

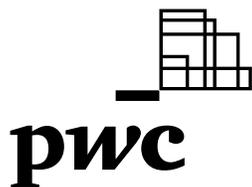
# COVID-19: What it means for the energy industry

## Practical steps for responding to the coronavirus crisis

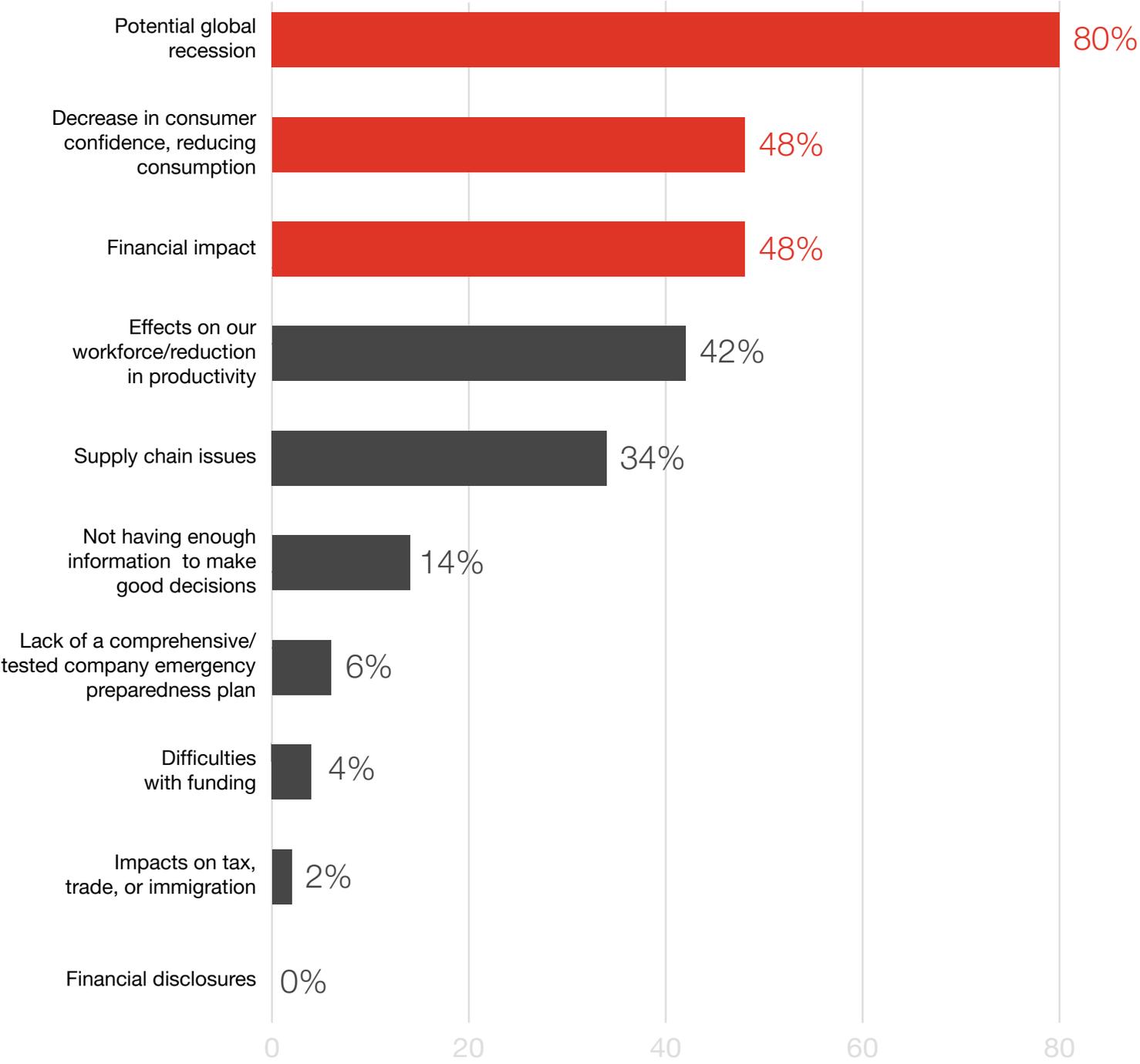
The energy sector has already felt the impacts of the coronavirus. The outbreak has contributed to a dampened demand for oil, resulting in plummeting oil prices and production declines, especially in the wake of the Russia-OPEC price war. As we move forward, then, the energy sector expects to face two headwinds: managing the issues of the health emergency all sectors face, and simultaneously coping with a low oil-price scenario, lower demand and the need to shore up revenue and manage debt obligations.

