

COVID-19: Steps to government liquidity support

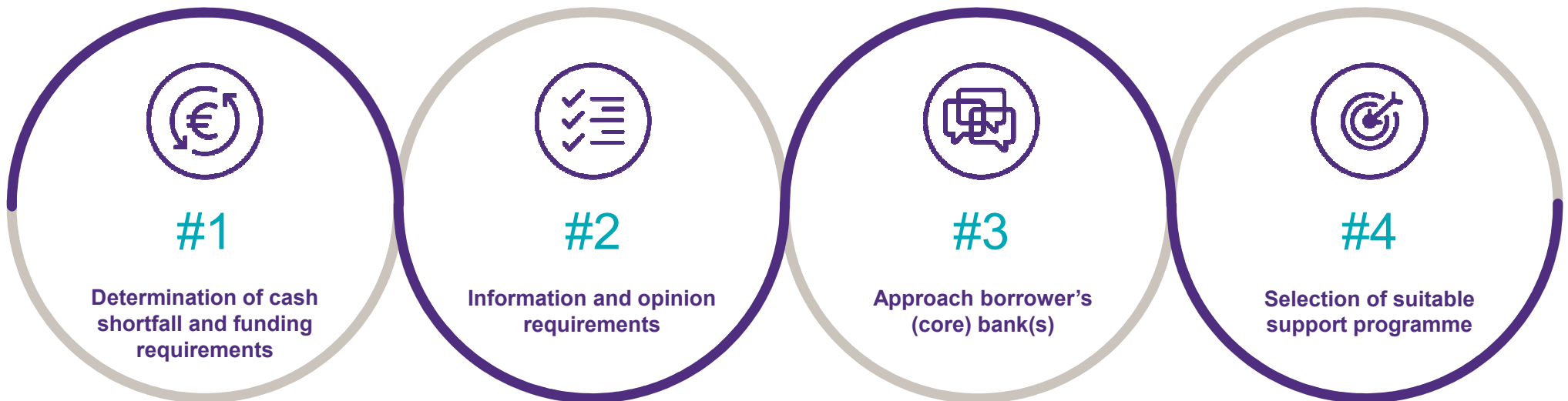
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**Corporate Finance & Advisory,
Warth & Klein Grant Thornton**

State as of: 14 August 2020



”Corona-crisis support”: The four essential steps to government liquidity support



- Preparation of a government **liquidity forecast** (on a weekly/monthly basis, covering at least 3 months)
- Consideration of all expected cash inflows and outflows (realistic best estimate)
- Check of covenants as agreed in existing financing agreements

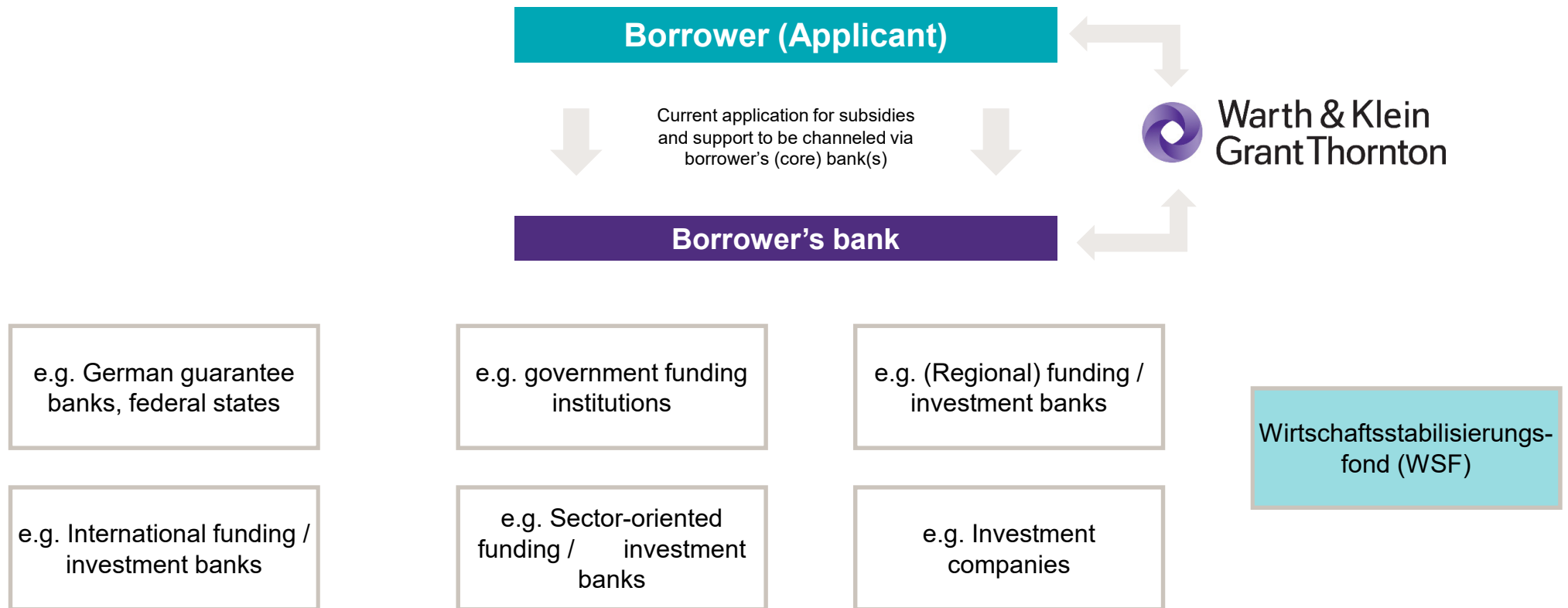
- Key element to prove and document: **”As per 31 December 2019, the business was not in financial trouble”**
- Explaining “coronavirus impact”
 - Financial forecast consisting of balance sheet, income statement, cash flow statement and premises
 - Scenario before corona impact
 - Scenario incl. corona impact (e.g. Duration and later adjustments)

