centres, luxury hotels, data centres, hospitals, prisons
Tax deductible*



30% – 50%

Nursing homes, owner-occupier offices, schools, mid-range hotels, health centres
Tax deductible*



20% – 40%

Commercial offices, shopping centres, budget hotels
Tax deductible*



<20%

Industrial units, retail warehouses, car parks, student accommodation
Tax deductible*

Historic Capital Allowance Claims

- Business purchased three properties between 2005 and 2007.
- The properties were subsequently sold in 2016 and 2017.

Property	Original Cost £	Capital Allowances Identified £	Cash Value @19% £
Property 1	2,600,000	940,000	178,600
Property 2	3,500,000	1,200,000	228,000
Property 3	1,500,000	540,000	102,600
Total	7,600,000	2,680,000	509,200

Managing Debt – Loan Scheme Applications and Debt Restructuring Options

Neal Shanks
Director, Corporate Finance

Loan Scheme Applications



A borrower perspective

- Loan schemes available
- Determine borrowing requirement
- Engage and discuss options



A bank perspective

- Their business challenges
- Key considerations
- Understand in context of your business



Application structure (before, during and after C19)

- Explain Position
- Confirm key points
- Provide information / financials

Debt Restructuring Options



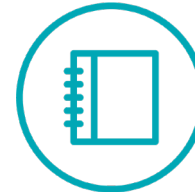
Key differences from financial crisis

- Leverage, liquidity and stability
- Exit / recovery v renew / restructure



A debt restructuring approach

- In theory (SWOT analysis)
- In practice – thought, discussion and negotiation to get agreement



Some options / examples

- Simple – working capital, loan repayment, pricing
- Complex – tax efficiencies, use of pension funds, debt for equity

Considering the impact of Covid-19 on boards and senior management teams

Anne Phillipson
Director, People & Change

Questions for board / senior management discussion:

- How will this fundamentally change our business?
- What can we do to grasp the positives?
- What have we started during this crisis that we should continue?
- What have we learned about each other during this critical time?
- What is our current horizon – can we now shift from immediate/short-term thinking to longer-term?

Importance of Communication

When people are anxious, their vision narrows

Effective communications help to bring your people with you

Share your thinking:

- Here's what we know
- Here's what we don't, but here's what we're doing to find out
- Here's what we're thinking about

The crisis creates the opportunity to build loyalty



“

People will forget what you said and people will forget what you did, but they will never forget how you made them feel.

”

Communication considerations



Virtual meetings

- Zoom meetings favour extroverts
- You may have to engage differently with introverts
- Chair could call them before the meeting to get their thoughts on agenda items
- Missing the cues you have in f2f meetings
- Introverts won't fight for air time or cut across; build in silence, ask individuals to share their thoughts
- Resist packing the agenda



Decision making

- What do we need to decide immediately, and what can we reflect on and decide later?
- Reflection can be powerful
- COVID Committee shouldn't go on too long; focus is narrow and short-term
- Scenario planning can help:
 - 3 economic (bounce, depression, recession)
 - 3 exit from lockdown (okay, phased, rest of 2020)



Stakeholders

- Boards / Senior Leadership can't keep all stakeholders happy all of the time
- Trade-offs must be considered
- Stakeholders: Staff, Customers, Shareholders, Suppliers, Local Community,...
- Guiding question: "What's the right thing to do?"

Board membership

As business strategy changes, boards may need to change their membership in the next 18-months

- Right strategy
- Right resources
- Right governance

Risk Committee - consider those events that are unlikely, but if they do occur, impact huge

Opportunity to build back better; consider big global issues like climate change / sustainability

After war / crisis that step change happens



Key contact details

Patrick Gallen
Partner, People & Change

E: patrick.gallen@ie.gt.com
T: +44 (0)28 9587 1141

Andrew Webb
Chief Economist

E: andrew.webb@ie.gt.com
T: +44 (0)28 9587 2318

Neal Shanks
Director, Corporate Finance

E: neal.shanks@ie.gt.com
T: +44 (0)28 9587 2329

Eugene O'Neill
Director, Tax

E: eugene.oneill@ie.gt.com
T: + 44 (0)28 9587 2320

Anne Phillipson
Director, People & Change

E: anne.phillipson@ie.gt.com
T: +44 (0)28 9587 1068