

Impacts of COVID-19 and the oil & gas crisis on the energy industry

Energy industry challenged by dual downturns

The impacts of the COVID-19 pandemic coupled with the oil & gas crisis are wide-ranging with the energy industry caught in the middle of it all. Drilling down on both the obvious short-term effects and the anticipated long-term implications now can help mitigate disruptions and losses while leading towards a path of recovery.



Resiliency starts with a commitment to identify and mitigate risk factors that can further disrupt your business

Immediate impacts

Pressing issues disrupting the industry are challenging oil and gas companies to be proactive like never before.

Liquidity & Cash Flow Management

What financial impact will the pandemic have on your company?

- Consider reducing capital expenditures
- Calculate risk from borrowing base redeterminations
- Know your covenant compliance challenges
- Determine risk from commitments and contingencies, such as minimum volume requirements
- Understand whether other debt puts your company at risk

Supply & Demand

How are you responding to the current commodity price environment and the actions of OPEC and other countries?

- Know your production challenges
- Consider impact of deferring current year and future drilling plans
- Reduce other costs to preserve capital and optimize production

People & Labor

What human resources considerations do you need to take into account?

- Plan how to handle employee retention and continued compensation
- Consider possible employee reductions
- Make decisions around share-based compensation arrangements

External Factors

What other external dynamics does your company need to factor into the path forward?

- Plan for the improbability that stimulus or bailout funds will directly benefit the energy industry
- Decide how to proceed during continued oil price war between Saudi Arabia and Russia
- Know the potential implications on disclosures in financial statements

Looking at future impacts

With a constantly shifting environment, it can especially be challenging to consider potential long-term implications of this dual downturn. Although the oil and gas industry will likely continue to experience distress in the coming months, considerations now will reap benefits looking ahead to early 2021.

Long-term effects to consider now

- Work to strengthen balance sheet to put your company in a better position
- Prepare properly for oil and gas reserve reductions
- Understand impact on accounting and reporting matters, such as impairments and asset base erosion concerns
- Prepare for significant decrease in M&A activity and the buying shift of PE firms to acquiring the best business segments rather than entire companies
- Determine whether a proactive move to restructure is better option or should you file bankruptcy
- Determine impact of the tremendous capital crunch with new financing very hard to find and likely coming at an extreme premium
- Know the wide-ranging impacts on OFS supply and drilling services
- Carefully examine credit line provisions and look for possible need for modifications, which can be pivotal for the livelihood of some energy companies

We are here to help

Our Energy team is ready to help, with as little or as much assistance as you may need. Some value-added services to address immediate and long-term effects of this unprecedented market volatility include:

- Fair value measurement
- Impairment testing
- Solvency opinions
- Restructuring and debt cancellation
- Operational improvement
- Contract and volume commitment analysis
- Financial due diligence
- Federal and state tax consulting
- Human capital optimization
- Cash management and preservation
- Revenue recognition

Discover additional insights

For more economic analysis, business impact examination, and fresh thinking on how to plan, respond, and restore – please visit our [COVID-19 resource center](#).

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