



Cash conservation and management COVID-19 and beyond

How a 13-week dynamic Short-Term Cash Flow Forecast (“STCF”) can help companies manage liquidity during these uncertain times

April 2020



The COVID-19 outbreak has been declared a pandemic by the World Health Organization, causing huge impact on people's lives, families and communities.

As the international response continues to develop, we know that organisations are facing potentially significant cash management challenges to which they need to respond rapidly.

We have worked closely with organisations globally and in Malaysia to help them to prepare and respond to their liquidity and working capital management challenges.

With better visibility of your cash position and cash flows, you can achieve the following **five (5) key objectives**:



Gain a **better understanding** of major cash flow drivers and a **better control** of key cash flow levers



Improve cash flow **forecast quality** and reach



Increase cash flow awareness in the planning processes



Enable a faster reporting of cash flow performance, allowing for early corrective actions



Change mindset towards a "Cash Culture"

Outcome

- 1 Clear **visibility on cash position**
- 2 **Improved liquidity management**
- 3 Provides a platform for **informed decision making**

As the disruption to business is likely to continue for many months, unclear cash positions can have debilitating effects on businesses

Common cash management challenges and worries

Unclear cash position and cash forecasts, including currency effects



Developing robust contingency plans and 'what if' scenarios to model impacts (e.g. cash needs, changes in customer demand, failure in the supply chain, withdrawal of credit insurance, restriction on cross border payments, changes in regulation or other business shocks, meeting Tax obligations)



Understanding FX risk, due to changes in supply chain or customer flows or intercompany balances



Weak cash controls need to change so that those responsible for cash recognise that 'business as usual' principles no longer apply (e.g. ensure on-time customer payment or prioritising supplier payments align with business critical activities, managing Tax leakages due to non-compliance or operational challenges)



Credit lines withdrawn or become unavailable - such as bank credit lines/ facilities and derivatives



Difficult relationships with struggling customers who have liquidity issues/financial instability



Unclear who critical suppliers are, to continue your operational delivery



High invoice error rates to customers, causing delays in customer payments



Fragmented sales, production and cost planning - unable to assess current sales demand with adjusting production schedules and purchasing



Unable to assess options to defer existing purchases or forward orders, such as consequences if credit insurance cover is pulled



Responding to requests from other financial stakeholders where additional liquidity is being sought

Setting up a CCMO immediately is critical to prepare for, respond to, and ultimately emerge stronger from this “new normal”

Cash Conservation and Management Office (CCMO) immediate tasks



Develop a **dynamic, rolling 13-week Short-Term Cash flow Forecast (“STCF”)** and ongoing process.



Flex the STCF to model various **scenarios and mitigating actions** including the impact on cash position and covenants. Develop a list of mitigating actions that could be taken.



Identify **any net funding shortfalls** from the STCF



Review **current cash and reporting processes and controls** (e.g. authorisation limits, payment approval processes, hedging strategies).



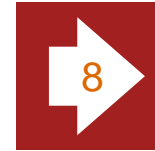
Prepare a list of **key suppliers and critical payments** that must be made to ensure operational continuity.



Establish **cash conservation levers**, including existing purchase order review and purchasing needs to assess the ability to cancel or defer.



Develop a clear **communications plan** for external stakeholders to accompany any potential ask.



Establish **inventory flow visibility** and **optimise stock management** in the face of potential lead time changes and demand volatility.



Identify **pockets of excess working capital** and establish initiatives to quickly convert this into cash.



Identify **surplus assets** / Tax measures or incentives that could provide short-term liquidity.

An effective CCMO should have a disciplined cadence & participation from cross functional stakeholders

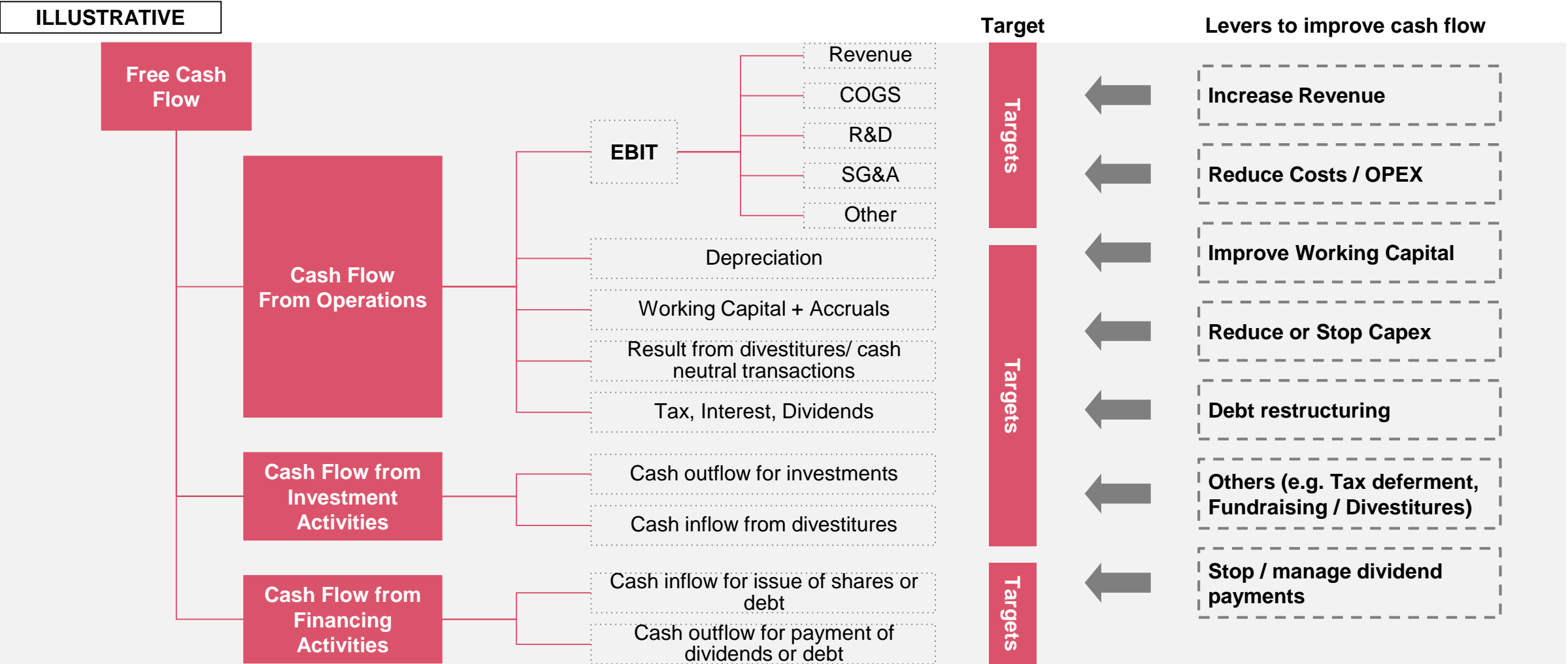
Cash Conservation and Management Office Cadence

