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Covid-19 Market Disruption: Pivot to Cash

Discussion Document - April 2020



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Survival Is at Stake – Companies Must Pivot to Cash

In a matter of weeks, most people / organizations across the globe have been impacted by Covid-19. The impact is further accentuated by the fact that **no one knows how long it will last.**



- The initial focus has rightly been on protecting people's well being, but with the consequences of this likely to last for several months, many organizations will face a significant strain on revenue and overall liquidity, threatening their survival.
- Businesses and managers need to **be bold and decisive and pivot their focus to cash (liquidity that keeps the organization alive)**. Days and weeks can matter just as it has for governments and countries in containing Covid-19.
- It is critical that businesses know the scale of the challenges they are facing (scenario analysis), evaluate business and cash impacts, are aware of what their options are, and have robust execution and contingency plans.



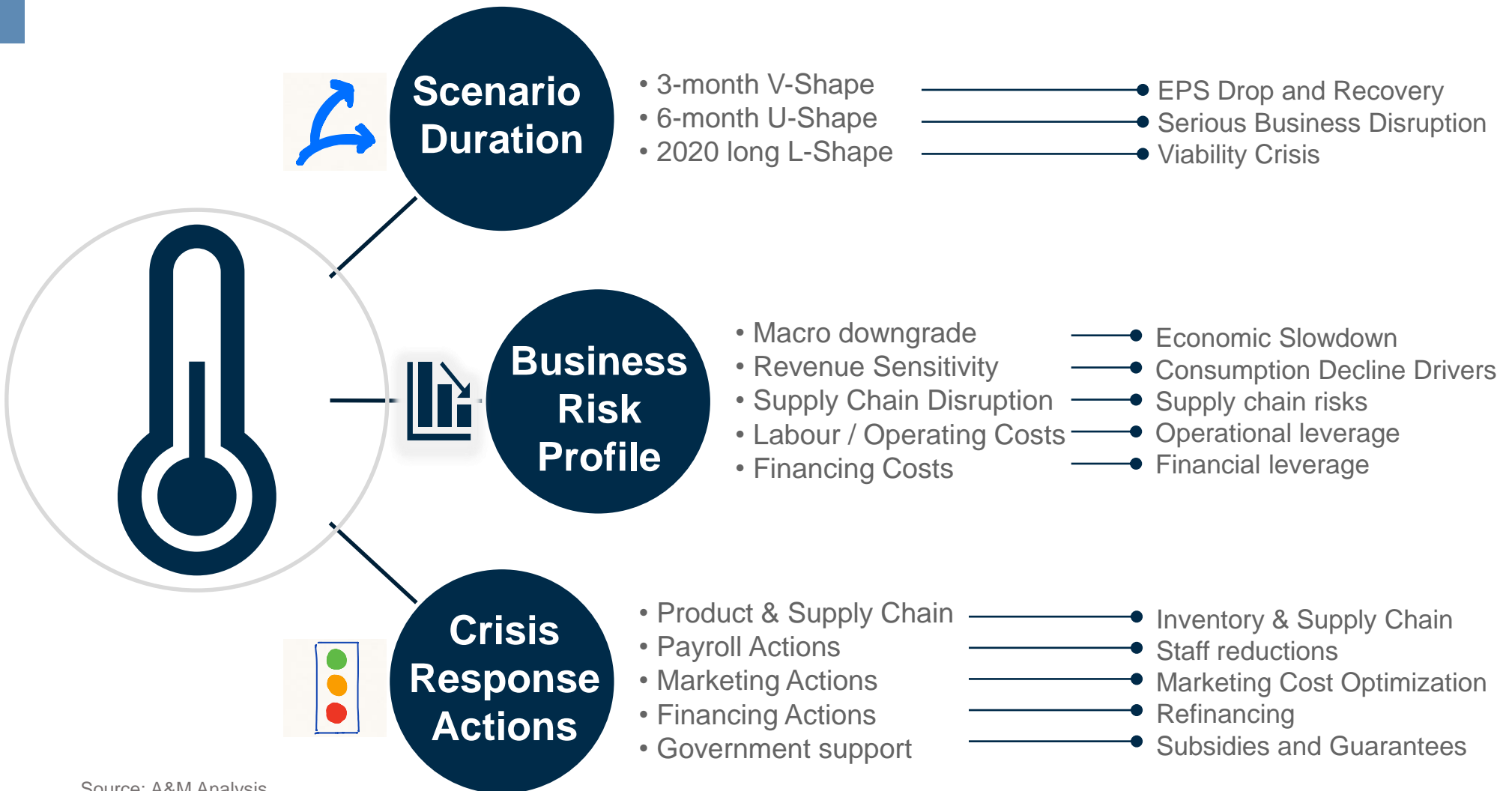
- For over 35 years, A&M has been helping clients tackle tough business issues, recessions, boost operating performance and maximize stakeholder value.
- **Our experience helping clients in crisis situations can provide support to drive better liquidity management, assess the robustness of the business plan and support in discussions with external stakeholders, and not waste precious time.**

