
10-point plan for managing cash pressure during Covid-19

PwC's Mark McEnroe outlines a 10-point plan for management teams seeking to stabilise their cash position.

As the global response to Coronavirus/Covid-19 evolves, organisations are experiencing significant operational, financial and liquidity challenges.

The top concern right now for many businesses is to manage their cash pressures to ride out the crisis.

Management teams should consider three key areas in a 10-point plan as they seek to stabilise their cash position:

- Understand the current financial position
- Take action to protect the position
- Manage internal and external stakeholders

In doing so, it's important to identify areas which are risks to the going concern and long-term trading ability of the organisation.

Alongside managing cash challenges, companies must keep directors' duties front of mind. They need to ensure that they avoid trading risks and seek appropriate advice during this period of uncertainty. This article reviews each of the above key areas and highlights a 10-point plan.

Understand the current financial position

The ability to respond quickly is essential. In a critical situation like COVID-19, a business may need to make an assessment of available and trapped cash in a matter of weeks, or even days:

- On the cash side, assess the potential short and medium-term financial implications of Covid-19; Focus on liquidity and covenants including reviewing your immediate short-term cash-flow forecast and updating your business plans and budgets.
- Perform sensitivity analysis, modelling worst-case scenarios, inclusive of the impact of foreign exchange on your cash position and test the capability of your existing reporting tools and systems; For example, do they allow real-time reporting across multiple locations?
- On the funding side, review your finance documentation, identifying if there is flexibility on loans, covenants etc. For example, is there scope to review borrowing capacity and unencumbered assets such as inventory, receivables and intellectual property? Is there

scope to access government funding initiatives?

Look at contingency plans:

- Update your financial position and resource planning analysis to assume staff sickness; Assess where and what levels of tactical cost reduction and cash conversion or stock liquidation could be undertaken, if that were required; Develop operational contingency plans to minimise disruption to your business; Include reviews of authorised personnel to manage bank and system processes and controls.

Engage with stakeholders:

- Review key supplier and customer contracts and identify if there is contractual flexibility to amend payment and pricing terms for both sides; Engage with suppliers and customers accordingly to reassess payment schedules and priorities where possible; Consider the position of other key stakeholders, e.g. shareholders, pension trustees, regulators, credit insurers and credit card companies including checking insurance policies for business interruption clauses.

Take action to protect the position

Once there is clarity on the cash position, company directors and management teams should take immediate action to ensure that they can, at least, maintain it:

- Optimise your working capital to preserve liquidity; Identify opportunities to access alternative cash sources, if that should be required; Implement cash conservation measures. For example, this might include cancelling non-essential orders, shift rationalisation and four-day working weeks.
- Seek additional funding support from existing lenders and / or new funding from alternative providers; Are there opportunities to generate cash via equity release? Obtain consent from lenders for short-term financial covenant waivers or relaxation in anticipation of potential covenant breaches.
- Implement rapid cost reduction plans based on your financial position; Consider setting up a programme management office (PMO) to help ensure consistency in managing the impact of Covid-19. This will enable rapid responses to deal with operational and financial issues as they arise.

Manage internal and external stakeholders

Aside from the key actions above, organisations need to quickly understand who their key stakeholders are, both internally and externally. Management of stakeholders can often be challenging in a stressed scenario, particularly where interests are conflicting and there are

significant demands for real time information:

- Develop a clear communication plan to ensure consistent messaging across all channels. Consult with internal risk and marketing teams, as appropriate.
- Identify all key external stakeholders; Engage early and proactively manage them; Understand their current position. Consider how they may act and any associated issues which may arise; Work with the stakeholders to minimise or mitigate their cash flow impact.

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