



Cash-flow forecasting

Responding to Covid-19

Bucharest, April 2020



**MAKING AN
IMPACT THAT
MATTERS**
since 1845

Addressing the financial impact of Covid-19

Surviving the next four weeks... and then the next three months

Events are moving very fast. Covid-19 is the only topic on the news. Already we are hearing news of profitable and well managed companies needing to take drastic action to maintain headroom. The ability to simply trade in the short term in many sectors is being compromised as a result of lockdowns globally. Many other sectors are also experiencing quite dramatic and serious challenges. Whilst businesses need to continue to focus on retaining the core business fundamentals that have made them successful, in the immediate term, survival is of the essence. There are many actions companies can take – all of which focus on **improving the immediate cash position** and **identifying and addressing existential risk**.

Improving the immediate cash position

Real-time cash flow forecasting

- 13 week cash-flow - daily view for next 2-4 weeks
- Visibility over key receipts/payments on an 80/20 basis
- Assumptions flex with latest information
- Model downside scenarios for the next 3-6 months
- Mitigating actions and when may need to be executed
- Remain agile as situation is highly dynamic

If survival is at stake – no sacred cows

- Stop all discretionary spend
- Postpone all (expansionary) capex
- Make cost base more flexible
 - Reduce contractors to reflect activity
 - Consider unpaid leave for permanent staff
 - Hiring freeze
 - Lengthen payment terms on large leases (eg. property)
 - Plant go slow/shutdown planning
- Seek support from larger/robust suppliers & customers
- Leverage government initiatives (eg. HMRC Time to pay)
- Defer pension deficit contributions

Take TIGHT control of cash

- Only **one person** authorising payments – CFO/Cash Czar
- Daily meetings on what payments to make
- Prioritise business critical expenses
- Match payments to receipts
- Consider reducing frequency of payment runs
- Offer early payment discounts – focus on cash, not profit

Identifying and addressing existential risk

Stakeholder management

- **Communicate regularly with all your key stakeholders**
 - Lenders, Shareholders, Employees, Suppliers (incl. landlords), Customers, Authorities (tax, government etc.)

Funding solutions

- Draw down all funding lines – many companies already have
- Utilise whatever Government support is available
- Seek support from existing funders
 - Lenders
 - Shareholders
- New funders who can act quickly
 - Asset based lenders
 - Alternative lenders: many ready to lend in Covid19 world
- Accelerated M&A: delivered outside of “normal” timescales

Contingency Planning

- Review your legal entity structure to identify pockets of value
- Understand your balance sheet and where risk and strengths lie
- Understand critical assets, contracts, customers and suppliers
- Identify divisions that could be segregated to protect value
- Consider insolvency processes to protect business or complete a sale if future is at risk

Contracts

- Covid-19 will lead to a lot of legal/insurance claims
- Keep track of the financial impact of:
 - Breaches of contract
 - Additional costs incurred
- Ensure you are:
 - Meeting contractual requirements where possible
 - Taking mitigating actions to any material breaches

Actions to preserve cash

Actions that may have seemed aggressive just weeks ago are now a fundamental part of the cash management toolkit

Every business should be looking at...

Relentless matching of receipts to payments

- No reliance on 'Promise-to-pay' for receipts – only make payments when you have received the cash
- Early payment discounts + other initiatives to get cash in earlier (focus on cash over profit)
- Daily update of AR and revenue forecasts

Leverage on key customers/suppliers

- Can they offer financial support through varying terms
- Review contracts and seek legal advice around 'material adverse change' clauses

Eliminate ALL discretionary spend

- Reduce Delegation of Authority as a key control
- Communicate widely internally than no circumvention of PO process will be tolerated

Review business critical payments

- Clarity on what is really a business critical payment in this environment
 - Rents – should we pay them all?
 - Fixed cost leases – if we're not using the service(s) in the immediate term are these now no longer business critical?
 - Financing costs
 - Pension payments

Look to turn fixed costs into variable quickly

- Lengthen payment terms on large leases (eg. Property)
- Plant go slow/shutdown planning/mothball sites