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Financial Impact of Covid-19

Impact depends on severity of impact will depend on duration of scenario, business risk sensitivity to Covid-19 shock (income, cost and cash) and crisis contingency actions.

Covid-19 Crisis Quantitative Impact – Driving Factors



Source: A&M Analysis

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Pivot to Cash Mentality – A&M Common Principles

Pivot to cash generation and preservation

After the welfare of staff, cash should be the top priority. An immediate understanding and **prioritization of liquidity measures should replace historic focus on growth, margins, and cost efficiency**. Get paid in cash before rendering services or shipping.

Enhance cash visibility

Short and medium term visibility of cash is paramount. **Build “worst case” scenarios for the next 4-6 months (V, U and L shape)**. Forecast business KPI impacts (50-100% loss of topline) and their effect in your cash position.

Build contingency plans NOW

It is essential to prioritize the **short term generation of cash and cost mitigation**. Plans should be **immediately actionable** related to employee actions, shutting down facilities, reducing inventories, etc. Develop plans for the worse and activate actions as crisis becomes more severe.

Understand how supply chain impacts cash

Quickly **adjust order volumes** from key suppliers. Negotiate immediate price concessions and extended payment terms with suppliers. Adjust planning parameters to avoid unnecessary purchasing (e.g., inventory). Optimize logistics to avoid costly expediting activities.

Make strategic payroll actions

There will be a bias against making hard personnel decisions. Quickly **determine which capabilities are critical** to keep and which capabilities can be reduced and replaced in the future. Explore government assistance as alternatives to downsizing given the social costs of layoffs.

Reduce Marketing expenditures

In these challenging times, **marketing / advertising will be much less effective** as traditional messaging will not resonate now. Companies should focus social media on how they are helping with and dealing with COVID-19 in the community.

Expand Financing

Use lines of credit and **secure new financing to address 3 to 6 month cash needs**. Leverage state financing guarantee programs. Adjust financing needs as crisis evolve and business impacts are better measured.

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COVID-19 Response Framework: Pivot to Cash™

CEOs need to be bold and decisive in response to the COVID-19 crisis. Days and weeks can matter just like it has for governments and countries in containing COVID-19.

