

Short term cash flow planning and liquidity improvement

March 2020



Short-term cash flow forecasting - Why now

COVID-19 affected most of the companies countrywide. The business disruption is evident and putting high pressure on the liquidity and cash balance. At this situation, it is crucial to monitor your cash flows on weekly or daily basis using direct cash-flow method to identify possible cash gaps, to quantify cash needs and to identify suitable mid-term solutions.



Pressure on cash

- Decrease in demand
- Drop in sales
- Bad receivables (Covid impacted customers)
- Purchase commitments
- Planned capital expenditures
- Excessive leverage
- Exchange rate risk
- Bank loan repayments



Benefits of short-term cash flow monitoring/forecasting tool

- Ability to identify excessive regular expenses and adjusting them accordingly
- Liquidity risk reduction
- More insight into the future planning
- Replacement of a portion of rather expensive short-term financing by lower-cost long-term financing
- More streamlined and profitable business model
- Possible optimization of WoCa levels



Solutions to short-term cash flow problems

- Loan / overdraft
- Speeding up the collection process
- Liquidation of assets
- Delay of payments to vendors
- Make use of various NWC solutions/platforms (e.g. factoring)
- Decrease of inventory stock
- External bridge financing
- Apply for deferral of tax payments



Monitoring and regular updating of the short-term cash flow situation is key for the companies to overcome the critical months ahead.

Short-term cash flow forecasting - Manage your cash effectively

In the current situation the cash and liquidity should be monitored on daily basis. Therefore, companies should start to weekly forecast and monitor their short-term cash flow for the period of 8 – 13 weeks using direct cash flow method to early understand and mitigate potential cash gaps, as possible.

Quick tips



Direct cash flow method



Weekly updates



8-13 weeks planning periods



Easy to use MS Excel tool



Flexible tool to simulate impact of cash gaps solutions



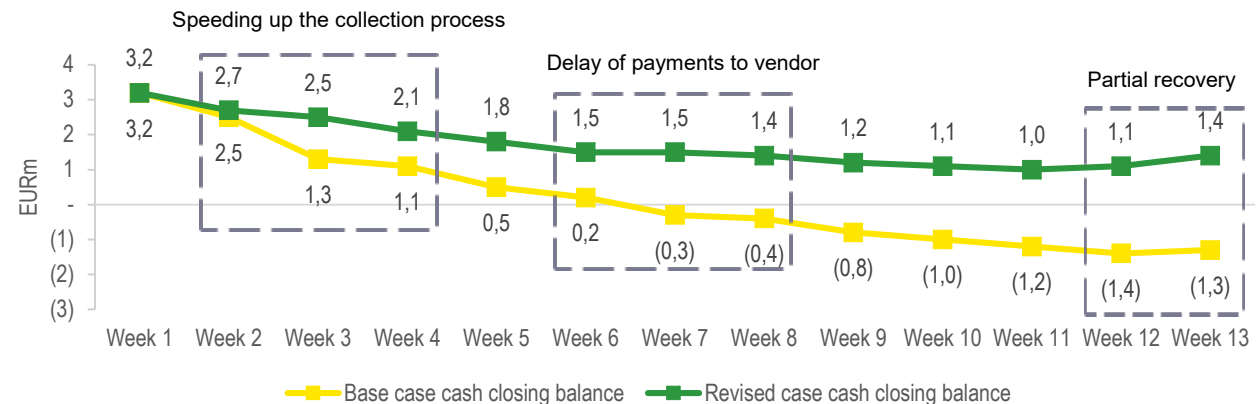
How can you prepare a short-term cash flow forecast

- Based on payables and receivables account balances, you will be able to determine:
 - Development of income based on the expected invoices maturity
 - Development of the expenses related to the payments to the suppliers
 - Regular payments during the month/week (i.e. salaries, utilities payments, rent, etc.)
- Including planned capital expenditures and financial obligations, the short-term cash flow forecast can be produced to identify potential cash gaps.



Cash gaps solution

- Speeding up the collection process
- Offer early payment discounts
- Delay of payments to vendor
- Liquidation of redundant assets
- Overdraft accounts
- Postpone capital expenditures if possible
- Raise interim junior debt capital
- Apply for tax payments deferral



Short-term mitigating measures to improve your cash position

The objective is to protect cash reserves to survive the business disruption period. Following areas should be considered.



Clients

- ▶ Stop payment of volume or price bonuses / review sale incentive schemes.
- ▶ Review contractual obligations with customers; prepare defense strategy in case obligations cannot be met.



Suppliers

- ▶ Renegotiate payment conditions with suppliers (differentiate between this less/more impacted by the crisis)
- ▶ Consider cancelling contracted deliveries or services even if losing paid deposit (still cash positive measure).



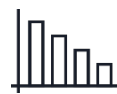
Employees

- ▶ Ensure the employees are safe
- ▶ Identification of key functions for the business, ensuring their access to locations / remote access.
- ▶ Adjustment of salaries payments to minimal contracted amount; delay/no variable part.
- ▶ Ensure functionality of remote access / home office solution (IT support, number of licenses, hardware, system access management, etc.)



Operations and working capital

- ▶ Set up communication mechanism with key business' stakeholders (employees, banks, customers, suppliers, investors).
- ▶ Decrease inventory levels to reflect expected sale volume
- ▶ Review payables and introduce approval of all cash-out payments



Costs structure

- ▶ Review of variable costs – identify what could be delayed or cancelled.
- ▶ Review of marketing spend and cancel/defer marketing actions planned for H1 2020



Investments

- ▶ Consider committed Capex cancellation (even if penalized)
- ▶ Review and defer Capex plan for the next 3 – 6 months.



Taxes, social and health insurance

- ▶ Request the reduction of the compulsory corporate income tax prepayments (subject to tax authorities approval)
- ▶ Extend the tax return filing (defers tax payments).
- ▶ Due tax payments could be deferred or paid based on individual calendar, and related interest at least partially waived.
- ▶ Extraordinary circumstances can usually lead to a reduction in potential sanctions.
- ▶ Social and health insurance regimes also include certain relief schemes.



Financing

- ▶ Drawdown the unused parts of revolving lines and overdrafts and keep cash (as banks may restrict the limits).
- ▶ Review of loan documentation to identify potential shifts in amortization and other cash flow positive measures.
- ▶ Start communication with the bank as early as possible

The implementation of the potential measures should be considered in regard to the respective industry sector and business model.

Is your cash-flow largely negatively impacted? - How we can help you

Short-term cash and liquidity analysis



- ▶ Analysis of cash gaps
- ▶ Identification of quick wins
- ▶ Quantification of cash needs and identification of mid-term solutions

Financing options



- ▶ Analysis of financing structure
- ▶ Identification of alternative options
- ▶ Securing non-bank / quick financing

Negotiations with banks and bondholders



- ▶ Leading negotiations with current banks and/or bondholders
- ▶ Lenders deck and banking presentation preparation
- ▶ Preparation of financial projections
- ▶ Capital structuring

Independent business review



- ▶ Preparation of independent business overview for your creditors (banks, other creditors)
- ▶ Preparation of IBR on your suppliers
- ▶ Stress testing based on market situation

M&A support



- ▶ Divestment analysis
- ▶ Real-estate sales
- ▶ Quick direct sale process
- ▶ Identification of opportunities

Insurance & Damage claims valuation & support



- ▶ Support in negotiation with insurers
- ▶ Business interruption – estimation and valuation of economic losses
- ▶ Damage claims relating to government and business counterparts actions

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