Look at temporarily flexing business models

- Look for quick and cheap ways to pivot business models to focus on new consumer behaviours (e.g. spike in online demand)

FTE expenditure

- Leverage government initiatives on people to the fullest extent
- Limit personnel costs and keep flexible where possible:
 - New hire freeze
 - Release subcontractors/temporary contracts
 - Try to flex workforce e.g. one week rotation on half salary
 - Explore the activation of temporary lay-off scheme for employees (as appropriate)
 - Consider unpaid leave for permanent staff

Capital expenditure

- Stop discretionary/expansive capex
- Review essential maintenance (evaluate opportunity to accept failures and replacement cost for non-critical components)

Financing

- Draw down available facilities (RCF and other uncommitted lines)
- Immediately review hedging exposures and options, LoCs, guarantees and understand risk of unwinding of factoring lines
- Explore if interest/amortisation can be put on hold
- Credit insurance highly likely to have already been pulled

Leverage government initiatives to the fullest extent

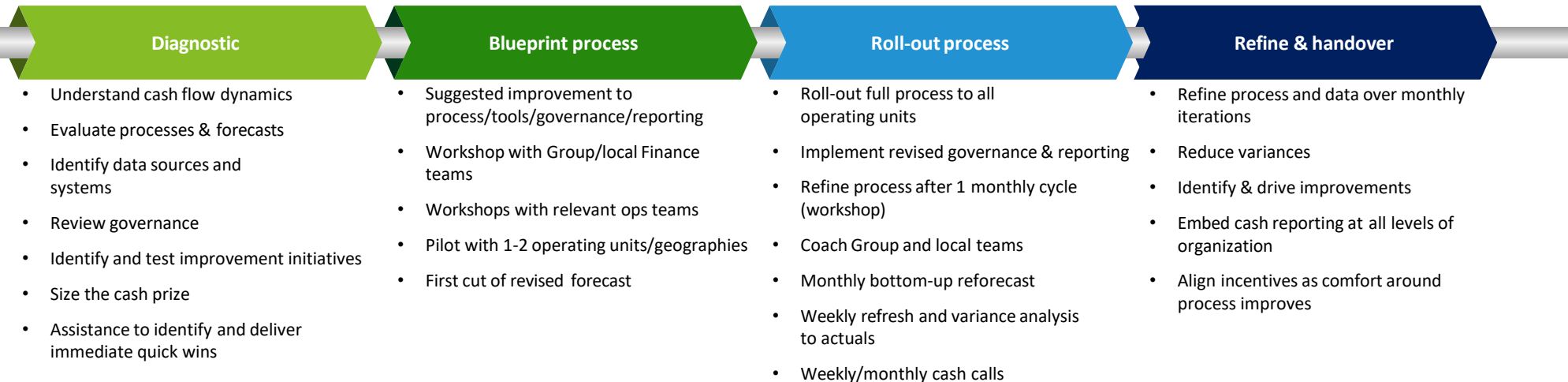
- Defer PAYE, VAT, tax payments immediately
- Quickly understand what other government support is available
- Immediately register for grants, etc if eligible

Look at all non-operating expenses

- Sell/leverage unencumbered assets
- Engage with financial creditors
- Engage with Pension Scheme Trustees

13 week cash-flow forecasting

A proven approach to implement robust 13 week cash-flow forecasting, improve cash management and drive cash culture



