

COVID-19: Liquidity stress testing & forecasting

The outbreak of COVID-19 and the impact on the wider economy is placing unprecedented pressures on businesses.

Liquidity and funding is likely to be eroded quite significantly during the disruption period. Securing a firm grip of the cash burn profile now is essential to the implementation of effective counter-measures as part of a robust Financial Resilience strategy.



The horizon over which your existing financial reserves and debt facility headroom extend is critical in determining the commercial and operational levers you deploy in your response to COVID-19.

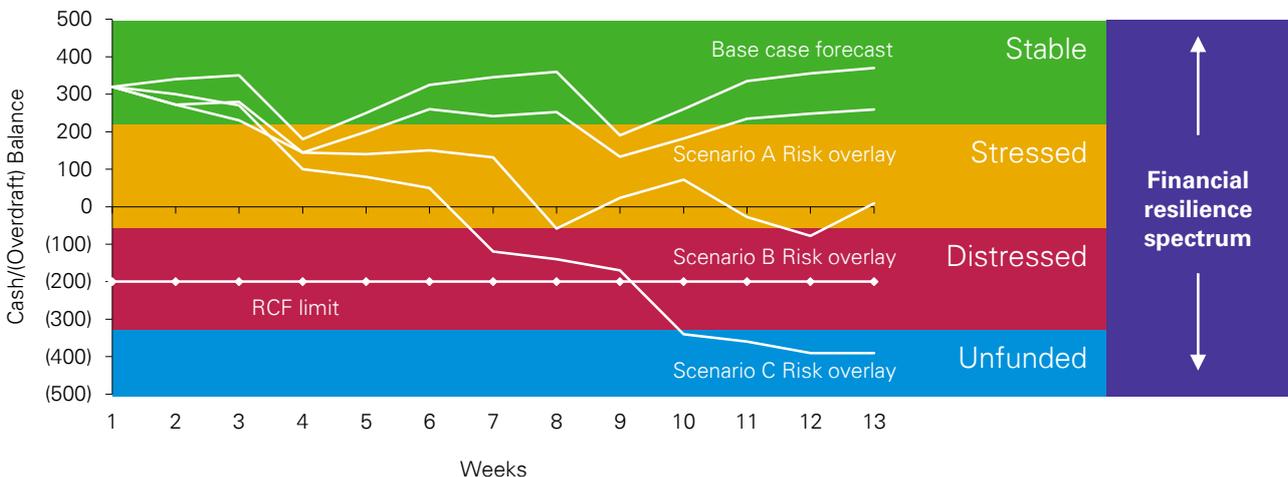
A shorter runway results in fewer options. Maximising the runway length is the primary objective but clear visibility of the 'end point' (cash outage point) at all times will inform your approach. In a crisis, this is now a daily task.

Gareth Williams, COVID-19 Financial Resilience Leader

Step 01

Apply scenario-based 'risk overlays' to base line cash forecasts

- Have you factored in ongoing disruption and uncertainty into your financial forecasts and has this been modelled across cashflow, P&L and balance sheet?
- What are the new sales orders (demand-side) scenarios you have looked at and what assumptions are you making?
- How have you assessed existing sales orders or contracts and your ability both to fulfil them operationally and get paid? What assumptions are you making?
- To what degree have you reviewed your contracts or SLAs for potential issues such as penalties for delays in supply?



Step 02

Model mitigation options (cash preservation & generation initiatives)

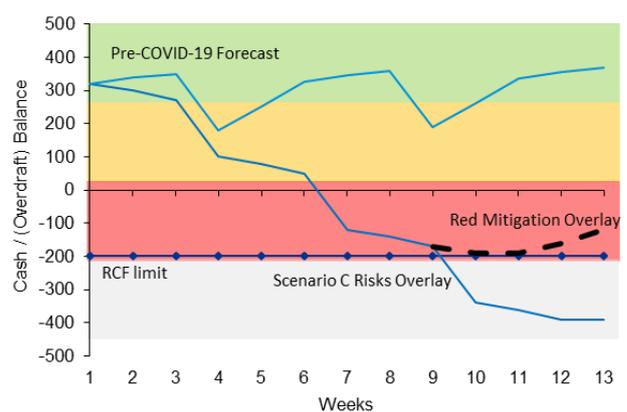
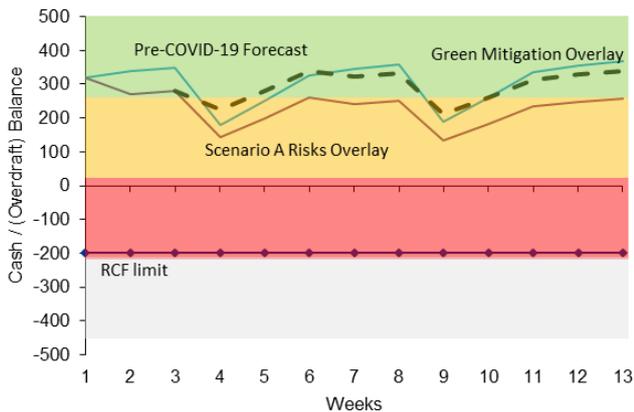
Having identified the extent of the problem, the next stage is to understand what tasks can be undertaken on a 'self-help' basis in order to maximise liquidity.

Taking **proactive steps** now may help avoid more drastic action further down the line.

1 Implementing BAU liquidity 'good practice'	2 Moderate impact 'tactical actions'	3 Making 'last resort' changes
<p>These are measures that firms can take 'with no regrets' that can improve liquidity. Examples include:</p> <ul style="list-style-type: none"> — Accessing COVID-19 support e.g. Time to Pay, rates relief to specific sectors, statutory sick pay reimbursement (SMEs) — Maximising existing payment terms with suppliers — Ensuring payments are received within agreed limits — Reviewing policies and identifying 'quick win' savings 	<p>These measures are likely to be more extensive and may result in a short-term loss of goodwill:</p> <ul style="list-style-type: none"> — Engaging with landlords on rent reductions or holidays — Deferring capital expenditure on growth projects — Renegotiating payment terms with suppliers — Removing or deferring unnecessary costs e.g. contractors working on non-core activities, marketing 	<p>These are aggressive cash preservation options that may be suitable in certain circumstances:</p> <ul style="list-style-type: none"> — Deferring non-wage outflow via agreement or temporarily withholding payment — Reducing overheads by closing/reducing operations — Considering voluntary reduced worktime or pay reduction options for employees

In some cases proactive changes made early on may avert significant stress...

...whilst 'last resort' interventions may be required in more acute situations



Step 03

Overlay any 'Special measures' COVID-19 strategy and review daily

With support from landlords and the Government's COVID-19 Job Retention Scheme, it may be possible to place viable businesses into '**hibernation**'. Modelling the cash funding through the implementation of such a strategy will be crucial to avoid an unplanned insolvency event.

The COVID-19 situation is changing rapidly and it remains important for businesses to review key assumptions daily.

Presenting a robust stress-tested financial plan is likely to significantly improve the ease with which COVID-19 government support measures are accessed.

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