

COVID-19 RESPONSE

CASH IS KING

What do GCC companies need to do to facilitate the transition to a cash culture

It was only in January of this year that billionaire hedge fund manager Ray Dalio advised investors to “get out of cash,” adding “cash is trash.” It was not particularly contentious advice at the time: the stock market was soaring, and the virus spreading in China’s Hubei Province was not a global concern. Now, however—although Dalio has doubled down on his stance even as his hedge fund lost 20%—most investors are more aligned to Warren Buffet’s approach. Responding to criticism for sitting on \$128 billion, Buffet said “I will never risk getting caught short of cash.”

He's right. As GCC economies grapple with the coronavirus crisis and its ramifications, potentially including long-term declines in international and domestic travel, a cratering of consumer spending and significant corporate defaults, the risks of "getting caught short" have multiplied. The extent of this global crisis may not be fully understood for many months, if not years, but the decisions that companies take now, particularly around cash preservation and management, will determine their post-pandemic future.

Thankfully, there are steps businesses can take in the short term to help ride out the storm and avoid bankruptcies. These apply to all types of businesses in the region, from family businesses and investment vehicles focused on wealth preservation to public and private companies working to stay afloat.

Firstly, both businesses and individuals need to assess their risk. 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. Businesses should prepare for the worst, considering different scenarios, and bear in mind the possibility of a second wave, or additional black swans.

Once key risks have been identified, businesses need to focus on establishing a "cash culture." This is for many companies a significant departure from traditional management focus on sales and profit: businesses operating with a cash culture use cash as a key management measure, allowing them to anticipate and prepare for liquidity crunches, and use cash rather than operating income to pay back debt.

Fortunately, most GCC companies have a range of options to facilitate this transition to a cash culture, including streamlining costs, drawing down on existing debt facilities, and capitalizing on available government stimuli. The Saudi Arabian Monetary Authority (SAMA), for example, has established a deferred payments program of SAR 30 billion for banks and financing companies, allowing them to delay payment of SME dues for six months.

Throughout this process, it is critical to maintain open and honest dialogue with stakeholders. Uncertainty can be one of the most disruptive influences on a business at the best of times. Once the risks posed by COVID-19 have been identified and mitigation plans have been 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.

Businesses should repeat these steps, over and over again as needed. The global and regional economic landscape is shifting on a near-daily basis as new information emerges and governments respond. It is a time to be nimble, continually re-assessing and re-forecasting, with a focus on preserving cash and strengthening the balance sheet. In the medium-to-long term, businesses that do this effectively can revisit more strategic priorities with the backing of a more agile cash culture, setting themselves up for long-term resilience and success.

In other words, for guidance on getting through this period, GCC businesses should look not to Dalio but to the Swedish businessman Pehr Gyllenhammar, one of the first to observe that in any crisis, "cash is king."

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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 nonmerchandise 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.

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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.

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