- government support and governmental measures are generally channelled **via the borrower's (core) bank(s)**
- Preliminary applicant request to borrower's bank (particularly in case of KfW funds)
- Where appropriate, approaching government investment / business promotion banks directly

- Selection of appropriate programmes (limitations with regard to cases being already in a restructuring [IDW S 6] situation)
- Application process
- Submission of documents to borrower's bank (i.a. depending on programme and loan volume)
- Implementation support

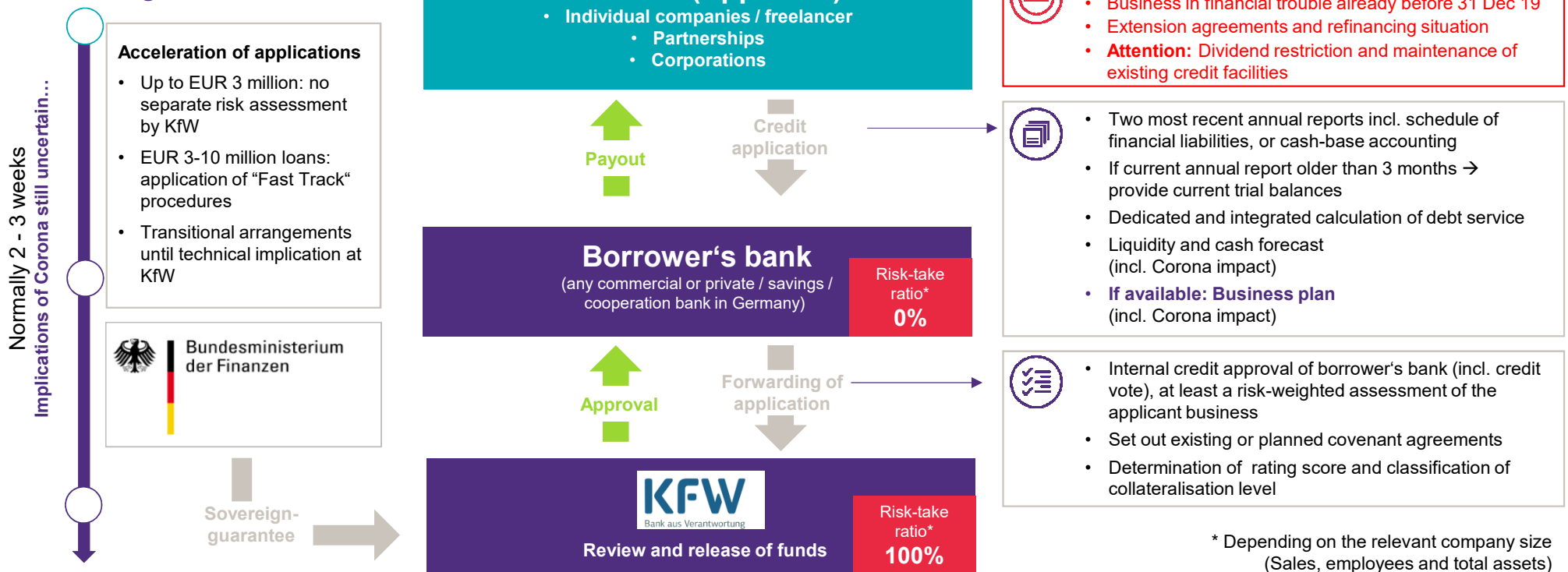
We accompany borrowers through all phases of the financing process until successful signing/closing

