KPMG

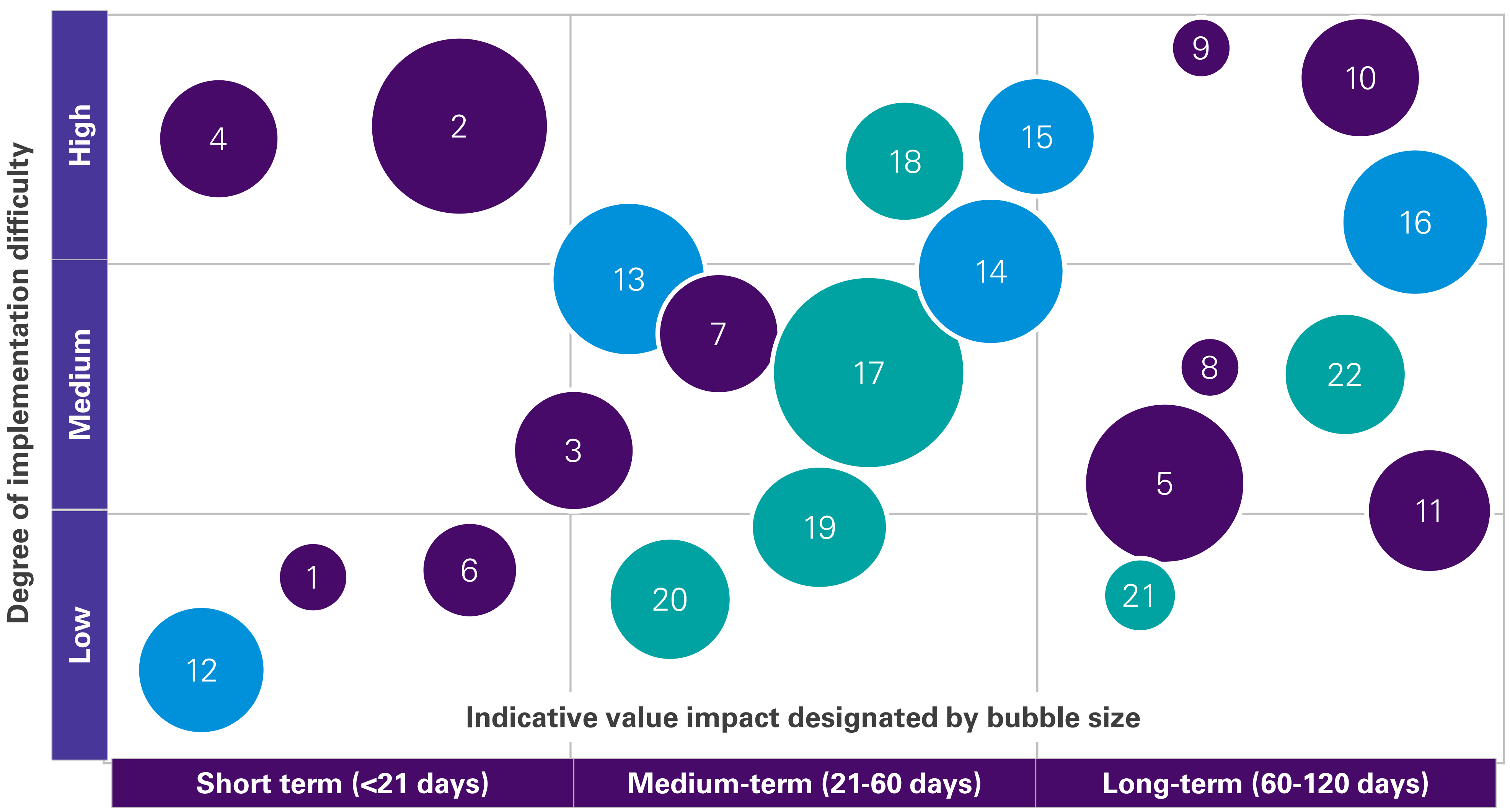
COVID-19 Financial Resilience

Cash Levers Summary

For businesses of all shapes and sizes, pulling multiple cash preservation and generation levers will be key

Although a wide range of government support packages are available, firms will need to demonstrate they have a firm grip on cash forecast profiles and have been proactive in pulling appropriate self-help 'cash levers' to improve liquidity and minimise any funding requests. In the info-graphic below, we summarise the cash lever options available.

