Staying afloat amid the crisis

Guarding your cash position and managing your working capital

April 2020
COVID-19

The World Health Organization declared COVID-19 outbreak a pandemic, causing disruptions on people’s lives, families, and communities.

Countries responded differently, from massive testing to total community lockdown. In the Philippines, the Government implemented enhanced community quarantine. This posed significant challenges and uncertainties to businesses, which they should immediately address.

We are working with different companies and organizations to help them respond to this crisis. We are part of a network with a wide range of experience in working with companies, government, and international organizations around the globe to respond to some of the most high-profile outbreaks in the past including Ebola, MERS, SARS, and bird flu.
As COVID-19 is spreading out in different parts of the globe, there is vast uncertainty on its duration and severity of impact. Each day, more and more organizations face significant operational, financial, and liquidity challenges. Outcomes can be different from forecasts and companies may not be able to recover quickly.

Current circumstances require swift actions and effective solutions. It is important to get ahead and immediately develop mitigating actions to reduce regressive financial impact and manage cash pressures.

At PwC, we can support you in these critical scenarios by providing a clear visibility on your cash position and provide a platform for informed decisions on cash conservation activities.

We consider the following three key steps in stabilizing cash position:

1. **Rapidly understand the current cash position and overall financial condition**
2. **Take action to protect the position**
3. **Manage internal and external stakeholders**

Our key considerations and experience at each of these stages have been detailed on the following pages.
Rapidly understand the current cash position and overall financial condition
Assessing your current cash and overall financial position is a key step in implementing cash forecasting. Understanding your minimum cash and liquidity requirement is important. Responding quickly is likewise essential.
**Advantages of rapidly understanding cash position**

**Cash visibility**
- A 13-week cash forecast provides the business with clear visibility of cash flows, highlighting any liquidity pinch points and headroom
- Existing business budgets and forecasts may be updated as necessary considering financial implications of COVID-19, sensitivity analysis, and identifying potential worst-case scenarios

**Rapid decision-making**
- Cash visibility highlights where process improvements should be made and provides increased confidence for making rapid tactical business decisions
- A robust cash forecast relies on inputs from all businesses which will drive implementation of key strategies

**Cultural change**
- A cash forecast underpins the enforcement of a disciplined approach to cash management and reinforces accountability at all levels of the organization

**Cash generation thru funding flexibility**
- A reliable forecast provides the foundation for cash improvement initiatives such as stretching credit terms, reducing costs and capital expenditures, and exploring possible flexibility on loan covenants
- A cash forecast identifies other sources of funds such as government grants, subsidies, and loan repayment relaxation schemes available during and after the crisis
Critical success factors of an effective cash forecast

**Clear objectives**
Objectives of the cash forecast are clear and agreed with business unit controllers

**Methodology**
Have consensus on the approach and assumptions (e.g. last month end) used in forecasts across business units

**Harmonized forecast**
Ensure consistency with new medium term cash flow forecasting

**Information availability**
Attain access to required data, which may require an IT solution

**Effective cash forecasting**

**Accurate information**
Ensure reported information is reliable and accurate

**Culture**
Continue to change the culture to focus on cash via management objectives and incentives

**Systems**
Bespoke system solutions may be required

**Training**
Provide further training and communication around forecast objectives, policies, and processes
Right tools and right people are key components of an effective cash forecast

Tools (the “what”)
A business-wide accessible tool like a 13-week direct and detailed cash forecast
Apply flexibility to consider relevant business outputs, quickly adapt to changing news, and prepare for downside scenarios
A dashboard supported by appropriately detailed inputs
Assumptions:
• Latest operational forecasts
• Cash conversion
Analysis:
• Forecast vs forecast
• Actual vs forecast

People (the “how”)
Take ownership and accountability throughout the business
Set a minimum cash headroom (range)
Business wide involvement, to improve accuracy:
• Provide key inputs to cash flow forecasting
• Provide cash conversion assumptions
• Apply sensitivities and vulnerabilities to the forecast where necessary
Challenge the output and performance of the forecast
Monitor and track output to identify and drive improvements

