

Cash Flow in a Crisis – Deliverables from Webinar 1

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Intro & overview

- We are all being bombarded both professionally and personally with news, social media, opinions about the seriousness of the current situation.
- We need to cut through all the noise and talk with you about action.
- People come first: Prioritise the continued wellbeing of your people, including yourself, including communication about what is going on.
- To set some expectations – there are no magic bullets. You probably won’t hear anything new today. We are talking about good business fundamentals, with clear focus on the important and urgent. To survive will take pragmatism, hard work and not being afraid to make hard decisions.
- The most important thing is to start, because inaction, paralysis or delay is not an option.
- Cashflow needs to be considered as part of a wider crisis response.
- But right now cashflow is the oxygen for your business, you need to focus on liquidity and have a clear understand the available levers to generate cash and retain cash for your business.

Our session will cover:

- Information is key, covering Government support, IRD, Bank, Operational and management information
- Cash in, covering sales, working capital
- Cash out, covering suppliers, employees

Information is key

Government support

- The wage subsidies are available. Don’t delay. Apply if you are eligible. <https://covid19.govt.nz/government-actions/financial-support/>
- Payments will be subject to audit or review, so document key decisions and eligibility assumptions and account for the subsidies in a way that allows for transparency.
- Specific support to the Aviation industry, Māori, and NGOs and community groups

IRD

- There are a number of pragmatic and welcome tax changes that will take effect for the 2021. I won't go into these in detail today. <https://home.kpmg/nz/en/home/insights/2020/03/covid-19-tax-act-and-late-payment.html>
- The key message for today is that the IRD position is very simple and about understanding: <https://www.ird.govt.nz/covid-19/tax-relief>
If your business is unable to pay its taxes on time due to the impact of COVID-19, we understand - you don't need to contact us right now. Get in touch with us when you can, and we'll write-off any penalties and interest. However, it will help if you continue to file. This information is used to make correct payments to people and to help the Government respond to what is happening in the economy. If you have existing payment arrangements, tax arrears, disputes or reviews, that need renegotiating, then we recommend getting in touch with the IRD.
- Prioritise paying PAYE.

Bank

- The Government, retail banks and the Reserve Bank have announced a six-monthly principal and interest payment holiday for mortgage holders and SME customers whose incomes have been affected by COVID-19.
- More details will be released.
- For many of you, business and personal debt will be fully connected.
- You need to be talking with your banker about:
 - Interest only on term facilities
 - Overdraft facilities extensions
 - Bank covenants
 - Bank information requirements. We understand that there will be a priority on 31 March 2020 accounts.

Cash and management information

- Develop a simple daily cash position and forecast. Need to understand Peaks and troughs of daily cash flow. Weekly and Monthly forecasting won't provide this detail.
- Build out the daily view into longer term revenue and cash flow budgets and forecasts, but be very conservative with assumptions.
- Use your accounting systems. Make sure that you are reconciled every day.
- Consider talking to your employees during this time and perhaps giving more details about business than you typically would.

Call to action

- **Seek information from sources that you trust, things change daily**
- **Talk to the right people now, trusted advisors, RDA, bankers, lawyers etc.**
- **Use your accounting and information systems – interrogate your data hard.**

Cash in

Sales

- Think about pricing points and the implications that this has on future sales
- Review your marketing plan for now and for when business is open,
- How do you ensure that your customers continue to think about you.
- It will be important to turnover stock as quickly as possible if you have aging issues.
- A good marketing plan will ensure you collect cash as quickly as possible

Receivables

- Discussions with customers.
- Detail and document when customers are paying and how much
- Is it possible to use AR factoring services, payment terms, cash flow borrowing
- Build this into your daily cash flow.

Cash out

Suppliers

- See who can be deferred. Target top suppliers as likely to get biggest bang for buck from a time perspective.
- Review your contracts as there may be requirements to spend, can you use force majeure to get out of onerous contracts?
- Use it as an opportunity to renegotiate pricing with suppliers, it is likely that there will be good prices so suppliers can move stock.
- Negotiating payment terms with suppliers and cancelling any orders of parts or goods that you don't believe you can convert to cash quickly.
- Reduce non-critical spending.
- Defer non-critical capital expenditure that can be delayed.
- Continuing to identify the risks in your supply chain including; availability of raw materials, parts and goods; restrictions on transportation of raw materials, parts and goods; financial stability of the supplier (particularly around critical infrastructure such as IT); alternative sources of supply.

Employees

- Always operate in good faith.
- What can you commit to paying?
- What does worst case look like to an employee over the next 4 weeks, 3 months, 12 months?
- People will be critical to your business post crisis. Consider other measures for critical staff such as reduction in hours, bringing forward annual leave, temporary reduction in remuneration.
- Think about how you will have coverage during periods of sickness.

Rental costs

- Talk to your landlords.
- Investigate no access clause during Alert Level 4.
- Rent free period?

Call to action

- **Manage cash flow and working capital – but be conscious that everyone else is at the same time.**
- **Understand the critical steps in your supply chain and customer group and manage these closely.**
- **Remember that we will come out the other side, so don't burn relationships**