Typical contingency plans enable operational effectiveness following events like natural disasters, cyber incidents and power outages, among others. They *don't* generally take into account the widespread quarantines, extended school closures and added travel restrictions that may occur in the case of a health emergency, such as COVID-19.

The crisis raises a number of unique challenges. In PwC's inaugural [COVID-19 CFO Pulse Survey](#), finance leaders in the United States and Mexico shared their top concerns.



# Top CFO concerns about COVID-19



Source: PwC COVID-19 CFO Pulse Survey, March 11, 2020  
Q: What are your top-three concerns with respect to COVID-19?  
Base: 50

To help navigate the fast-moving coronavirus situation, we've prepared some general guidance on [COVID-19: What US business leaders should know](#): including crisis management, supply chain, financial reporting, tax and trade, and workforce issues.

## What makes energy different:

Here is our take on some additional issues that companies in your industry may face:

### Crisis management

The energy industry is likely to continue to struggle in the wake of a precipitous drop in [oil and gas prices](#) (and share prices) due to dampened demand from the effects of COVID-19 and recent failed negotiations between OPEC and Russia.

Looking ahead, this environment of depressed oil prices, along with revenue and production declines, will likely continue to present major challenges for oil and gas companies, especially those at risk of being unable to refinance debt or meet existing debt covenants. As a result, the industry could well face potential bankruptcies.

Even in a scenario in which the market rebalances from Saudi Arabia's decision to add production, and demand bounces back following a COVID-19 containment, the industry may still be looking at a prolonged recovery period lasting as long as two years (based on historical production decline curves). If, however, OPEC and Russia come together on joint energy policies, the recovery could likely be shorter.

#### Steps to consider:

- Assess how profitability and cash flow generation can support ongoing operations in a low oil-price climate — including current (and forecasted) cash operating expenses, taxes and other cash expense items. Analyze at the field or well level as cash forecasts will be dependent on this “cash margin” against the decline curve.

- Carry out a review of capital and corporate cost budgets to identify not only marginal investments, but also discretionary items that can be culled.
- If you anticipate debt risks, you may wish to consider diversifying, divesting non-core or underperforming assets or assessing the prospects of a merger.
- Consider refinancing debt.
- Keep an eye open for M&A opportunities, as distressed assets or non-core assets may be a potential source of cash for embattled companies.

## Supply chain and operations

Companies should expect weak links in their supply chain, as some vendors and suppliers may face operational or financial struggles of their own. This may create supply chain bottlenecks both nationally and internationally.

As with previous downturns, the industry will likely move quickly to cut discretionary and capital spending to support operations. A key question for oil and gas companies: Do they have the financial reserves to weather the storm or even capitalize on the tumult in the industry?

### **Steps to consider:**

- Assess links in your supply chain and identify potential weaknesses — especially in geographies affected and those that may be impacted.
- Plan for a supply chain shift that could mean identifying alternative suppliers.
- Keep an open and regular dialogue with your suppliers and customers about how they are being impacted by COVID-19 and how their experiences could affect your business.

- Seek alternatives that may allow you to preserve relationships, co-create solutions and sustain both businesses. It's possible that a third-party provider may prove to be a critical point of failure in creating a response to COVID-19.
- Assess your positions by reviewing your balance sheet and liquidity to reset the baseline from which the company can develop its options as it faces a new price environment.

## Workforce issues

Energy companies will need to take immediate and contingent safety measures for their employees, in particular, deciding which functions can be done remotely should an outbreak occur within their ranks.

Operators will also likely need to reduce their capacity and cost structure through staff reductions and related measures as their activity levels decline.

Energy companies may need to consider outsourcing portions of their corporate functions, moving IT to the cloud, for example, or shifting internal non-core operating functions to contractors. Such changes can lower operating costs and eliminate maintenance capital.

### **Steps to consider:**

- Set up risk mitigation programs for employees that may still need to work on-site.
- Consider ways to automate tasks to minimize person-to-person contact.