Illustrative

Process	Monday @ 4.30pm	Tuesday @ 4.30pm	Wednesday @ 4.30pm	Thursday @ 4.30pm	Friday @ 4.30pm
CCMO Meeting	All functions have an allocated day to present expenditure request forms to the CCMO Urgent requests can be presented on an ad hoc basis The meeting is run with 3 CCMO members present				
Agenda	Presentation of expenditure request forms to the CCMO for review Defer / reject expenditure requests that are not necessary for the safe and efficient day-to-day operations of the Company				
Functions	e.g Sales/ Finance / Planning & Other	e.g IT / Legal and professional / PR	e.g Engineering / Financial Controls	e.g New ventures / Purchasing / Audit	e.g Administrative / Transport / Marketing
CCMO role: <ul style="list-style-type: none"> On a daily basis collect expenditure request forms from the relevant departments and review that they are in-line with CCMO guidelines Support Department Leads to internally challenge the necessity of expenditure prior to bringing requests to the CCMO, consult with the CCMO members as required Update the daily expenditure request schedule to highlight key information to CCMO members during the meeting and track performance Ensure that decisions made in CCMO meetings are communicated to the relevant individuals and guidelines are updated Update CCMO guidelines in consultation with Department Leads and CCMO member feedback Perform a daily check of all Purchase Orders raised to ensure that all items have CCMO approval unless exempt as per the guidelines Capture cost reduction ideas in the CCMO meetings to feed into the cost reduction workstream Train company resource to run the CCMO 					

A rigorous STCF will proactively help identify the key cash burners and generators allowing management to define initiatives to plug gaps

Free Cash Flow – Breakdown



We have worked with many clients across a range of industries in their cash management initiatives

How we've helped others



Cash flow forecasting and purchasing control

We developed and implemented cash flow reporting and purchasing controls for a company that was put into an insolvency process

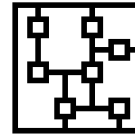


Cash collection support

We have supported clients experiencing cash pressure by rapidly deploying collections teams.

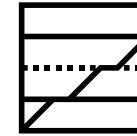
We provided pragmatic analytics to management to provide visibility on performance.

Also, we have accelerated and increased cash collections by 30% in just five weeks



Cash forecast modelling

We built a short term cash forecasting model whilst advising the client on measures to liquidate excess inventory and reassess production



Manage uncertainty

We helped manage uncertainty caused by lack of visibility in cash-flows, reliability of key metrics and identified opportunities to significantly mitigate cash impacts and arrange new facilities with lenders.



Payment control and monitoring support

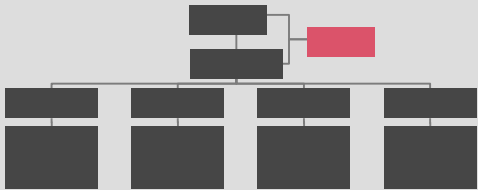
We rapidly deployed a framework to control the flow of outgoing payments, based on an assessment of supply chain risk and supplier criticality.

COVID-19 specific support

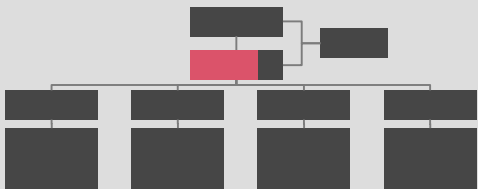
We can tailor the specific cash management support you need, targeting the areas where you need the most assistance

Illustrative roles we can provide on cash management projects

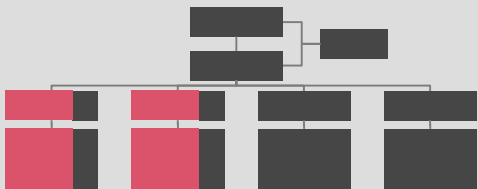
Cash management guidance and/or scenario analysis



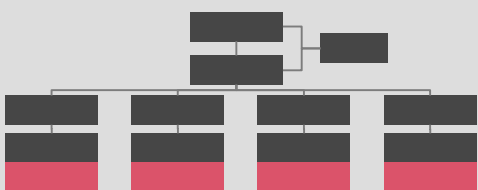
Cash Conservation and Management Office (CCMO) and data insights



Workstream lead(s) working with you till you stabilise your business (e.g. accounts payables, inventory management, accounts receivables etc.)



Surge capacity Including managed service capabilities for cash flow reporting needs



PwC Client

Cash conservation and management: COVID-19 and beyond
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