KPMG COVID-19 Webinar summary 26 March 2020 – Liquidity & Cash Management

Below are some Granular measures you can take as a business to manage your liquidity and cashflow during the coming weeks and months:

- **Cash is king - you can never do too much work on liquidity management**

  - **They say cash is king**, and this is particularly true in a period of such economic uncertainty. In short **– it's all about getting cash in door.**

  - Under **normal** trading conditions we would expect businesses to have rolling 12-month cashflow forecast to help manage cash peaks and troughs throughout their annual cycle.

  - However, in times of crisis, such as this, the focus needs to be radically shortened to a rolling **week by wee**k or even **day by day** focus on liquidity. Understanding your cash burn rate and when you are likely to run out of cash, is imperative. And this is particularly important given that we currently have no clear idea as to the likely **duration** of the current economic conditions.

  - From liaising with local Guernsey clients almost 20% are already experiencing cashflow issues today, with the remaining 80% raising concern that cash flow issues will come in the following weeks.

  - 10% of these clients have already contacted existing banking providers about extending credit terms with few citing any difficulties with funding requests, that is at the moment. And Mark is going to cover discussions with banks on the next slide.

  - The key question is: With so many unknown variables **are you comfortable** you have access to **adequate liquidity** to support your ***known*** short-term outgoings and also manage through any potential un***known*** challenges? In the words of Donald Rumsfeld "the unknown, unknowns".

  - So, I will briefly run through a few key cash and liquidity management tips that we have built up over the years through working with our global KPMG colleagues, assisting our clients, talking with local banks, and also from running our own business at KPMG.

- **Receipts and payments forecast is the key tool – 17 weeks is the new 13**

  - Typically, in times of distress or crisis we would recommend clients that, in addition to 12-month forecasting, to prepare cashflow forecasts for a rolling 13 week period. Why 13 weeks? It's one fiscal quarter, which is long enough to have oversight on the impact on strategic decision making, while remaining short-term enough to be able to provide a high degree of accuracy.

  - However the difficulty with this crisis is that is impacting at both a micro and macro-economic level, and timeframes are completely unknown. We have spoken to a number of local banks are suggesting that disruptive factors should be factored in for at last 6 months (at a minimum).

- So in times such as this where there is exceptional and widespread uncertainty, we are recommending that forecasts are extended to **17 weeks to cover an additional month on top of the quarter** to ensure additional resilience.

- **Key considerations when forecasting**

    - The key considerations and assumptions when forecasting will be unique to your business, however a few key things to consider are outlined below.

    - Many of these may seem obvious, but we often see forecasts that are incredibly optimistic or conversely, overly pessimistic, so do run your assumptions past other people in your business to get their input and challenge.

        - REVENUE: When assessing your projected cash receipts:
            - Start with known **debtor positions**- review aged debtors and actively follow up outstanding debtors as proactive cash collection is essential. However, do be realistic about what is possible - you may wish to think about coming to repayment arrangements with your debtors in order to get a steady stream of cash rather than wait for settlement in full?
            - When looking at current and future sales income – it may not be appropriate to use your usual profile of sales or fees. Things such as time-based fees, in particular, may need to be revised based on realistic staff utilisation due to disruption and the impacts of remote working.
            - Any businesses with physical goods or stock should be considering other means to sell goods if shops are closed, and also factor in the impact of any obsolescence/ devaluation.

        - EXPENSES:
            - **Start with fixed costs** i.e. the ones you know are unlikely to change (mortgage/rent, salaries, insurance etc). Are any of these able to be deferred in the short/medium term? Some banks we have spoken to have indicated that they are willing to discuss mortgage holidays or deferrals so it is worth analysing which costs, if any, may be able to be deferred.
            - Remember to factor in any likely changes to variable costs based on your current and forecast operating model and focus on how these can be minimised (for example, utilities and cleaning if your office is shut). ETI and SS for non-regulated and non-professional services businesses may be able to be deferred.

                - Remember to make a written note of assumptions are you making to keep an audit trail as these assumptions will change over time as more info becomes available.
                - Do try to stress test your cash flow forecast – this simply means modelling it over a range of 'what-if' scenarios (best/base/worse case) to assess the potential financial impact across your business.
                  For example what happens if income drops 5% / 15% / 20%. Can I still cover my fixed costs? How much cash head room will I have under each of these scenarios? This will help to highlight likely minimum and maximum funding requirements, and the also the timing when seeking bank credit or additional equity funding may be critical.

— Remember that cashflow forecasting is iterative and not static – forecasts should be updated weekly or even daily as new information comes to hand and assumptions need to be tweaked accordingly.

- And finally, it is imperative that you document Board assessments and decision making, including in respect to assessments of solvency (balance sheet and cashflow solvency), as this is likely to be scrutinised in future (zone of insolvency, trading whilst insolvent etc). Consider deferring dividends and distributions which may put undue strain on cash reserves.

- **Prioritise cash outgoings using Green, Amber, Red**

  Another tip that we find helpful when prioritising cash flows decision is rating outflows into Green, Amber, Red categories so that you can identify areas that may avoid or defer the requirement for lending or extending current credit facilities.
  - **Green**: are cash management actions that you can accelerate or push harder on. For example: push harder on debtors or customers paying late. And on the expenditure side, seeking some breathing space through agreeing a deferral of utilities
  - **Amber**: are tactical actions you'd prefer not to do but need to consider, for example deferring mortgages or discretionary expenditure such as marketing or capital spend or deferring M&A activity
  - **Red**: Emergency actions: deferring payroll or rents etc. Need to be considered very carefully

In summary, rolling cashflow forecasting and having an open dialogue with your bank will be critical for us all over the short to medium term. You can never do too much work on liquidity.

This has been a whistle-stop, high level overview and certainly not exhaustive, but we hope you will find helpful for your liquidity management process.

Please do get in touch directly if you want to ask any questions.

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