

Article 2 of 6 of The Race to Recapitalise Getting to an Answer Fast - Financials and Forecasting Anthony Obi - 15 April 2020

Anthony Obi is a Consultant with The Deal Team with over 30 years' experience of corporate transformation in private and public companies. He has been CFO, Project Manager and Financial Controller of companies undergoing public or private market exits with a total enterprise value over £20bn, in addition to several interim roles at mature and growth businesses.

The Covid-19 crisis has caused companies around the world to closely scrutinise their financial and operation models. A robust, accurate and flexible strategic plan is necessary at the best of times, let alone at the worst of times. Ultimately a revised strategic plan should aim to position the organisation so it can respond to the unfolding challenges.

What are the steps that an organisation should consider in *getting to an answer fast*?

1. Don't panic, and allow core values to frame your approach

- Develop a coherent and flexible plan and execute
- Be patient and keep it simple
- Be disciplined in your approach and don't follow the crowd
- Be proactive not reactive in all aspects of your response
- Act responsibly and lead by example

2. Cash is King

The expression 'Cash is King' is even more relevant now than under normal operating conditions. Conserve cash as far as possible. This requires strict discipline over the efficient use of working capital, and central to this will be good credit control procedures, such as chasing payments and timely invoicing. Equally, look to cut costs by managing stockholding levels and eliminating non-essential costs. More significant measures might include dividend deferral and senior manager salary waivers, which have already been seen among listed companies.

Evaluate the liquidity of short-term and long-term assets with a view to orderly disposal should the need arise, to this end it will be necessary to identify disposal costs and early redemption penalties on liquidating investments.

The discipline of short-term cash flow monitoring is even more essential than under normal operating conditions. Review this daily or at least weekly. Cash holdings across the group should be reviewed to identify idle and trapped cash. Consider implementing cash pooling arrangements to facilitate the efficient allocation of cash resources across the group where they are not already in place.

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3. What's the problem? - identify size of your funding shortfall

As the foundation of all guidance given to the markets the corporate planning model must be accurate, flexible and robust. Therefore, it is essential to ensure it is also fit for purpose given the current emergency.

Reassess current operating budgets and forecasts identifying Covid-19 effects on short-term, medium-term and long-term performance, financial position, cash flow and ultimately corporate viability. This assessment should also consider internal and external risks, especially the effects on the supply chain and customers as these may significantly impair operational effectiveness. Assess fixed and variable cost bases, identifying opportunities to convert fixed costs to variable costs and determine your new break-even position.

The corporate planning model should be stress-tested covering all significant threats to performance, financing covenants and business continuity. These will include duration of the lock down, and trading impacts such as the loss of key customers and suppliers as well as unexpected costs escalations.

It is important to be realistic and not to be overly optimistic. This will mean identifying the point at which the business model is no longer viable and setting out the mitigating actions to be considered in such a scenario. Once the stress test is completed, the possible funding scenarios can be identified.

4. Bridge the gap – identify potential sources of funding

New financing plans can now be put in place, identifying the funding requirements from existing or new debt and equity providers which will be required to bridge the gap to liquidity.

Current market conditions will dictate the sources of debt funding available. Consider i) existing banking relationships through drawdowns on committed facilities, as well as extensions or waivers, ii) coronavirus related government assistance programmes; and iii) existing bond waivers (where available) or new bond issues.

And finally, this will help to determine the amount of new equity to be raised from existing or new shareholders.

5. Do the right thing

Business organisations such as the Business Roundtable, and academics like Ioannis Ioannou at London Business School have argued for the relevance of ESG to long term corporate decision making.

This approach is undergoing a crucial test in the current crisis. However, high-ESG scoring stocks are reported to have performed better in recent weeks. And we are aware that investors are monitoring how companies treat their staff during this period. ESG performance could be an important input into investors' decision on which companies to support in the Race to Recapitalise. Therefore:

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- Think beyond the crisis - organisations should balance between the immediate crisis response and the desired long-term goals, both financial and non-financial
- Consider Corporate Governance - consider ESG implications as part of the corporate planning
- Transparency and accountability – organisations should articulate with honesty the full effects of Covid-19 emergency measures on their operating model
- Stakeholder Engagement – *'communicate, communicate, communicate'*. Maintain frequent and effective communications with all key stakeholders who will appreciate the clarity

Watch the video accompanying this article here

About The Deal Team and the Race to Recapitalise series

The Deal Team is the first professional transaction manager for public equity and debt capital markets transactions and M&A, providing dedicated Deal Captains to project manage transactions within existing management teams. Based in London and working across Europe, we know how to maximise the speed and efficiency of execution for deals such as rights issues, high yield bonds, and M&A disposals, among others.

Through April and May 2020, we will publish weekly articles on the internal execution steps a company should consider in order to win the Race to Recapitalise. This is the second in the series::

1. The key lessons of crisis management
2. *Getting to an answer fast: Financials and Forecasting*
3. Tapping your shareholders: Rights issues best practice
4. Managing the details: best practices for due diligence and dataroom management
5. Preparing for the first listed bond
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