Businesses can take a range of actions to improve liquidity during the COVID-19 crisis



Operational

1. Eliminate non-critical spending
2. Mothball some/all operations
3. Reduce frequency of payment runs
4. Increase debt collection intensity
5. Rent deferral (moratorium)
6. Increase frequency of billing cycle
7. Stop/defer capital expenditure
8. Reduce SKU/service range
9. Enforce interest on late invoices
10. Shorten terms on new sales invoices
11. Sell old/obsolete stock at discount

Financial

12. Existing RCF drawdown
13. CCFF application for corporates
14. CBIL/CLBIL (existing lender)
15. Capital injection from shareholders
16. CBIL/CLBIL (new lender)

HMRC

17. JRS – 80% recovery for prior month
18. R&D tax credit claim acceleration
19. TTP deferral on prior month payroll
20. TTP deferral on corporation tax
21. Statutory Sick Pay Refund (SMEs)
22. TTP deferral on March VAT return

Businesses are likely to need to take a number of actions in order to survive through COVID-19 and emerge in a strong position as acute economic disruption recedes

Depending on their size, sector or pre-COVID financial position, not every business will have all levers at their disposal. It is essential, therefore, to consider carefully the impact of any radical action to improve short-term liquidity in order to avoid causing lasting damage.

Key tips

01 Operational initiatives

— **Maintain your cash flow forecast** It is critical to both develop and maintain a robust short-term cash flow forecast (STCFF) – it should be a daily exercise. Remember to 'stress test' assumptions

— **Map out cash levers** Divide options open to you on a RAG scale, with green being 'no regrets' good practice (such as maximizing payment terms) through to red 'last resort' choices, such as furlough.

— **Identify your trigger points** Clearly define and approve both in advance and at board level the trigger points for taking each action e.g. cash balance, expected lockdown duration, declined funding

— **Consider adverse impacts** Few options come without consequence e.g. loss of goodwill, reputational damage.

— **Implementation plans** Identify how to enact your plans. Furloughing staff and mothballing operations will require significant planning

02 Financial initiatives

— **Engage with your lender** Businesses need to engage openly and honestly with their lender to identify the best approach

— **Plan effectively** Lenders are under enormous pressure – making a well-structured funding request will be critical to both success and speed of any funding application. This should increase showing

- Pre COVID-19 financial viability
- Robust plan to manage acute phase
- Deliverable plan to restore financial strength and repay lending

— **Supporting evidence** Providing a robust and sensitized cash flow forecast will give banks comfort that downside risks have been considered and evaluated effectively

— **Act fast, but prepare to wait** Businesses should apply for funding in good time, as well as ensure their liquidity model allows for delays in funding applications, and contingency if rejected

03 Taxation initiatives

— **Job Retention Scheme (JRS)** There are some key rules, including employee eligibility criteria, correct calculation of the 'reference pay' amount and the activities employees may undertake during furlough e.g. training. It is critical to follow HMRC guidance closely to avoid costly mistakes

— **Tax deferral** All VAT payments to HMRC due between 20 March 2020 and 30 June 2020 can be deferred and repaid by 31 March 2021. HMRC confirmed they will consider Time To Pay (TTP) proposals in respect of other liabilities across a range of taxes

— **Sector-specific help** Identify where sector-specific help may be available e.g. retail

— **Retain paperwork** HMRC reserve the right to retrospectively audit all supporting documentation, such as written furlough agreements, for five years. Ensure all records are stored securely

— **Reputation** Accessing some schemes may have a detrimental and lasting impact

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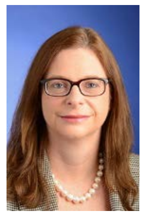

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