

Cash Management – Best Practices und Vermeidung häufiger Shortcomings

Discussion Document

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2020: Cash Management and its renaissance

Pre-pandemic

- “Business as usual” in a world with increasing uncertainties (e.g., Hong Kong protests, US-China trade war, Brexit, US 2020 election, low interest environment, volatile stock markets, etc.)
- *Cash is cheap and requires no particular focus (?)*

Lockdown

- Revenues often decreased
- Production (partially) stopped
- Austerity measures (short-term cost cutting, furlough programs)
- Uncertainty
- Cash preservation
- Government initiatives and additional funding as well as tax reliefs

Restart

- Revenues starting to recover
- Production ramping up again
- Employees returning from furlough
- Continued uncertainty
- Volatile forecasts
- Increasing funding / financing requirements / cash reserves needed

Cash Management and forecasting have become more difficult, but also more important

Situation

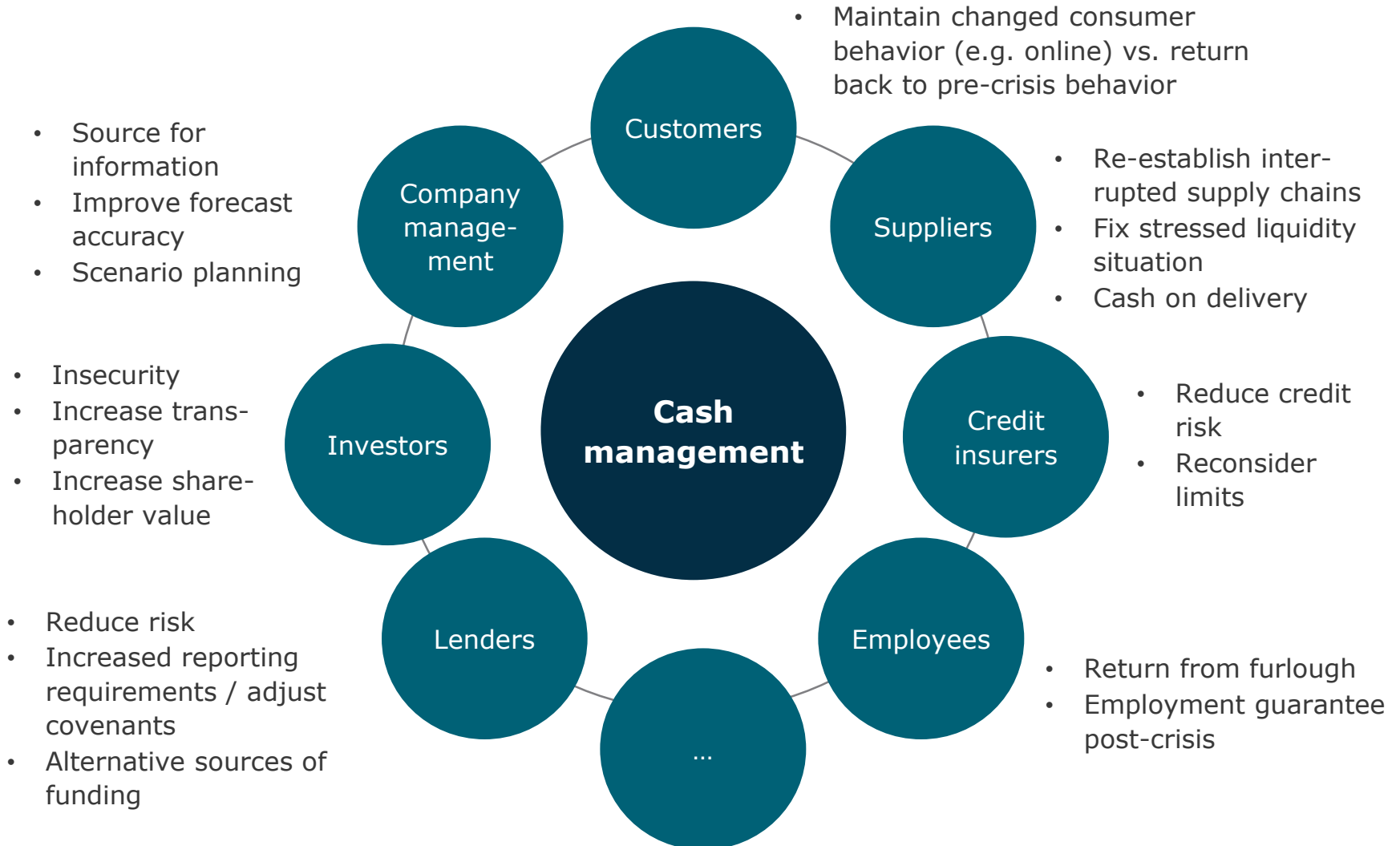
Restart requires a decision basis – however:

