

# COVID-19: Liquidity & financing - Cash preservation & generation

The outbreak of COVID-19 and the impact on the wider economy has placed unprecedented pressures on UK businesses.

Although government support for business is being made available, firms will need to first, demonstrate robust and stress-tested financial forecasts and two, implement appropriate 'self-help' steps to improve liquidity and minimise funding requirements.

## The market environment

### Demand shock

COVID-19 has impacted demand across almost every sector of the economy, with smaller businesses impacted more acutely.

### Cashflow chain

Customers delay payments, as they are waiting for their own customers to pay. This causes a chain reaction of tightened liquidity.

### Supply challenges

This remains an issue for several sectors, where closed/disrupted borders are causing supply chain issues.

### Gov. support

HM Government (HMG) have announced a range of measures to support business liquidity, e.g. Job Retention Scheme, Business Interruption Loans, Business Rates Relief, Grants, various Tax measures and Statutory Sick Pay refunds.

## Financial modelling stress testing must look at four components

### Cash

- Determine the level of liquidity and crisis cash requirements.
- This also includes identifying 'tactical' working capital actions that will quickly optimise business cash flow.



### Cost

- Categorisation and triage of discretionary expenditure for cost control.
- Leverage multiple revenue forecast scenarios to develop organisational cost model various activity levels.

### Customer

- Diagnostic to understand how demand patterns will be impacted.
- Revenue analytics supported by primary research for operational changes.

### Capital

- Urgently review capital expenditure plans to test for requirement during immediate COVID-19 crisis.
- Identify capex reduction opportunities based on revised demand forecasts.

## Mitigating actions

During the COVID-19 crisis, businesses will need to maximise their existing working capital availability. Mitigating actions can take time to implement, therefore acting decisively is critical.

### 1 Implementing and optimising 'good practices'

Straightforward actions that can be implemented quickly:

- Review supplier contracts and maximise existing payment terms
- Chase up late/non-payment
- Ensure customer/ supplier failure policies are reviewed e.g. via Retention of Title
- Review policies and identify 'quick win' cost reductions

### 2 Taking tactical actions

These options may have some long-term impacts, but may have a significant impact on cash:

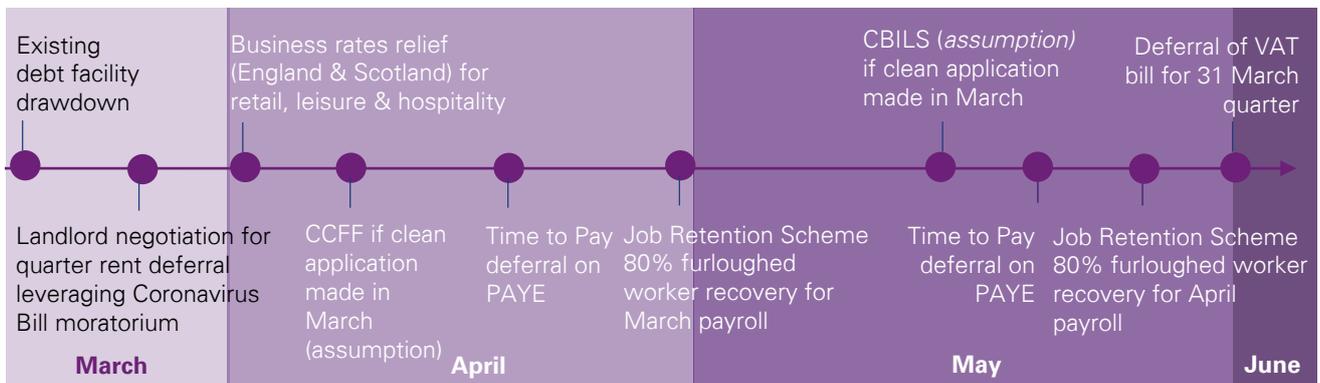
- Defer capital expenditure.
- Renegotiate supplier payment terms
- Remove or defer unnecessary costs e.g. contractors working on non-core activities, marketing expenditure

### 3 Making last resort changes

These are aggressive cash preservation options that may be suitable in certain circumstances:

- Defer non-wage cash outflow
- Reduce overheads by closing/reducing some operations
- Consider voluntary reduced worktime or pay reduction options for employees

## Time to Cash Assumptions for Key COVID-19 mitigation actions



## Key points to consider

### Be proactive

Acting now with some of the lighter actions may defer or lessen the requirements for more extreme measures further down the track.

### Director duties

Cash preservation measures must be undertaken with regard to director's duties under 2006 Companies Act. Expert advice should be sought.

### Consider impacts

None of these choices are without consequences. Businesses should evaluate impact to minimise adverse consequences e.g. supplier failure.

### Get prepared

Government and bank business support will need to demonstrate that efforts to minimise lending requirement has already been made.

## Key contacts



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