- Build flexible work arrangements, where applicable, to minimize close worker proximity, in, for example, field-worker teams.
- Gather necessary data on employees (geography, visa status, etc.) and track movements as closely as possible.
- Outsource functions as needed to help trim operating costs.
- Consider business continuity plans and the potential impact of continuing with normal operations, in particular, employees' ability to work remotely, quarantine of personnel and the impact of travel restrictions.

Invest in workforce mobility solutions to enable remote working across portfolio companies, where applicable. Provide training and support as employees transition to the new ways of working.

## Tax and trade

Energy companies must react to and plan for changes to supply chains and workforce global mobility due to COVID-19. Each of these changes requires careful consideration of potential tax implications, and companies ought to consider these implications now.

### **Steps to consider:**

- Consider planning for the utilization of tax attributes and cash repatriations if declining demand and commodity prices continue for an extended period.

Disruption in the sector may lead to numerous [financial disclosure implications](#), and companies may need to make the necessary assessments across their business — from the value of assets to liquidity and other risk disclosures.

### **Steps to consider:**

- Depressed commodity prices and changes in demand may increase risk for impairments of oil and gas properties, other long-lived assets and goodwill. Valuation allowances on deferred tax assets may also increase.
- Quarterly concern analysis may need to address the impact of COVID-19 on liquidity.
- Reserve-based lending redeterminations may result in lower borrowing bases. You may also need to reassess classification of debt, as short-term or long-term.
- Capital spending programs could be reduced. Upstream companies may need to consider the impact on reporting of proved undeveloped reserves.
- Risk factor disclosures may need to be added or modified to address the risks of COVID-19 and other pandemics in general, specifically their impact on commodity prices, supply chains and business continuity.

Multinational companies should expect potential cash flow constraints from foreign operations — including cash repatriation complications and irregularities. Cash could also get bottlenecked when goods are paid for but are not supplied (or delayed or stranded). Such cash bottlenecks may occur in geographies most affected by COVID-19.

Companies should prepare for challenges in access to capital and credit markets and plan for a possible contraction in global cash liquidity.

### **Steps to consider:**

- Plan to reassess your cash flow statement forecasts, and stress-test each line item of incoming and outgoing cash, considering best- and worst-case scenarios over the short and long term.
- In countries and regions most affected by COVID-19, companies might consider holding off on repatriating cash and instead leaving cash in local jurisdictions, so it can be readily leveraged locally to ramp up during a recovery.
- Assess which countries your company may be vulnerable in — both in repatriating cash and in stranded assets. Monitor and reassess other geographies on an ongoing basis and adjust your cash flow strategies as needed.

# The way forward

The energy sector has been buffeted by external events — and how and when things will return to normal depends on fast-changing variables, from geopolitics to the global containment of COVID-19. For some companies in the sector, it may mean taking every measure possible to survive. For others, there may be opportunities to prepare for a recovery by protecting their cash flow or acquiring undervalued companies.

Plan for a future in which prices begin to recover. What assets, people and capabilities will you need or want then? Look for ways to preserve what you might need later.

Many energy companies will be compelled to make cuts during this volatile period. Some will be austere. So be surgical with cuts while balancing short- and long-term needs.

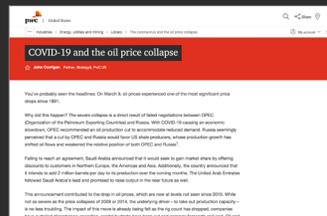
Keep in mind that austerity measures should be tempered to preserve long-term objectives. While moving quickly can certainly create an advantage, knowing where you're going makes every change you make more impactful.

Successful energy companies have weathered down cycles before, emerging stronger afterward. Despite the stress down cycles cause, cool heads and measured, informed decision-making will help better position you to capitalize on the market recovery.

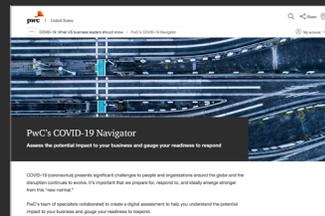
## Related insights:



COVID-19



COVID-19 and the oil price collapse



PwC's COVID-19 Navigator



PwC's COVID-19 CFO Pulse Survey

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