



Wealth Planning Update

# Take Control: Business Strategies in Unprecedented Times

**MARCH 2020**

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## Key Takeaways:

- During these uncertain times, it may be tempting to take a wait-and-see approach but it is important to take steps to position your business appropriately during this time.
- Addressing your liquidity and operating issues is an important first step in working through this period.
- For some business owners there may be opportunities resulting from lower valuations for acquisition and wealth transfer, and developing a stronger contingency plan for the future.

## What this may mean for you:

Take a step back and examine all aspects of your business, including liquidity, customers and vendors so you are prepared as things change and opportunities arise.

### Address the Situation Head-On

We have shifted from a time of relative economic stability and expansion to one of insecurity and contraction, as a result of the fast-moving changes precipitated by COVID-19. According to the latest report from the Wells Fargo Investment Institute (WFII), the U.S. and global economies seem headed toward recession.

Consumers and businesses have rapidly postponed or abandoned discretionary spending as they wait and watch. Many businesses have been forced to temporarily close, and many employees are adjusting to work remotely. Uncertainty is likely to be the only certainty for some time.

In times of uncertainty, many may try to wait-and-see, but that may create even bigger problems. By acting thoughtfully now, business owners can help position their businesses to avoid an even more significant impact.

### Financial Foundation

After you have addressed immediate concerns for family, employees, customers and community, you may want to wrestle with a number of other topics, and maybe even tackle some potential opportunities to prepare your business for a successful future transition. Below are a few topics that you may wish to consider and address quickly, many of which could generate both short-term impact and create long-term value. Some may even challenge your long-held assumptions about your business and the best ways to operate.

#### Liquidity and Operating Issues for Businesses Impacted by COVID-19

In times of economic crisis, we believe that cash is king. First, consider what your business needs are in the short-term and the steps you need to take to ensure its survival. Then, it's time to think about the long-term, which is especially challenging at this time. Your customers and suppliers are probably experiencing similar disruptions, and no one knows how long the crisis will last or the extent of the government's intervention. Despite the uncertainty, it is important to focus on what you can control by asking the right questions and taking appropriate steps.

#### Liquidity

- Do I have enough cash?
- How long will my cash last at current operating levels?
- What are my options for additional liquidity?
  - Do I have access to a line of credit at a sufficient level?
  - Do I have debt capacity beyond a line of credit?
- Do I have access to other sources of liquidity outside the business and am I willing to take that risk?
  - If I have business interruption insurance, what does it cover and how and when can I collect?

#### Operations

- What expenses can be deferred?
- Can I / should I limit my operations?
  - If I reduce my workforce now, how much will I spend to recruit new employees after the crisis ends?
  - Will a workforce reduction damage my company's reputation in the marketplace?
  - Are temporary furloughs or reductions in hours/ salaries better than layoffs?
- If working remotely is an option, what is the cost?

### Customers

- How can I better diversify my customer base?
- Is there a way to protect my customer base?
- Will my customers continue to buy my goods/services during the crisis? After the crisis?
- How long do I expect customers to cut back?
- What is the status of current orders?
- Are current receivables solid?
  - Can I determine which receivables may not be collectible in the short-term? In the long-term?
- Should I change the terms I offer customers?
  - Extend better terms or reduce current terms?

### Suppliers

- How will my supply chain be impacted?
  - If prices increase, can I (and should I) pass increases along to customers?
- If my supply chain is not diverse, are there secondary suppliers I can access?
- Are there ongoing factors that could obstruct my supply chain into the future?
- Can I defer payables for a period of time without losing suppliers?
  - How will deferring payments affect my long-term supplier relationships?

These questions are a starting point for any business owner facing an economic crisis. You may find you don't have all the answers, or that answers that work today may change multiple times. Asking yourself these questions may provide some insight, not only on how to survive in the short-term, but also how to better position your business to be stronger in the future.

### Planning Strategies for Businesses and Owners Arising from COVID-19

In addition to the need to assess your company's liquidity and operating issues related to the current crisis, you should consider opportunities that may arise because of the crisis. We present several ideas to consider once you are certain your company is well-positioned, and you can move forward with confidence.

#### Valuation-Estate Planning

With revenue and profitability under increasing pressure, deteriorating values in the public markets, and unknown length and depth of this financial crisis, business owners may be able to substantiate lower values for their ownership interests. It is important to recognize that there are risks and costs associated with implementing wealth transfer strategies.

- Business owners may be able to take advantage of the decline by implementing wealth transfer strategies using business interests while federal estate tax exemptions are still high and valuations are low.
- Historically low interest rates (both market and Applicable Federal Rates) typically make these types of wealth transfer strategies even more attractive.
- Business owners took advantage of the Great Recession in 2008 to move substantial wealth to the next generation in anticipation of the recovery; many business owners may do the same in this crisis.

#### Valuation-Acquisitions

For several years, many closely-held businesses have been selling at record or near-record multiples and valuations. These high valuations have discouraged some otherwise well-prepared and acquisitive companies from expanding

through acquisition. Over the last several quarters, however, transaction/valuation multiples have remained relatively flat. In light of the current market, valuations are likely to decline, perhaps significantly. Companies with healthy balance sheets and available cash or debt capacity may have an opportunity to expand their market share or vertically integrate through acquisition in preparation for recovery.

### Contingency Planning

The economic fallout of COVID-19 may highlight the shortcomings of existing business contingency plans. Some business owners may realize that they lack depth in their management teams, or that they should re-evaluate their existing shareholder / buy-sell agreements. Perhaps their succession plans or estate plans need updating. Once they have emerged from what is likely “protection mode”, many business owners may decide to address these issues aggressively so that in a future crisis their business, its shareholders and their families are better prepared.

### Summary

As a business owner, you are facing many more issues than those outlined above, and you may have little control over many of them. In extraordinary economic conditions like these, we believe that preservation is the word of the day. Wait-and-see is a strategy that may not work in a downward spiral. You may recall the perils of the Great Recession, and as advisors, we are here to help you as you face similar economic issues. Acting now by starting these conversations is important and can be incredibly impactful. We are here to help you through these topics and more.

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