”Corona-crisis support”: The application procedure at a glance



Support programmes of the Federal Government ALWAYS to be channelled via the borrower's bank

Processing time



* Depending on the relevant company size (Sales, employees and total assets)

KfW – “Schnellkredit“ for all companies

Credit volume	Main information & required documentation	
<p>< EUR 0,5 million</p> <p>< EUR 0,8 million</p>	General criteria:	
	<ul style="list-style-type: none"> The company is not an “undertaking in difficulties” within the meaning of the EU definition 	
	<ul style="list-style-type: none"> Maximum credit volume is 25% of annual turnover in 2019 	
	<ul style="list-style-type: none"> The company has been on the market at least since January 2019 	
	<ul style="list-style-type: none"> The company produced profit in 2019 or on average in the last 3 years - or in a shorter period if it has not been on the market since 2017 	
	<ul style="list-style-type: none"> The company employs between 10 to 50 employees 	
	<ul style="list-style-type: none"> The company employs more than 50 people 	
	Other notes:	
	<ul style="list-style-type: none"> No profits or dividends are distributed during the repayment period. However, customary market distributions or withdrawals by the business owners (natural persons) are possible 	
	<ul style="list-style-type: none"> The remuneration of managing directors and managing partners may not exceed EUR 150,000 during the term of the loan, including bonuses, non-cash benefits and other profit-related remuneration components 	
<ul style="list-style-type: none"> There is a prohibition of accumulation, i.e. parallel applications for other KfW loans from the special programmes are excluded (but later replacement is possible) 		
<ul style="list-style-type: none"> No commitment commission and no prepayment penalty in the event of premature repayment of the loan 		
Interest rate:		
3,00% p.a.		*Employee calculation:
Duration:		
10 years (of which 2 years can be redemption-free)		Employees...
Purpose of use:		
For purchases (investments) and running costs (working capital)		- up to 20 hours: Factor 0,50
Release of liability:		
100% - No risk assessment by bank / KfW		- up to 30 hours: Factor 0,75
*Employee calculation:		
		- more than 30 hours/trainees: Factor 1
		- 450 EUR basis: Factor 0,30

* Orderly financial circumstances exist if there are no unregulated payment arrears of more than 30 days; there was no obligation to file for insolvency as of 31 December 2019 and this is planned for the next 3 months.
 Note: Support is also available for companies in which private equity investors have an interest. Excluded here again are distributions or capital withdrawals during the credit period. The information provided here will be partially changed on 28. April 2020. It has been announced that the maximum credit period for all loans up to EUR 800,000 will be set at 10 years (6 years for higher loan amounts).

Size definitions / potential program specifications of KfW

	Small- and mid-cap companies	Large-cap companies
Employees	<= 250 FTEs	> 250 FTEs
Revenue	<= EUR 50 million ("Company group" according to KfW)	> EUR 50 million ("Company group" according to KfW)
Balance sheet total	n/A	> EUR 43 million
Risk taking by KfW	Up to 90 % (guarantee)	Up to 80 % (guarantee)
Lending programme	<ul style="list-style-type: none"> > 5 years on the market: "KfW-Unternehmerkredit (047)" At least 3 years on the market: "ERP-Gründerkredit-Universell (076)" 	<ul style="list-style-type: none"> > 5 years on the market: "KfW-Unternehmerkredit (037)" At least 3 years on the market: "ERP-Gründerkredit-Universell (075)"
Credit cap (general)	EUR 100 million	EUR 100 million
Credit cap (specific)	Limitation to maximum of ... <ul style="list-style-type: none"> 25 % of annual revenues in 2019 or twice the labour costs in 2019 or current financing requirements for the next 18 months or 50% of total debt or 30% of the group's balance sheet total for loans exceeding EUR 25 million 	Limitation to maximum of ... <ul style="list-style-type: none"> 25 % of annual revenues in 2019 or twice the labour costs in 2019 or current financing requirements for the next 18 months or 50% of total debt or 30% of the group's balance sheet total for loans exceeding EUR 25 million

KfW-Special programme – Syndicated financing above EUR 25 million

- Participation in syndicated financing for CAPEX and working capital
- Assumption of up to 80 % of the risk, but no more than 50 % of the risks of total debt
- KfW risk share amounts to at least EUR 25 million - other limitations corresponding to credit cap (for Large-cap companies)

The "most-favorable-limit" applies to individual credit limits. The term "total debt" is still to be defined.

Our opinion: Alternatively, the application for a regional-governmental guarantee seems possible in individual cases.