Deloitte involvement

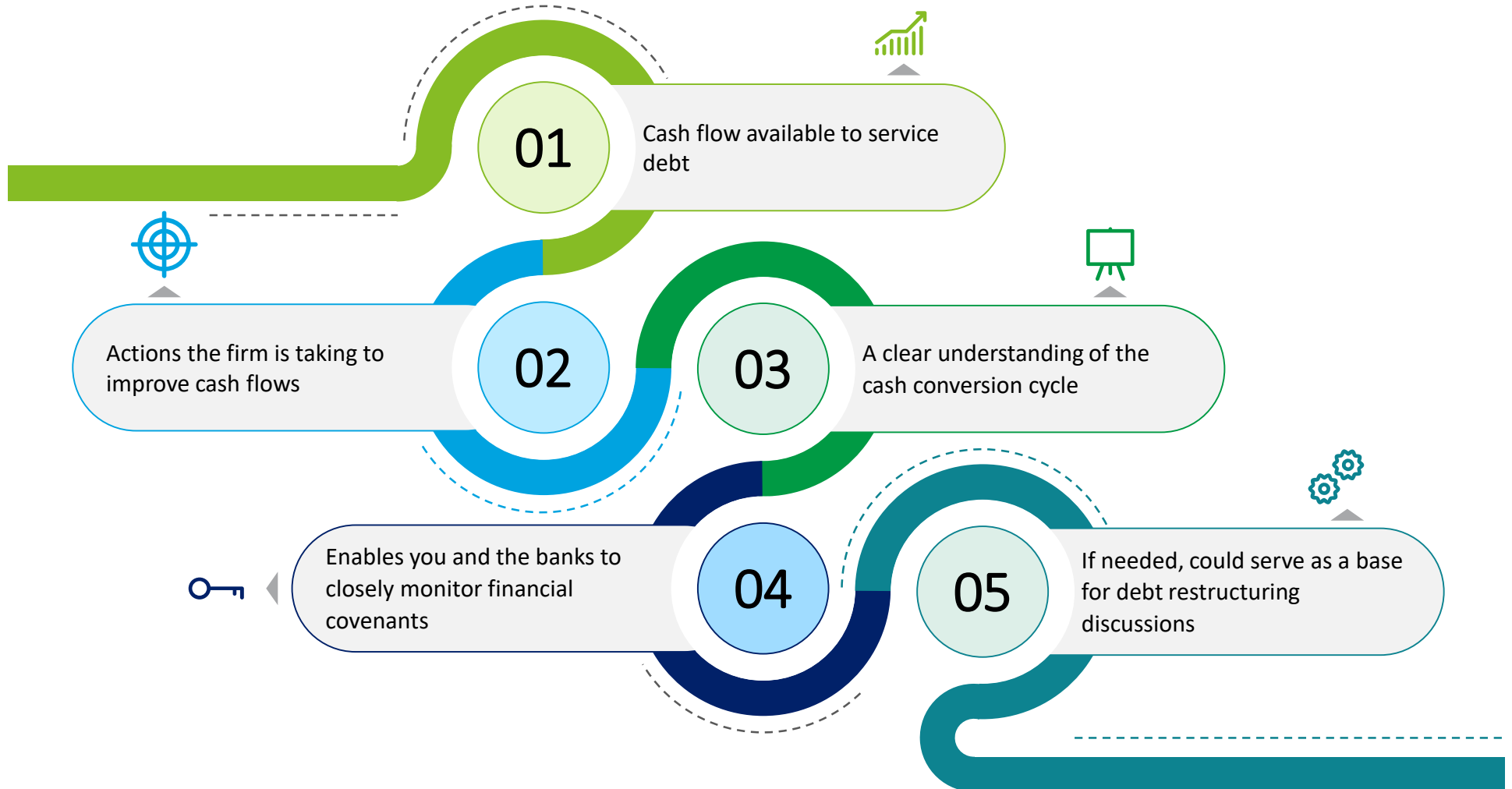
<ul style="list-style-type: none"> Intensive analytical exercise across all operating units and Group using readily available information Small senior team providing hands-on advice and assistance to develop a revised cash management process, tools, governance structure and reporting and monitoring framework 	<ul style="list-style-type: none"> Facilitation and coaching to Group and local teams Support weekly/monthly process, test & challenge of forecasts, variances Analysis and assistance to deliver tangible cash improvements throughout the project 	<ul style="list-style-type: none"> Gradually transition Deloitte team out of the business Move to advise on overcoming specific issues rather than whole process
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13 week cash-flow forecasting

Can be used for effective communication with banks and other key stakeholders

Having a robust 13 week cash-flow forecast will assist in your communication with the banks and other key stakeholders as it better monitors debt covenants, debt service coverage ratio, cash conversion cycle, and debt capacity. In addition, a 13 week cash-flow will help in discussions with banks as it provides detailed insights into:



How we can help

We are here to assist you virtually

13 week cash-flow forecasting



Who?