All optimized
Take action to protect the position
Once clarity on the cash position has been obtained, management should take immediate action to ensure that this position can be maintained, at a minimum. Similarly, identifying opportunities to access new money should be prioritized.
Practical and targeted solutions to protect liquidity

**Working capital management**
- Understand and analyze key drivers and components of working capital
- Identify key sensitivities impacting working capital requirements
- Review existing liquidity measures and provide potential options for initiatives to enhance near-term liquidity
- Identify improvement opportunities to preserve liquidity (i.e. cash conservation measures and rapid optimization of working capital) and assess impact to cash
- Apply data and analytics across cash flow and working capital components to assist management in decision-making
- Provide support in account collections and management
- Assist in cleaning receivables portfolio through reconciliation and reallocation of misapplied cash

**Funding sources**
- Identify channels that can be tapped to secure additional funding such as existing lenders or alternative sources of credit such as factoring, grants, or government subsidies
- Consider equity releases through investments from investors

**Cost management**
- Understand and analyze cost structure, key drivers and historical levels to identify opportunities for savings
- Craft and implement cost reduction plans, with schedule and degree of measures depending on liquidity and operational considerations
- Assess significant crisis-related costs and identify best options to control these
## Practical ways to conserve cash through improvements in working capital

### Housekeeping

**Short to medium term**
- Develop forecasts that consider input from all relevant segments of the business, such as manufacturing, distribution, sales and marketing
- Implement different lean and agile supply chain strategies and solutions for each product
- Apply data and analytics to properly assess the right inventory level and predict movement of stocks
- Ensure processes are in place for timely replenishment of stock

**Medium to long term**
- Assess credit risk policies to ensure they take into account current business conditions (e.g. lockdown)
- Carefully monitor customer disputes and address top causes
- Track inventory quantities accurately to understand true size and value of stock, and to avoid unnecessary purchases and production
- Carry different inventory levels for different goods, depending on lead time and level of importance to the current situation

### Process improvements

**Short to medium term**
- Use customer feedback in streamlining billing processes considering disruptions to usual settlement channels
- Develop agile collection methods such as using ePayment channels
- Implement supplier performance management across all categories of materials
- Integrate spending approvals into the purchase process, avoiding multiple sign-offs at the end of the process and enabling use of early payment discounts
- Ensure processes are in place for timely replenishment of stock

**Medium to long term**
- Implement proactive dispute management process taking into account customer relationships and tight business environment
- Implement cash focused KPIs and reporting dashboard
- Develop forecasts that consider input from all relevant segments of the business, such as manufacturing, distribution, sales and marketing
- Implement different lean and agile supply chain strategies and solutions for each product
- Apply data and analytics to properly assess the right inventory level and predict movement of stocks

### Terms

- Minimize the total number of payment terms offered and adjust them to customer risk
- Align terms to any changes in business practices as current conditions hamper timely settlement

### AR: Order-to-Cash
- Check if controls are in place to prevent payments in advance of negotiated terms
- Revisit supplier relationship and transaction volume to assess possibility of obtaining more favorable terms

### AP: Procure-to-Pay
- Implement supplier performance management across all categories of materials
- Integrate spending approvals into the purchase process, avoiding multiple sign-offs at the end of the process and enabling use of early payment discounts
- Implement cash focused KPIs and reporting dashboard

### Inventory: Forecast-to-Fulfil
- Track inventory quantities accurately to understand true size and value of stock, and to avoid unnecessary purchases and production
- Carry different inventory levels for different goods, depending on lead time and level of importance to the current situation
- Develop forecasts that consider input from all relevant segments of the business, such as manufacturing, distribution, sales and marketing
- Implement different lean and agile supply chain strategies and solutions for each product
- Apply data and analytics to properly assess the right inventory level and predict movement of stocks

---

**Staying afloat amid the crisis**

PwC

April 2020
3

Manage internal and external stakeholders
Along stage 1 and 2, organizations need to quickly understand who their key stakeholders are, both internally and externally. Managing these stakeholders is often challenging in a stressed environment, particularly where interests may be conflicting and there are significant demands for real time information coming from different sides. Set up a PMO dedicated to deal with issues related to the crisis.
Timely engagement of stakeholders is necessary given the rapidly evolving situation.

