

# Crisis Cash Management stabilization and optimization

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# Cash Flow problem



A cash shortage, leading to inability to settle liabilities -> emphasis to short term obligations.

## Main causes of cash flow problems



Low profits or losses



Over investment in capacity



Too much stock



Allowing customers too much credit



Overtrading



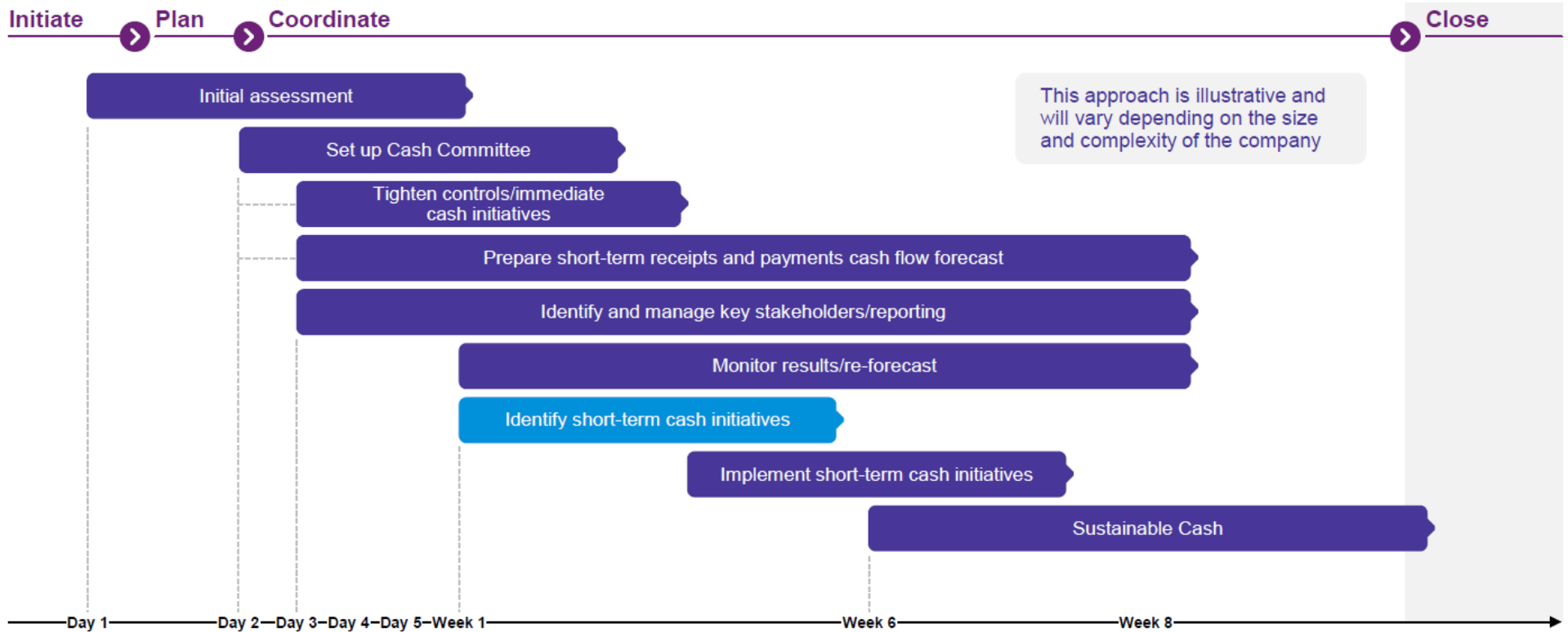
Unexpected changes



Seasonal demand

# Crisis Cash Management Overview

The typical approach during a crisis cash management can be summarized as follows:



# Cash Committee

**During a cash crisis, the business need to be managed for cash rather than profit. Establishing a cross-functional cash committee is a highly visible and effective measure in focusing a business on cash stabilization/ improvement**

## **Purpose**

- ✓ *By containing a cross-functional representatives, the Cash Committee can assess the ramification of any actions proposed in advance of them being taken;*
- ✓ *The Cash Committee should be empowered to make decision affecting all areas of the business*

## **Responsibilities**

- ✓ *Ascertaining bank facilities*
- ✓ *Establishing the short term funding requirements*
- ✓ *Tightening cash management controls*
- ✓ *Developing and implementing short term/ long term cash generation*
- ✓ *Manage messages to internal and external stakeholders*

## **Improvement actions**

- Improved reporting will enable identification and implementation of improvement actions. Will need to consider these and others:*
- ✓ *Repatriation of excess cash balances;*
  - ✓ *Ensure all invoicing up to date in order to accelerate future collections;*
  - ✓ *Prioritize production scheduling of stock with a 'quick cash turn';*
  - ✓ *Don't accept any/ some/ large orders with negative cash implications*
  - ✓ *Targeting and reducing overdue receivables*
  - ✓ *Limiting purchasing to business essential items only*
  - ✓ *Tightening payment controls such that payment can be limited to business critical creditors where possible*

# Cash management and stabilization

In times of uncertainty, the capability of an organization to navigate through significant instability can be the catalyst for long-term financial health. A cash-flow forecast model serves as an early warning sign to a company's future business health by putting a forensic lens on cash balances under a variety of future circumstances.

## Key points to consider:

01 How long can the business continue to meet payroll obligations?

Are there any potential problems with customer payments? Has debt payment slowed?

02

03 Can the business afford to pay suppliers?

Are there adjustments that need to be made (i.e., cutting expenses)?

04

## Main common concern:

Short term cash improvement opportunities should be identified

## Main sources of information to use:

The detailed short-term cash flow forecast

01

The most detailed balance sheet with detailed supporting schedules

02

# Cash improvement opportunities

## Where to look for opportunities?



### Cash Flow Forecast

In looking at the detailed cash flow forecast, practitioners should be looking for ways to accelerate forecast receipts and defer forecast payments. Line items should be challenged.



### Balance Sheet

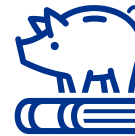
In looking at the balance sheet, practitioners should be trying to identify which are not included in the cash flow forecast. The timing and correctness of these assets and liabilities included in the forecast should be considered as well as whether receipts can be further accelerated and payment deferred.

# Cash generation & preservation measures



**Cash generation measures will usually be business specific but may include:**

- Improvement of cash collection from customers
- Offering further discounts to encourage early settlement of invoices by customers
- Sale of redundant and/ or underused fixed assets
- Sale/ return of surplus inventory
- Disposal of any shares or investments no longer needed
- Assessment of any prepayments with a view to obtaining a refund or mitigating large imminent cash out flows
- Assessment of level of guarantees or restrictions in facilities which may be reduces and freed up for other use
- Cessation of funding to subsidiaries who do not settle inter-company accounts promptly or regularly
- Regular and timely settlement of inter-company trading accounts
- Annual/ monthly in advance invoicing of management
- Improvement of cash utilisation across the Group



**Cash preservation ideas are business specific but may include:**

- Suppliers payments deferral
- Cessation of direct debits and switch to cheque payments
- Payroll tax deferral
- Sales tax deferral
- Cessation of activities and businesses that deplete cash resources (e.g. loss-making decisions)
- Cancellation of non-critical expenditure
- Cancellation of non-critical maintenance expenditure
- Postponement or cancellation of staff bonuses
- The modification of lease payment terms
- Cessation of provision of employee and director loans
- Reductions in pension/ retirement plan contributions



Thank you





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