Crisis Governance

Focus Areas:

- Active Executive Leadership
- Cross-Functional Leadership Involvement
- Critical Performance Management
- Central Communications & Stakeholder Management
- Escalation Frameworks

Business Continuity

Focus Areas:

- Business Plan Revision
- Downside / Upside Scenario Planning
- Market Dynamics / Response

Human Capital, Health / Welfare and Safety

Focus Areas

- Health & Safety
- Employee Support and Morale
- Government Support and Financial Relief
- Regulatory Compliance for Actions Taken

Pivot to Cash™

Focus Areas:

- 13-Week Cash Flow
- Working Capital Planning
- Rapid Cost Reduction
- Finance & Funding

Supply Chain Management

Focus Areas:

- Adjust to New Demand Profile
- Challenge OpEx and CapEx Expenditures
- Assess Supplier and 3rd Party Contracts
- Assure Continuity or Shuttering of Key Operations
- Stabilize Logistics and Distribution

Labor / Union Considerations

Focus Areas:

- Optimize Efficiency of Workforce
- Plan for Labor Cost Reduction
- Risk Mitigation Measures during RIF

IT / Technology

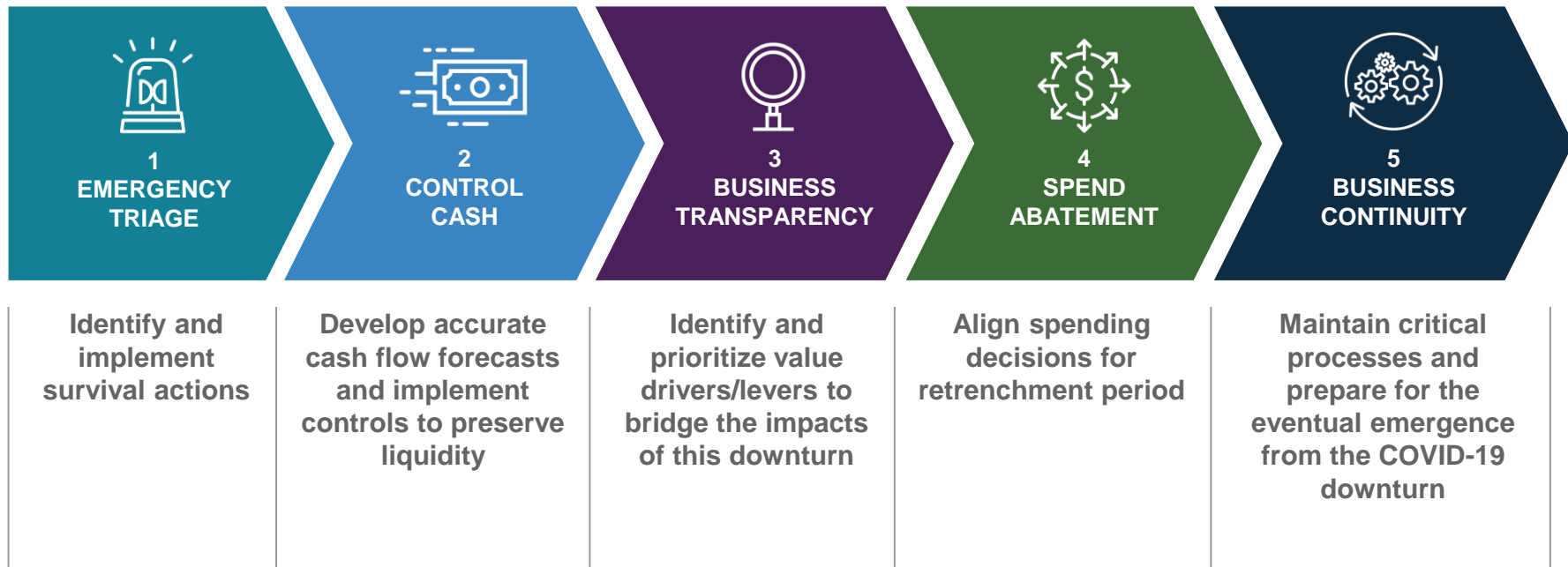
Focus Areas:

- Remote Access for Employees & Partners
- Digital Channel Access to Customers
- Cybersecurity Risk
- Prioritize IT Spend
- Third Party Performance



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Pivot to Cash™ – assessing impact, taking control and gaining full transparency of liquidity to manage contingencies



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Pivot to Cash™ - Leadership & Communication

