

DEVELOPING A FINANCIAL BATTLE PLAN IN UNCERTAIN TIMES

In recent weeks, fuel dealers had been lamenting the impact on earnings from an unusually placid winter stretch, with hopes buoyed in some respect by very favorable commodity prices. But seemingly overnight, the COVID-19 scourge which was critically impacting other parts of the world suddenly became very real. Now a pandemic, the virus impact has overtaken our local economies and is causing deep concern to business managers.

Although many would characterize the fuel distribution and service industry as essential and non-discretionary, fuel dealers are nonetheless reporting immediate strains on their businesses. The economic shock we are seeing due to government directives is further defining what is higher or lower on the “essential” scale.

Many fuel dealers are experiencing a sudden drop-off in installation jobs, cancelled service visits due to customer health concerns and signals from commercial customers that fuel bills will age out longer than originally expected. The long-term impacts are harder to measure but easy to imagine. Assume they will hit the pocketbook of your average customer.

Now is the time to consider steps you can take to blunt the impact to your cash flow and earnings. In some cases, the financial issues are a direct result of government directives. In other cases, the issues may be the manifestation of weaknesses in capital structure or business practices that have exacerbated the impact. To formulate your battle plan, think in terms of immediate vs. medium-term solutions:



Immediate Steps: Next 4 Weeks

Communicate with your bank

The Federal Deposit Insurance Corporation (FDIC) has encouraged financial institutions to work with customers impacted by the coronavirus. Call your bank’s relationship manager to discuss options that may be available to your business but do so without unnecessarily raising red flags. Despite the fog currently surrounding the extent of the impact of business shutdowns on the economy, bank underwriting standards still exist and modifications to your loan terms must be rational. Be clear about the specific impacts the coronavirus is having on your business. For example, are you seeing a drop in installation business or a material number of customers who cannot pay for their services on time? Banks are signaling that interest only periods, multi-month deferrals and modified principal payment requirements over a longer period are reasonable solutions in this environment.





Negotiate with vendors, suppliers and landlords

To be sure, maintaining strong relationships with these parties is of utmost importance during tough times. If required to preserve cash, consider requesting temporarily scaled-back services from vendors, lengthened payment terms with suppliers and a deferral on rent payments. Explore “courtesy credits” and other offers from internet, telephone and utility providers and attempt to negotiate better long-term agreements. Communication is key – be clear about the nature of the impact on your business. Since everyone is feeling the pain, this is a time when asking for permission is better than asking for forgiveness.

Stick to accounts receivable like glue



Collections, which is always more of a challenge exiting the heating season, will be especially critical come April, May and June when your delivery services are no longer as critical to the consumer. It is likely many consumers will be tight on cash due to the impact on employment from the economic slow-down. Act now to clearly assign this role to someone at your business if not done already and closely monitor progress every week. Proactively contact late payers with alternative payment plans and enforce those plans while abiding by consumer protection laws. Incentivize credit card payments at time of delivery and require your staff to push budget programs heavily.

Treat your line of credit with care



While you may be tempted to draw down every available dollar on your line of credit to stockpile cash, be careful to ensure you aren't setting yourself up for problems with your lender in the coming months. Revolving lines of credit are intended to support seasonal borrowing and many are tied to a receivables and inventory advance formula. Identify if you have an underlying working capital shortfall by comparing your current assets and current liabilities on your balance sheet. Your current assets should meet or exceed your current liabilities. Contact your financial advisor immediately if you sense you will have difficulty repaying your line of credit. Arranging for proper working capital may require a more comprehensive refinancing which is addressed below.

Reset your projections for the year (or create a budget if you don't have one)



After the double-whammy of a warm January through March period and a government-directed shutdown, the odds of your company's earnings being on plan for the year are slim. Revise your demand-side expectations for the remainder of the year. What does this mean to your planned staffing levels? You may need to explore reduced hours, furloughs or layoffs as many others in the industry have already done this month. What does this mean to your targeted gross margin on deliveries, service activity and installations for the remainder of the year? What discretionary expenses can be delayed until the end of the year or into next year? Consider an immediate freeze on hiring unless required for short-term business continuity. Cancel business travel until more certainty returns. A detailed budget allows for better clarity on these important decisions. Without one you are operating from the gut and that approach has proven time and again to be ineffective in good times and in bad.



Consider the SBA Coronavirus (COVID-19) Disaster Assistance Loan Program

This program offers low-interest (3.75%) loans of up to \$2 million to qualifying small businesses impacted economically by the virus. Keep in mind that due to heavy demand, the approval and processing time will likely take several weeks and that is why this is listed as a subsequent step. That being said, you can visit the following site today to apply online by March 31st:

<https://www.sba.gov/disaster-assistance/coronavirus-covid-19>

Investigate debt refinancing if you have a recurring liquidity issue



Perhaps the financial hardship you currently face from the coronavirus impact is simply the manifestation of an underlying structural issue at your company. If you sensed other challenges prior to this month, this spring is the time to consult with your financial advisor to discuss underlying weakness at your company. Often such situations can result in growing frustration among lenders and borrowers if each party has a different view of why your company is facing challenges. Refinancing this year may make perfect sense – particularly in a low interest rate environment. However, know that it rarely happens quickly and may force you to finally conduct an honest assessment of your company's earnings targets and expense structure.

Cash remains king and use of the above approaches can help you better navigate the current unprecedented situation. Immediate and thoughtful steps can help you retain liquidity without damaging valuable relationships. If you sense there is more to your company's challenges than the coronavirus, use the time this spring to attack core financial weaknesses within your business.

Avoid speculating on commodity purchases to make up lost profits



Yes, fuel prices are hovering around their lowest levels in a long time. However, they could go lower. Speculation can be a ruinous strategy. Instead of taking unnecessary risk, use the current market environment to enroll customers in pricing programs with stronger than usual margins at prices that are far lower than what they paid last year. Properly hedge these obligations. Likewise, be careful to avoid employing a low-margin pre-buy program to generate immediate cash. Heavy reliance on a pre-buy program for liquidity is often a symptom of a working capital weakness. This is better tackled through a detailed budgeting and refinancing approach.

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PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. The risk of loss in trading commodity interests can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. In considering whether to trade or to authorize someone else to trade for you, you should be aware that you could lose all or substantially all of your investment and may be liable for amounts well above your initial investment.

ADDITIONAL HELPFUL RESOURCES FOR SMALL BUSINESSES

As you navigate the business disruption related to the coronavirus, we have identified the below additional resources to assist you in both financial and non-financial areas. Be aware that some states are also offering or considering additional special loan programs which can be found through the links below. These resources are external to Angus Energy, however please feel free to reach out to us for assistance with interpreting or applying the information.

<https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>

https://www.sba.gov/sites/default/files/files/Three_Step_Process_SBA_Disaster_Loans.pdf

<https://www.statechambers.org/cv>

http://bit.ly/multistate_covid_tracker

- select Tab 2 at top left of page, then see Small Business Assistance column on the right side of the page

https://www.uschamber.com/sites/default/files/coronavirus_customizable_flyer-final.pdf

<https://www.uschamberfoundation.org/resilience-box>

<https://www.facebook.com/business/boost/grant>

<https://www.facebook.com/business/boost/resource>

https://www.uschamber.com/sites/default/files/023595_comm_corona_virus_smallbiz_loan_final_revised.pdf