Even for companies that have not yet been adversely affected, we recommend proactively increasing cash visibility and control, and proactively manage funding given the interconnected impacts of customers and suppliers.



What?

We develop dynamic cash-flow forecasting and calculations of available weeks of cash.



Dynamic

We offer the ability to dynamically perform multi-variable sensitivity analysis and evaluate alternative scenarios on-demand given the immense uncertainty around the near and medium term.



Benchmarking

We provide benchmarking and insights based on a variety of research and proprietary databases to provide insights that enable informed business decisions and assumptions.



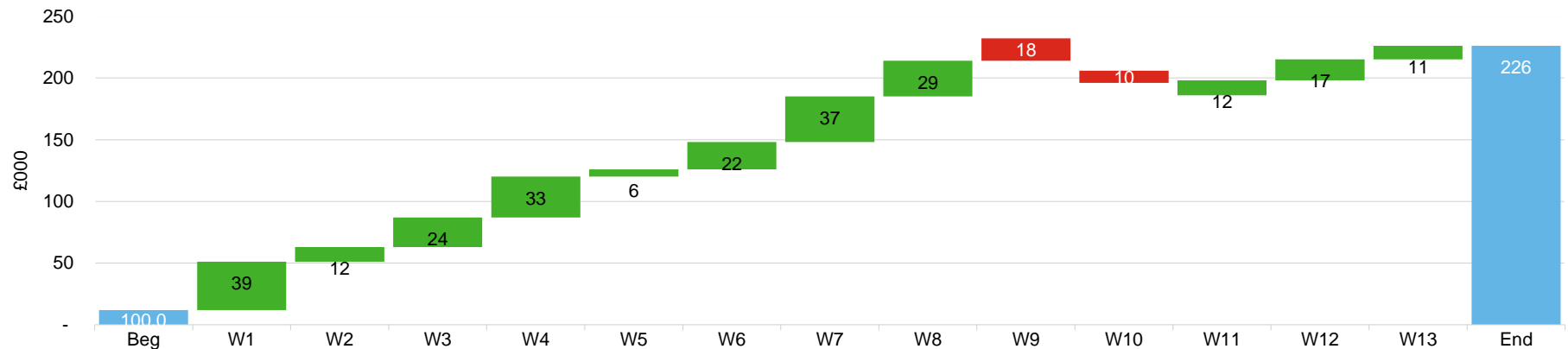
Reporting

Using our dynamic cash-flow models we can then estimate financial covenant compliance, prepare liquidity scenario planning, stress testing, and key stakeholders ready outputs.