To manage the liquidity impacts stemming from the COVID-19 downturn, leaders will need to **ACT QUICKLY AND DECISIVELY**, set a **CLEAR DIRECTION** and drive **ADAPTABILITY**

ACT QUICKLY AND DECISIVELY

- Rapid analytics should drive critical decisions. Speed-to-decision cannot be paralyzed by unknowns
- Be objective and unemotional about detaching from pre-pandemic plans and pursuits. For most companies, operating under COVID-19 will be the new norm. Leadership must acknowledge, accept and be ready to counterpunch
- Indecision and delay will prevent a company from being in control of its destiny

SET A CLEAR DIRECTION

- Establish cash/liquidity management as a top priority across all functional areas, it's not just the CFO's job
- Communicate the core business strategy around which the organization will establish a firm foundation to ride through the challenges faced during the crisis period
- Develop effective communication modes to continually update team members. Without communication, they will fill the void with worst-case scenarios

DRIVE ADAPTABILITY

- Set management governance/systems to allow for rapid course changes and corrections in response to shifting circumstances – Need analytical rigor to support a continually changing environment
- Using the revised business focus as a base framework, pre-plan alternate scenarios to flex the business as needed
- Develop and implement contingency plans and redundancies to be able to react to additional disruptions

CENTRAL COORDINATION IS ESSENTIAL

- Regardless of how devolved / empowered different parts of the business have been, now is a time for central control (with effective local execution).
- Targets / actions should be set and owned at the center.

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Pivot to Cash™ – A&M Tools

01 Stress Liquidity Management

- Readiness check to evaluate liquidity management capabilities under stress

How do we lead?

- Liquidity is a Board/Exec priority addressed in all / most meetings. 'Cash Czar' (battle-proven Crisis Cash Exec) is responsible for driving the day to day cash culture
- Business is proactively driving and addressing any weaknesses in tools, capabilities and readiness to act
- Board/Exec can readily articulate the current liquidity position (e.g. current headroom, undrawn finance, covenant constraints, etc.)
- The Board understand their fiduciary responsibilities / requirements with regard to business solvency. Board/Exec is visibly leading by example
- Fast business cadence and 'command centre' adopted to align on new priorities – i.e. 'Pivot to Cash'. Cash RACI cascaded to business management
- Existing priorities (e.g. top-line growth, cost reduction, capex, R&D, etc.) are realigned to 'Pivot to Cash'. Cash communications implemented across organisation

Are we in control?

- Historically accurate, weekly, short term cash flow forecast (typically 13 weeks) used for forward visibility of liquidity, run by dedicated experienced crisis cash resources
- The STCF follows best practice principles including – balance sheet unwind, weekly roll forward, at least monthly re-anchor, detailed weekly variance analysis, performance vs covenants/headroom, currency analysis, review and sign off
- The STCF can run sensitivities and contains a register of current upside and downside scenarios
- Historical cash flow profile has been challenged to take account of changes to customer and supplier behaviour (e.g. stretching working capital)
- Forecast is used as an active tool to manage liquidity and prioritise liquidity actions along an escalation criteria (whether the business levers or financing requirements)
- Larger term view of liquidity (typically 1-2 years) built on an indirect basis (i.e. integrated financial forecast including trading assumptions), providing a sensitised forward view (run-rate scenario, medium term impact of short term cash decisions etc.) This includes covenant forecasts and debt maturities
- Cash forecasts are centrally owned (normally by Cash Czar in conjunction with Treasury), with strong divisional ownership of input assumptions

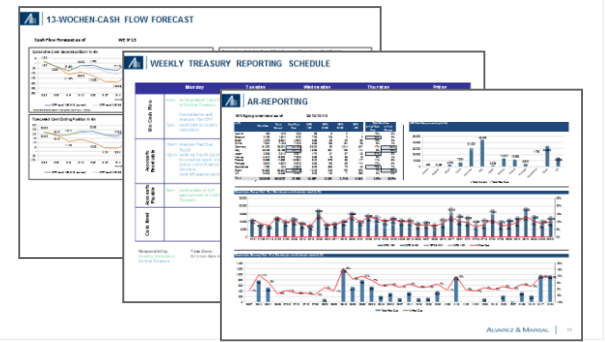
How many levers do we pull? Which and when?