The Economic Stabilisation Fund (WSF)

(„Wirtschaftsstabilisierungsfonds (WSF)“)



Zielsetzung

Support of the real economy to the extent of EUR 600 billion, provided that the threat to the continued existence of the companies has a significant impact on the business location or the labour market in Germany

- The WSF shall be authorised to issue guarantees of up to EUR 400 billion for debt securities and established liabilities of companies issued between 28 March and 31 December 2021 in order to overcome liquidity bottlenecks and support refinancing on the capital market
- the duration of the guarantees and the liabilities to be covered must not exceed 60 months
- for the assumption of guarantees (standardised), an appropriate consideration must be charged

- the possibility of participating in the recapitalization of companies, among other things by acquiring shares (cf. the participation of the German government in Commerzbank in the context of the financial crisis).
- The individually structured recapitalisation measures include the acquisition of the following instruments:

Subordinated debt instruments	Hybrid Bonds	Participation rights
Silent partnerships (standardised)	Convertible Bonds	Shares in companies
Takeover of other components of equity if this is necessary for the stabilisation of the company.		

can be combined

Standardised instruments of the Economic Stabilisation Fund (WSF)

	Guarantee for bank loans	Silent Partnership
Employees	> 249 FTE	> 249 FTE
Revenue	> EUR 50 Mio.	> EUR 50 Mio.
Balance sheet total	> EUR 43 Mio.	> EUR 43 Mio.
Risk assumption	Up to 90 % (pro rata deficiency guarantee)	n/a
Restriction on applications	<ul style="list-style-type: none"> • KfW special programmes and guarantee programmes or large guarantee programmes (federal/state guarantees) may not be applied • Exclusion "Unternehmen in Schwierigkeiten" (EU definition) 	<ul style="list-style-type: none"> • Exclusion "Unternehmen in Schwierigkeiten" (EU definition)
Credit cap (general)	at least 5 million liabilities to be hedged	max. EUR 100 Mio.
Credit cap (specific)	Limitation to maximum of ... <ul style="list-style-type: none"> • 25 % of annual revenues in 2019 • twice the labour costs in 2019 • current financing requirements for the next 12 months 	Limitation to maximum of ... <ul style="list-style-type: none"> • the loss of equity due to the Corona crisis • equity level existing on 31.12.2019 - in absolute terms or in relation to the balance sheet total (the lower amount is decisive) - is restored
Duration and compensation	<ul style="list-style-type: none"> • Maximum 5 years • Minimum fee: 1Y [0.5%], 2+3Y [1.0%], 4+5Y [2.0%]. 	<ul style="list-style-type: none"> • Large companies: max. 7 years (bullet maturity) / 10 years (for loss recovery) • Listed companies: max. 6 years (bullet maturity) • Fixed coupon: 1Y [4.0%], 2+3Y [4.5%], 4+5Y [5.0%], 6+7Y [7.0%], 8-10Y [9.5%+x].
Other conditions	<ul style="list-style-type: none"> • In the case of Group companies, a guarantee or co-obligation of the parent company • Adequate shareholder contribution generally required • Granting of information rights (no participation rights) for the WSF • Compensation limitation for members of the board and executive management to basic compensation as of 31.12.2019, as long as >25% is outstanding • Debt rescheduling is excluded Regular repayments on existing bank loans are suspended until the end of 2021 • Existing credit lines must be committed/fixed until at least the end of 2022 • Combinations with other funding programmes possible • For guarantees of EUR 100 million or more: prohibition of distributions or dividends and prohibition of share buybacks • For silent partnership: Obligation not to pursue an aggressive expansion strategy for the duration of the term 	

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COVID-19: Important steps to government liquidity support

Contact persons and additional information concerning support for companies and entrepreneurs...

...on our website: <https://www.wkgt.com/themen/>.

At the Corona Hub, our experts from the Audit & Assurance, Tax, Legal, Corporate Finance & Advisory, Private Finance and Business Process Solutions departments will comment on important questions and issues relating to the economic impact of the pandemic and provide you with summarized information.

Our **expert teams** are right by your side and provide you with advice for the following topics:

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- Business Process Solutions
- Corporate Finance – Liquidity and Restructuring
- Rental and real estate law
- Legal issues concerning restructuring, management's liability, and insolvency
- Tax advice
- Tax
- Tax – Payroll Tax – Sales Tax – Income Tax
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We are right by your side!

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The above refers to the state of knowledge as of March 23, 2020, which has been researched and prepared to the best of our knowledge and belief based on currently available information. However, due to the highly dynamic nature of regulatory and commercial processes in the current market environment, we cannot assume any liability for the above statements on credit programmes and application processes.



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