Program Management Office (PMO)
Manage the impact of COVID-19 and engagement of stakeholders

Communication

1. Develop a **clear communication plan** to ensure consistent messaging across all channels.
2. Consult with internal risk and marketing teams, as appropriate.

Stakeholders

1. Identify all **key external stakeholders; engage early and proactively manage**.
2. Understand their current position; how they may act and any associated issues which may arise.
3. **Assess the impact** of these issues on your business and work with the stakeholders to minimize or mitigate the impact.

Channels

- Internal Employees, Staff
- External Customers, Suppliers, Shareholders, Government, Market

Stakeholders

- Financial Banks, Lenders, Bondholders, Investors, Guarantors, Auditors, Bureau of Internal Revenue
- Operating Landlords, Suppliers, Service Providers, Customers, Insurers, Regulators
### Setting up your COVID-19 response: what to look for

<table>
<thead>
<tr>
<th>Category</th>
<th>Questions</th>
</tr>
</thead>
</table>
| **Travel, airlines, transport and logistics** | - Do you have cash available or credit policies in place to facilitate refunds due to restriction on travel?  
- Are you able to forecast your future cash requirements and agree more flexible borrowing arrangements with your lenders?  
- Have you performed any scenario planning in relation to your working capital in anticipation of prolonged lockdowns or prohibition on travel? |
| **Real estate and construction**              | - Have you considered the impact of government mandates such as grace period for loan payments and rent collections?  
- Have you considered scenarios of project funding being delayed or deferred due to pressure on project funders?  
- What access do you have to emergency funding or increased construction funding needs?  
- What contractual options are available to you as lessor or developer to speed up receivables collection or as customer to stretch payables after the quarantine? |
| **Consumer and retail**                       | - Have you adjusted cash and working capital policies to ensure liquidity given surge in demand for essential goods?  
- Are you able to negotiate for extended or increased banking facilities and covenant terms with finance providers, especially for SMEs and discretionary retailers?  
- Have you considered how the current environment will impact consumer demand for succeeding periods?  
- Have you reflected possible disruptions to the supply chain in your inventory management? |
| **Business process outsourcing**              | - Have you stress tested cash flow forecasts and identified potential mitigating actions to protect against liquidity issues, given possible difficulties in payment between international parties?  
- Have you updated working capital plans and forecasts, and increased focus on management through regular billing and cash collection?  
- Have you considered impact on demand and expenses of employees moving to remote working rather than staying onsite? |
| **Financial services**                        | - Have you considered cash flow impact of government-imposed grace period on loan payments, which cover banks, credit card companies, and other financial institutions?  
- Have you considered liquidity implications on your branches and ATMs?  
- How are you preparing for the significant volume of additional unplanned insurance claims or customer queries across different products and locations in relation to COVID-19? |

Staying afloat amid the crisis  
PwC
Connect with us: PwC Philippines

Mary Jade T. Roxas-Divinagracia, CFA®, CVA
Deals and Corporate Finance
Managing Partner
+ 63 (2) 8459 2060
jade.roxas@pwc.com

Darwin B. Saribay, CFA®
Deals and Corporate Finance
Senior Manager
+ 63 (2) 8845 2728 ext. 3438
darwin.saribay@pwc.com

Janesse Galicia-Dorado
Deals and Corporate Finance
Director
+ 63 (2) 8845 2728 ext. 3489
janesse.dorado@pwc.com

Leilani Ramirez-Layug
Deals and Corporate Finance
Director
+ 63 (2) 8845 2728 ext. 3142
leilani.c.ramirez@pwc.com