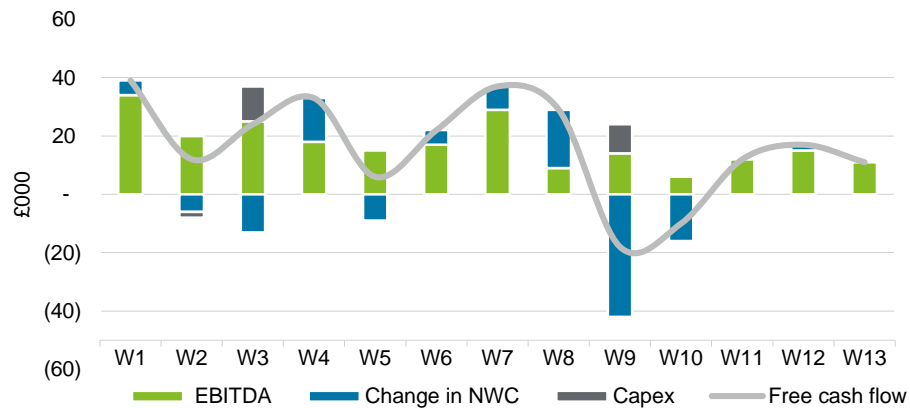
An illustrative example

An detailed illustrative example on a week to week basis

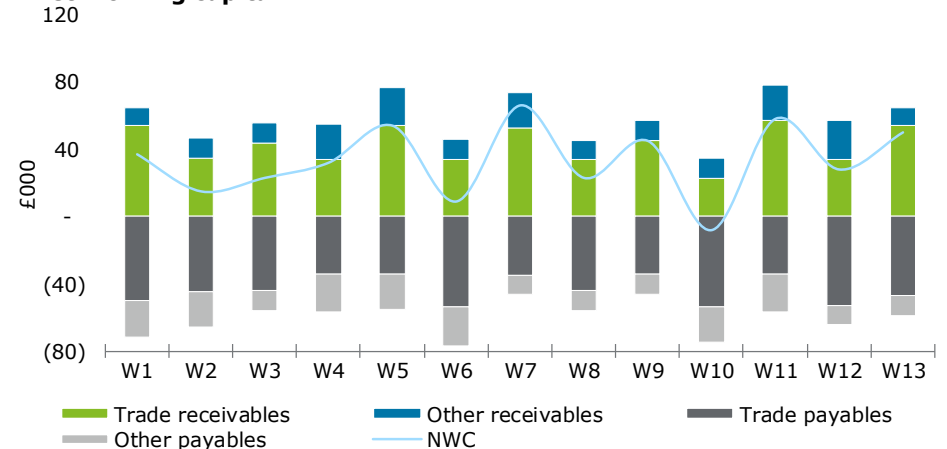
Cash bridge Week 1 to Week 13



EBITDA to cash after financing activities



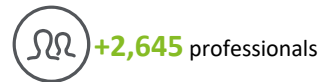
Net working capital



Deloitte's financial modeling services

Supporting clients in the resolution of the most significant business decisions they face by designing bespoke planning and decision support tools

Deloitte's Modeling Footprint



Deloitte's Focus

- We focus on providing market-leading decision support services.
- Critical business decisions are increasingly underpinned by complex, bespoke quantitative analysis.
- The need for expert modeling is often heightened when the financial exposure is significant, the situation is complex, and where multiple stakeholders are involved.

Deloitte's Examples

- Effective business planning is underpinned by a strategy which has been rigorously evaluated to understand the financial impact of planning decisions.
- A financial model can support evaluation of working capital adequacy, or assessment of funding structures and terms which can be greatly enhanced through testing alternative scenarios and sensitivity analysis of key drivers.
- A financial model underpins the process of implementing sustainable profit improvements and can improve the monitoring of cash, provide support with external stakeholder negotiations, and assess the impact of cost saving plans.

Deloitte's Application

- We use leading practices and methodologies in developing model frameworks to strengthen the control and risk management environments in which models are created.
- With clearly defined inputs, a structured approach, transparent with easy to follow steps, and organized outputs.

Deloitte's Methodology

- We focus on the drivers that matter for your business and customize/tailor the scenarios to your particular context and challenges.
- We generate a range of forecasts with our scenarios all with-in one workbook.
- We use flexible time periods that enable the forecast to be easily updatable.
- Our bespoke robust models are able to preform effectively when assumptions need to be altered.

Deloitte's Value Proposition

- Enhancing clients' decision making by providing comprehensive, flexible and easy to use financial models that provide valuable insights and board-ready outputs.
- We draw on the wider capabilities of the firm to provide you with insight and meaningful analysis.

One of the largest
in the world

The opportunity

Business planning
and cash flow
forecasting

Modeling best
practice

Scenario base
forecasting

Why Deloitte?

Who we are:



Radu Dumitrescu

Partner
Deloitte
Financial Advisory
+40 744 557 315
rdumitrescu@deloittece.com



Ioana Boca

Assistant Director
Deloitte
Financial Advisory
+40 740 068 608
iboca@deloittece.com



Vlad Balan

Assistant Director
Deloitte
Financial Advisory
+40 733 003 890
vbalan@deloittece.com



Virgil Bucur

Assistant Director
Deloitte
Financial Advisory
+40 733 003 847
vbucur@deloittece.com



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