

COVID-19 RESPONSE

**ASSESS, REFORECAST
& COMMUNICATE**

Managing your cash in a crisis

As businesses contend with external disruption on all sides, COVID-19 represents yet another highly unsettling, unexpected, and potentially damaging force. This pandemic requires fast and decisive action, but this is complicated by ongoing changes in guidance, shifting predictions of the human impact, and intense challenges in accurately forecasting the short and medium-term commercial and financial implications.

The virus has already halted production in several key regions and put global supply chains under significant strain. While there remains a great deal of uncertainty around timeframes, disruption will inevitably continue in the weeks and months ahead, and the lasting impacts will not be understood for some time.

So, in the face of such uncertainty, we have identified three things in the short term that you can do to anticipate, re-plan, communicate effectively, and ultimately, ride out the storm.

1. ASSESS RISKS

The first step to establishing control is to identify the key risk areas within your organization. Risk exposures will differ from business to business and from sector to sector, but the vast majority will experience some degree of revenue, supply chain, or workforce disruption.

COVID-19 has already exposed the vulnerabilities of many supply chains—particularly those with a high dependence on affected regions in Asia and Western Europe—and taking quick and decisive steps to reestablish these is key. This includes assessing the impact on existing supply chains and establishing alternative supply routes where needed.

Many consumer businesses—particularly those in the restaurant, hospitality and leisure sectors—may also have to contend with drastic and unpredictable fluctuations in demand. In some cases, this is likely to trigger or accelerate existing underlying changes in consumer behavior.

Once risk areas have been identified, it is essential to build a picture of how commercial and financial performance is likely to be affected over time. This will require a comprehensive financial reforecast and a communication plan internally and with key external stakeholders.

Just like any other crisis management exercise, the businesses that come through it best are likely to be those that have allocated sufficient effort to identify related risks, re-plan their business activities accordingly, and keep stakeholders informed in order to maintain alignment and avoid surprises.

2. REALISTICALLY FORECAST

Once key risks have been identified, your business needs to ask a number of important financial questions, which can only be answered with the development of a detailed cash flow forecast that can shed light on liquidity and make it easier to map out options.

Given the high level of uncertainty associated with the virus's ongoing spread, developing strong liquidity is key to building resilience. This can be done in a number of ways, but in the short-term, managing and preserving cash relies on the creation of a strong cash management foundation. This can include stretching payables and stepping up collections, delaying capital expenditures and restricting non-essential expenditures, and prioritizing disbursements and collections.

While the timelines for disruption remain unclear, there are a number of ways to further develop liquidity over the longer-term, including: reducing inventories (without damaging customer service); using leverage when dealing with non-essential vendors, landlords, customers, and lessors; and identifying basic changes that can be made to the business.

3. OPEN, HONEST DIALOGUE WITH STAKEHOLDERS

Once the risks posed by COVID-19 have been identified and mitigation plans established, it is essential to act swiftly and adopt a "no surprises" approach to stakeholders. Honest, open, consistent, and regular communication will reassure stakeholders—both internally and externally—that your business is under control and that proactive steps are being taken to mitigate the risks. Uncertainty can be one of the most disruptive influences on a business at the best of times. In a crisis, this is greatly exacerbated, and there is almost no such thing as too much communication.

Stakeholders are likely to want to see that the company has undertaken a sensitivity analysis to understand the impact of risk items under relevant scenarios, as well as an options analysis to pre-agree mitigation actions that may become necessary in the event of these various risks and scenarios materializing. This will give stakeholders

confidence that the company is ready to implement contingency plans quickly in the event that they become necessary.

COVID-19 has created a stressed stakeholder environment. This is a crisis that's affecting everyone from governments to businesses to entertainment to social structures. It presents an opportunity to adopt new levels of transparency and boldness in terms of the dialogue with stakeholders.

REPEAT, REPEAT, REPEAT

Crises are never straightforward, but COVID-19 is proving particularly complex. As such, the steps we've outlined above do not make a single process, but a repeatable cycle of activity. As new information appears, reassessing, reforecasting, and adjusting communications are paramount.

THINKING LONG-TERM

Crises create problems, but worse, they expose long-standing underlying issues. Businesses that haven't addressed these will be more vulnerable. While the immediacy of a crisis naturally encourages short-term thinking, there is a long-term objective here too.

Crises bring focus and applying the simple approach above will help you establish a "cash culture" longer-term, which is an essential ingredient in the ongoing resilience of a business. A more agile "cash culture" may well be forged in the crucible of a crisis, but it should be there to stay.

CREATE A "CASH CULTURE"

Focus on cash

- Run for cash is a new priority
- Near-term focus—each day has a plan and every week is a planning cycle
- Micro approach, but size matters
- Transaction-based
- Forecasting intensive

Cash culture

- Cash is a key management measure
- Culture is departure from traditional accrual accounting and sales-driven culture
- Anticipates liquidity crunch—outcomes are planned instead of being reactionary
- Cash pays back debt not operating income
- Identifies wasteful spending more easily
- Cash forecasts are a commitment to specific actions
- Book values are sunk costs—the key is how much can we get for the asset
- Weekly reporting and review at all levels in the organization

Actions to manage and preserve cash

Immediate: Build a strong cash management foundation

- Identify cash balances, cash accounts, and their usage
- Prioritize current disbursements and collections
- Identify non-periodic and irregular transactions
- Restrict non-essential expenditures
- Stretch payables and step up collections
- Delay capital expenditures

Second stage: Expand the focus to meet operating needs

- Reduce inventories without impacting customer service
- Use leverage when dealing with non-essential vendors, customers, landlords, and lessors
- Identify basic changes to the business
- Renegotiate terms with vendors or re-source non-merchandise purchases

Wring out the balance sheet

- Sell non-core assets, monetize real estate
- Settle litigation
- Refinance; obtain new debt

Develop rolling, detailed cash forecasting model and manage communications to vendors, customers, employees, and shareholders



For more information, get in touch: www.alixpartners.com/contact-us

ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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