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Addressing the financial impact of COVID-19

Financial forecasting to help navigate uncertainty

The global spread of COVID-19 continues at pace, resulting in significant disruption for many companies. It is therefore critical that businesses are proactive in assessing their capability to withstand disruption from both an operational and a financial standpoint, and that they act decisively to mitigate actual or potential issues.

Realistic and detailed extended financial forecasting is a key tool in navigating this uncertainty and informing the required leadership actions. It will provide management with the confidence to execute key decisions. In particular, flexible forecasts will enable real-time scenario planning as the situation develops and more information comes to light.

Communicating this analysis clearly to a wide range of stakeholders will help to instill confidence and provide clarity.

Questions companies should be asking

What do you need to consider in trading forecasts?

- Assess impact on demand. Will customers disappear, defer or cancel, and will there be goods / services for them to buy?
- Assess impact on supply. End-to-end supply chain assessment and review inventory levels. Is it cost effective to expedite deliveries (air vs. sea) and do alternative suppliers need to be identified, with changes built into forecasts to factor in disruption?
- Operations in affected areas. How many operating locations are still active? If not, when are they expected to resume service? Provide clarity on fixed vs. variable cost base. What additional costs will need to be incurred?
- Primary vs. secondary impacts. Ensure that you consider the longer term impacts as well as the short term. Try to delay until the last possible moment decisions that trade long-term value for short-term survival.

What do you need to consider in cash flow forecasts?

- Impact of trading. How do trading forecasts follow through to cash flows? Do you have daily / weekly visibility required if cash is tight?
- Focus on collecting trade debtors. What incentives can be offered to encourage customers to pay more quickly?
- Inventory management. Prioritize certain inventory and supplier payments. Expect disruption in the supply chain, and be alert to dangers of overstocking or stocking out.
- Stop or postpone expenditure to preserve cash. Where possible, minimize all discretionary operational and capital expenditure to conserve cash.

Do you have the necessary tools, and can they be flexed?

- Six-month outlook. At a minimum, short-term cash flow forecasting and integrated three-statement models should be prepared for the next six months, and ideally 12-18 months.
- Feedback loops. Models will need to be flexed to reflect new developments. Ensure there is a robust feedback loop between commercial, operational, and financial functions.
- Mitigating actions. Categorize actions based on potential trade-off on longer term profitability vs. short term impact:
  - "No regrets" (i.e., do them immediately, e.g. working capital optimization);
  - "Prioritizing cash over profit" (i.e., only do it if you need to, but it will adversely impact long-term performance; e.g., short-term freeze of capex projects, product launch delays);
  - "Last resort" (i.e., will likely result in a material adverse impact on the business in the longer term).

Forecasts should be realistic, and have base and downside scenarios to understand critical cash headroom pinch points and any breaches of lending covenants, allowing you to seek out additional sources of capital early.

Maintaining flexibility throughout is vital. Forecasts play a key role in discussions with shareholders as well as negotiations with prospective and incumbent lenders, enabling realistic messaging to other stakeholders and the markets.

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For more information on how to respond, recover and thrive:

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- Visit www.deloitte.com/COVID-19