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**Evaluating Capital Structure, Re-Organizations, and Suppliers during a Coronavirus Triggered Recession**

The COVID-19 pandemic, widely known as the Coronavirus, has created unprecedented turmoil in the day to day life of every person across the globe, resulting in unknown economic results. The turbulent markets and the reaction by local, state, and federal governments underline the severe repercussions that are likely to follow. In fact, S&P Global estimates that the economy could shrink by 1 percent in the first quarter, followed by a possible 6 percent drop in the second quarter of 2020. For businesses and key decisions makers, many of the expectations and assumptions heading into 2020 have been made moot. The focus for businesses moving forward will be finding a method to survive the economic downturn and preparing for an eventual recovery.

The strategies for a business to survive a severe economic downturn will vary based on the industry and the market in which it sells. In fact, some businesses will likely thrive throughout an economic downturn, but most will need to be proactive to ensure survival. Being proactive includes re-evaluating the current capital structure of the business, re-organizations to drive cost efficiencies, and protecting both the demand and supply side of the business.

Proactively evaluating the capital structure of a closely held business involves a review of all potential capital sources, current capital demands, and cash on hand. As every business owner understands, cash is key, which means ensuring that the business has enough cash to continue until the business returns to profitability. Some business owners will prefer to inject capital directly into the business from their personal wealth or from the wealth of third-party investors. If this is the method chosen by a business, it will be important to structure the investment properly to protect the business, make proper disclosures to the investor, and follow regulatory requirements. However, many businesses will have no choice but to secure adequate debt to survive the downturn and, based on the action by the federal reserve and various governments, debt may ultimately be the cheapest method to secure funding.

When a business secures additional debt, whether through a new or restructured credit facility, the instrument itself will need to be negotiated to ensure it satisfies the business's needs. Further, the credit facility will require some form of security and due diligence by the lender, and that process should be completed in a manner to create a minimal amount of additional risk to the business. Although these credit facilities require a significant amount of negotiation and legal review, they may be the sole reason that the business is able to survive an economic downturn. Regardless of whether the loan will be used as a safety net or is required to extend the run rate, the time to seek out and secure the loan is well before the business needs the cash.

Another tool that businesses will need to consider is re-organizing to create efficiencies and streamline the business. When the business is running strong, it is normal to invest in riskier projects and business units, but in order to preserve cash and focus on core competencies in a downturn, it is often necessary to re-organize business units, subsidiaries, and affiliates. Although shuttering a business unit and re-focusing efforts may not be particularly appealing, such action may be necessary for many businesses to streamline operations, limit risk and exposure, and protect the core elements that are likely to remain profitable. Typically, these re-organizations happen quickly and at the onset of what will likely be a prolonged downturn. However, just as re-organizing can protect a business heading into a downturn, re-organizing as the business emerges from the downturn can help capture emerging markets, new trends, and future opportunities.

In an article by global consulting firm McKinsey & Company, the firm noted that unknowns make economic projections difficult, but suggested that they expect a recovery starting by the 4th quarter of 2020 unless this turns into a prolonged contraction. For businesses, this means using tools to preserve the company through a downturn, including revamping a business's capital structure, organizational structure, and finding alternative methods to deliver goods and services. To that point, the global supply lines have been ruptured and demand has been uniquely curtailed, save for a few industries, in an un-precedented manner. Many businesses will encounter demand issues based on the immediate shock to the consumption of goods and services. Fortunately, in the modern era, alternative delivery methods exist for most industries. To utilize these new tools, a business will need to evaluate the available options, negotiate agreements, complete technology due diligence, and ensure that the implementation does not run afoul of regulatory obligations, including privacy and data security matters.

After the novel Coronavirus subsidies and the economy starts to recover, to emerge in a position of strength, it is necessary to work through several key issues, including re-evaluating and negotiating agreements with vendors and suppliers. The global pandemic has already proved problematic for obtaining supplies, which means businesses may find themselves unable to meet demand when it returns. Businesses should be proactive in discussing agreements with suppliers and determining their capacity, back-up and disaster recovery plans, and what the relationship will look like moving forward. It is possible that some of the agreements may have a "force majeure" clause or similar impossibility language triggered, but this should be discussed with legal counsel before relying on such assertion. Specifically, getting a grasp on those agreements that need to be re-negotiated, those suppliers that can be relied upon, and obtaining commitments will be important to knowing that the business will have capacity to move forward. Based on the uncertainty, the re-negotiated agreements should contemplate the risks and provide some basic assurances.

The initial estimates of how deep and prolonged the pending economic downturn vary widely, with Goldman Sachs still predicting U.S. growth in 2020, even if they expect a recession worse than those in 1991 and 2001. Regardless of whether this is true, the businesses that take immediate steps to prepare will be the ones that survive and have the chance to take advantage of the myriad of opportunities that will likely exist when the global economy recovers.