- **Future customer behavior** and cash-in by customers hard to predict
- Risk of **insolvency wave**, e.g. for suppliers / concessionaries / subtenants, once government support ends
- Planning of “traditional” for example retail **seasonality** (summer vacation season, Christmas peak) difficult as historical patterns partially no longer valid
- High level of planning **uncertainty**:
 - If planning too bullish, major financing costs and cash need
 - If planning too conservative, risk of not being able to serve customers and hence losing footfall, revenue and cash


Implications for restart

- Accept **uncertainty** and permanent **changes**
- **Planning assumptions** need to be **permanently revalidated**
- **Cash management** as strategic priority for executives
- **Category management** and **transparency** on **category profitability** become even more critical
- **Scenario planning** and **detailed forecasting** required to offset risks from inaccurate planning assumptions


Cash management is key as stakeholders are preparing for a restart and adjusting to a “new normal”




Cash Management – Essential for the CFO and more important than ever! (1/2)




- Ensure operating excellence in cash management
- Forecast per legal entity and appreciate segment structure
- Explore 13 weeks cash forecast to make intra-month cash swings visible by weekly forecasting



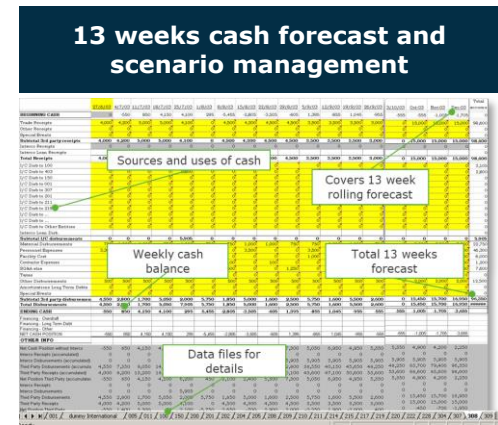
- Align cash forecast with indirect planning and develop 12 months cash forecast




- Realize quick wins to ensure improvement



- Ensure cash release through exploring all levers in working capital, sales, procurement etc.




Cash Management – Essential for the CFO and more important than ever ! (2/2)




Ensure Governance:


- Closely monitor & consistently update input information
- Understand deviations between indirect, direct and actual cash



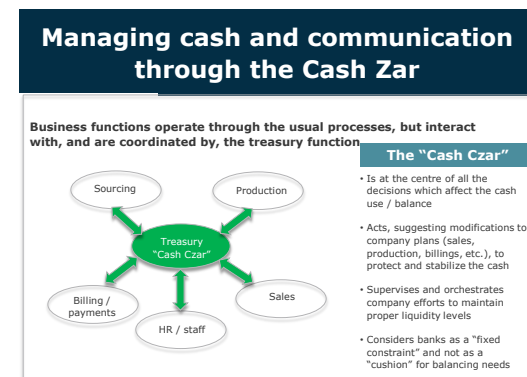
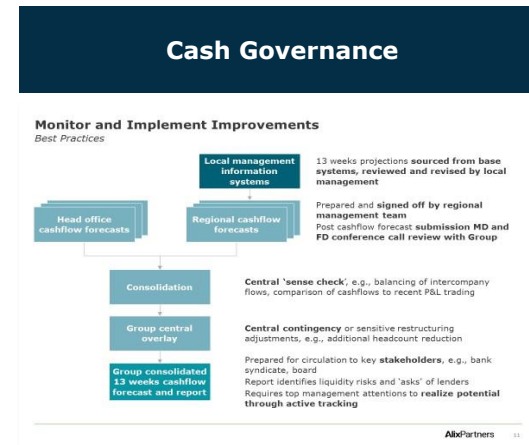
- Ensure that Cash Management is part of the strategy to identify funds to finance growth



- Collaborate among departments to manage cash, e.g. forecasting receipts from receivables by experience not payment terms



- Ensure management accountability and sensitivity for cash



Weekly liquidity reports summarise cash balances and key cash drivers, with the opportunity to drill down to granular detail

Weekly analysis



- Receipts
- Purchases
- Rent
- Payroll
- Tax
- Capex
- (...)
- Consolidate all countries within a given region
- Convert country forecasts into central forecast currency
- 13-week single currency regional/divisional forecast
- Consolidation of all regional/divisional 13-week forecasts
- 13-week group level liquidity summary
- Dashboard 13 weeks: cash contribution per region/division
- Stakeholder reporting tailored to specific information needs
- Summary group forecast including variance analysis and explanation
- Liquidity initiative tracking

Weekly reporting

ILLUSTRATIVE

Division 1: No funding need over 26 weeks horizon with ending cash balance of €90m

