

COVID-19 Financial Communications Resources for U.S. Businesses

Overview

COVID-19 is necessitating change across corporations – none more so than the need to ensure the corporate communications and investor relations functions are aligned in their approach to stakeholder engagement. At times, these functions have been siloed, but today the intersection of financial reporting and corporate communications is more important than ever. Aligning the two functions enables corporations to engage with investors, media and other key stakeholders in a proactive, transparent way to positively impact a company's reputation.

As the COVID-19 pandemic continues it is clear that the damage to corporate performance, the markets and the U.S. jobs will have significant short and long-term impacts. On March 27, a record 3.28 million people applied for unemployment benefits. Even with some employers like Walmart, Amazon and CVS announcing the need to fill more than 500,000 positions many companies are facing increasingly difficult business decisions including furloughs and layoffs. And the decision needed to ensure companies remain well capitalized could result in cascading effects across the U.S. economy.

The recently passed \$2.2 trillion economic relief package will help stem the tide and provide many with some form help, however, many public companies are approaching their next quarterly reporting period and need to address the current impact to their financials. This may require an update or suspension to revenue and earnings guidance.

Financial Reporting and COVID-19

With COVID-19 impacting our lives and work, it is no surprise that it is affecting corporate reporting – with regulators, exchanges, institutions and companies seeking to maintain capital and investor confidence in the wake of its impact.

Companies are starting to consider how and when they will report financial results. Auditors must navigate working at a distance and how to complete sign offs that are likely to be based on a great deal of rapidly formulated, but hopefully educated, guesswork. The fall-out continues as companies prepare to report results that reflect the impact of COVID-19 for the first time this year, and in deciding to either change current guidance or withdraw it altogether.

How to Navigate COVID-19 Challenges

Time Extensions

The impacts of COVID-19 may present challenges for certain companies that are required to provide information to trading markets, shareholders and the Securities and Exchange Commission (SEC). These companies may include U.S. companies located in the affected areas, as well as companies with operations in those regions. As a result, on March 4, 2020, the SEC [announced](#) that it is providing conditional regulatory relief for certain publicly traded company filing obligations under the federal securities laws. The SEC has issued an [order](#) that, subject to certain conditions, provides publicly traded companies with an additional 45-days to file certain disclosure reports that would otherwise have been due between March 1, 2020 and April 30, 2020.

Among meeting certain conditions set by the SEC, companies must convey a summary of why the relief is needed in their particular circumstances. The SEC may extend the time period for the relief, with any additional conditions it deems appropriate, or provide additional relief as circumstances warrant.

It is important to note that SEC Chairman, Jay Clayton, issued a statement saying, "The health and safety of all participants in our markets is of paramount importance. While timely public filing of Exchange Act reports is a cornerstone of well-functioning markets, we recognize that this situation may prevent certain issuers from compiling these reports within required timeframes."

The Chairman added, "We also remind all companies to provide investors with insight regarding their assessment of, and plans for addressing, material risks to their business and operations resulting from the coronavirus to the fullest extent practicable to keep investors and markets informed of material developments. How companies plan and respond to the events as they unfold can be material to an investment decision, and I urge companies to work with their audit committees and auditors to ensure that their financial reporting, auditing and review processes are as robust as practicable in light of the circumstances in meeting the applicable requirements. Companies providing forward-looking information in an effort to keep investors informed about material developments, including known trends or uncertainties regarding coronavirus, can take steps to avail themselves of the safe harbor in Section 21E of the Exchange Act for forward-looking statements."

Providing Updates

On March 25, 2020, the Division of Corporate Finance (CF) at the SEC provided [guidance](#) on how companies should consider the need related to COVID-19 disclosures within the broader framework of federal securities laws. The CF's position is that as risks evolve, existing rules around disclosure still apply. As a result, disclosure of risks surrounding COVID-19-related effects may be necessary or appropriate in the management discussion and analysis and business risks sections of its filings.

The CF went on to add, disclosure about COVID-19 risks and effects, including how the company and management are responding to them, should be specific to a company's situation. Factors companies should consider include:

- How has COVID-19 impacted your financial condition and results of operations?
- In light of changing trends and the overall economic outlook, how do you expect COVID-19 to impact your future operation results and near-and-long term financial condition?
- Do you expect that COVID-19 will impact future operations differently than how it affected the current period?
- How has COVID-19 impacted your capital and financial resources, including your overall liquidity position and outlook?
- Has your cost of or access to capital and funding sources, such as revolving credit facilities or other sources changed, or is it likely to change?
- Have your sources or uses of cash otherwise been materially impacted?
- Is there a material uncertainty about your ongoing ability to meet the covenants of your credit agreements?

Updates to SEC guidance can be found at www.sec.gov

How Do These Announcements Impact Reporting?

The requirement to articulate expectations of the impact of COVID-19 will affect several areas of a quarterly reporting over and above performance, for example the following topics will need to be addressed:

- **CEO/Chair Statement** – Outlooks, strategy, people and culture.

- **Operational Environment** – Impact and context: How is the company reacting to the changing operational environment? What are the challenges and what are the approaches?
- **Strategy** – Is the company changing its strategy to ensure a sustainable business? What changes are being implemented short- and long-term?
- **Stakeholder Value** – What is being done to ensure continued value creation, and a sustainable business in this context?
- **Employees** – What is being done to support employees through this time? How are companies maintaining their culture, training and development? Some organizations are making commitments to not lay off employees – how does this impact cost-cutting? If your organization has made the difficult decision to furlough or lay off employees, how many associates were impacted and what is the financial impact of this decision? Many of these types of actions require state or SEC notifications or filings, how is your organization working to communicate these steps to investors and other stakeholders in a transparent and timely manner?

How to Start

The guidance provided by the SEC highlights the number of considerations companies need to address to ensure they maintain stakeholder and investor confidence at this time. We have distilled this into a set of more user-friendly questions:

Viability

- What is the appropriate reporting response for events after the reporting date?
- What is the assessment of viability looking forwards (describe assumptions and methods)?
- What judgements underlie the assessment of material uncertainties and going concern?
- For the going concern/viability statement - what useful information about stress testing can be provided?

Investor-Focused

- How resilient is the business model in the current environment?
- What specific resources, assets and relationships are most under threat? What steps are being taken to protect these?
- What expectations are there regarding the impact on the business, in different scenarios?
- What plans are there to mitigate, capacity to implement and level of resource available for these scenarios?
- What Board assumptions and judgements are being made?
- What is the company's (cash) liquidity? What is the company's ability to re-allocate within the business?

People

- What protection and retention of staff is in place / intellectual capital for future rebuilding?

Board and Governance

- What are you doing in order to continue to operate effectively (business controls)?
- How are you securing reliable and relevant information to manage the business?
- How are you ensuring the company has enough resources to function (capital maintenance as opposed to dividends dividends)?

Currently the outlook is uncertain. What is clear is that companies and institutions worldwide will need to address these areas if they are to continue to maintain confidence from their investors, employees, suppliers and all other stakeholders.

FH Financial Communications/IR

Our experts are recognized for their knowledge of the capital markets, as well as their ability to effectively communicate a company's investment thesis, financial outlook and results across audiences.

With clarity and appropriate transparency, we help clients produce a compelling story that resonates with investors and financial media to deliver timely impact in areas including:

- Quarterly earnings
- Financial guidance or changes
- Communicating in a crisis
- Accounting restatements
- Roadshows (including ESG/SRI)
- Messaging and positioning
- Restructuring and/or labor moves
- Bankruptcy

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