- Cash Czar creates and maintains a list of potential liquidity levers (Escalator of Cash Levers) including estimated values, potential cost impact, business risk, stakeholder requirement, and time to implement. Cash integrity validated
- Levers identified from across the business in a structured manner and with associated business owners
- Escalation / forced ranking criteria have been agreed which articulate lever prioritisation and prioritisation (based on cash and shareholder/creditor value preservation)
- Levers are overlaid on the cash / trading forecasts to stress test upside / downside scenarios
- Escalation decisions are an Executive responsibility and form part of the regular meeting agenda

Assessment (No) - 5 (Fully Met)

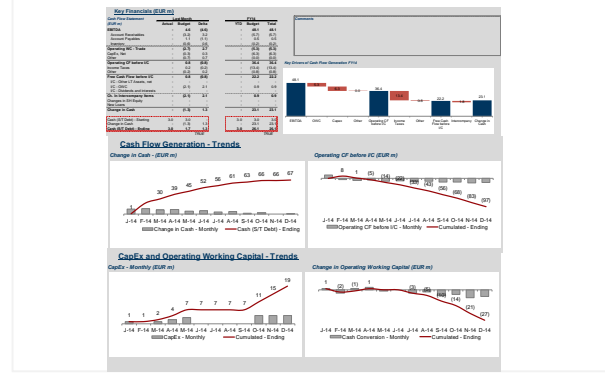
02 Short Term Cashflow

- Our approach to STCF (13 week cash flow forecast) ensures a transparent, sustainable, and accurate view of underlying short term liquidity



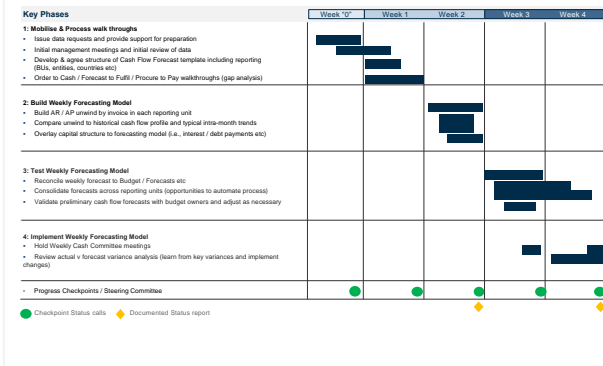
03 Dashboard and IT enablers

- Clear and accurate dashboards help identify challenges quickly and drive appropriate actions.



04 Pivot to Cash Workplan

- We have a tried and tested methodology to assess and build improved cash visibility within 2-4 weeks (depending on urgency)



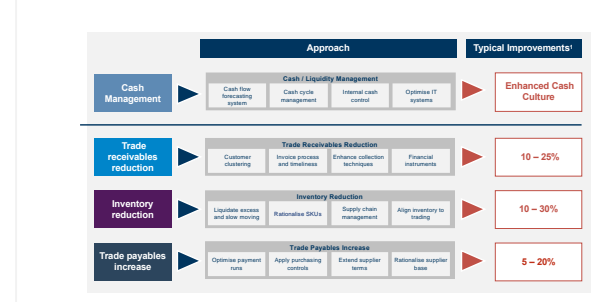
05 Working Capital Optimization

- A&M has a tried and tested approach to identifying, planning and implementing WC opportunities




06 Contingency Actions

- Mitigation actions can be based on the severity of liquidity shortages and designed to have integrated responses across product and supply chain, payroll, marketing and financing actions



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