Week	W1	W2	W3	W4	W5	W6	W7	W8	W9	W10	W11	W12	W13	W14	W15	W16	W17	W18	W19	W20	W21	W22	W23	W24	W25	W26
Operating cash flow	27.76	28.24	28.72	29.20	29.68	30.16	30.64	31.12	31.60	32.08	32.56	33.04	33.52	34.00	34.48	34.96	35.44	35.92	36.40	36.88	37.36	37.84	38.32	38.80	39.28	39.76
Operating cash flow	27.76	28.24	28.72	29.20	29.68	30.16	30.64	31.12	31.60	32.08	32.56	33.04	33.52	34.00	34.48	34.96	35.44	35.92	36.40	36.88	37.36	37.84	38.32	38.80	39.28	39.76
Operating cash flow	27.76	28.24	28.72	29.20	29.68	30.16	30.64	31.12	31.60	32.08	32.56	33.04	33.52	34.00	34.48	34.96	35.44	35.92	36.40	36.88	37.36	37.84	38.32	38.80	39.28	39.76
Operating cash flow	27.76	28.24	28.72	29.20	29.68	30.16	30.64	31.12	31.60	32.08	32.56	33.04	33.52	34.00	34.48	34.96	35.44	35.92	36.40	36.88	37.36	37.84	38.32	38.80	39.28	39.76

Variance analysis vs CF8 (26 week view)

Entity	Liquidity low point CF8 (€m)	Liquidity low point CF8 (€m)	Variance	Explanation
Subsidiary 1	71	76	(5)	Additional supplier payments and accelerations in trading in subsidiaries and change in capex assumptions
Subsidiary 2	76			
Subsidiary 3	1			
Subsidiary 4	76			
Subsidiary 5	(3)			
Subsidiary 6	(30)			
Subsidiary 7	91			
Subsidiary 8	1			
Subsidiary 9	11			
Subsidiary 10	(4)			
Subsidiary 11	74			

13 week funding need total of €44m is a €26m improvement on CF8 driven by additional bank funding available to APAC and timing of payments in subsidiary

Notes:

1. Base case represents BAU activity including any exceptional items identified by entity
2. Cash flow low point: with in cluster above 13 weeks 13 consolidated closing cash balances
3. Cash flow low point: presented under description of cash pooling
4. Cash flow low point: represent unfunded balances in local facilities where management expect local facilities to remain available
5. Cash flow low point: represent unfunded balances in local facilities where management expect local facilities to remain available
6. Cash flow low point: represent unfunded balances in local facilities where management expect local facilities to remain available

Total funding need across the group is presented in the grey boxes on both a pooling (red line) and no pooling basis.

What can go wrong – 10 Examples

 CFO focus	 Reasons to failure	
<ul style="list-style-type: none"> • Focus on forecasting • Near term – each day / week is a miniature planning cycle • Forecast is a commitment to action • Regularly reassess • Micro approach, materiality-weighted • Involve operations 	1 1+1=2	<ul style="list-style-type: none"> • Cash can be more often trapped than you expect • KfW loans, limited upstream capacity, cautious local management reflect only some reasons
	2 Supplier stretch	<ul style="list-style-type: none"> • Paying late does usually not help • Signals low payment morale (can result in lost limits with credit insurers) and must-be reflected in any insolvency test
	3 Reduced transparency	<ul style="list-style-type: none"> • Limiting transparency frustrates banks/stakeholders • You can lose integrity only once!
	4 Manage levers too late	<ul style="list-style-type: none"> • Factoring, add-on facilities, sell obsolete stock, sale & lease back takes time and are difficult to realize in a crisis
	5 Loose governance	<ul style="list-style-type: none"> • Decentral responsibility, unclear guidance and loose controls make cash management difficult if not impossible
	6 Taxes	<ul style="list-style-type: none"> • Taxes need to cover risks and complex structures as consolidated tax filings cause issues to clarify
	7 Unclear communication	<ul style="list-style-type: none"> • As cash management covers purchase to pay and order to cash process, lack of communications leads to wrong decisions
	8 Maturity of loans	<ul style="list-style-type: none"> • If cash is getting less; rolling loans might become more difficult
	9 Organization limitation	<ul style="list-style-type: none"> • Limited up- and side-streaming; cash abroad; management fees to cover; cash-pool as a potential and risk
	10 Seasonality	<ul style="list-style-type: none"> • Huge fluctuation in-year and in-months require an understanding of the low peak (fitness clubs, travel business; winter products, etc.)

Vorstellung

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Peter Neubacher ist seit 2011 bei AlixPartners und leitet als Director die CFO Practice in Deutschland.

Er verfügt über 25 Jahre Berufserfahrung mit Schwerpunkt auf Finanz- und Restrukturierungsthemen. Dabei arbeitet er entweder als CFO oder CRO oder unterstützt Investoren und CFOs bei Ihren Bemühungen, Transparenz im Unternehmen zu schaffen, diese profitabler zu machen oder zu refinanzieren.

Seine Kunden sind überwiegend im Private Equity Umfeld aber auch in familiengeführten Unternehmen zu finden. Herr Neubacher ist Diplom Wirtschaftsingenieur, MBA und CPA in New Hampshire, USA.

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WHEN IT REALLY MATTERS.