

14th May 2020

Coronavirus Pandemic

Cashflow Management and Funding for ROI Businesses

 InterTradeIreland



OVERVIEW OF CASHFLOW MANAGEMENT AND FUNDING

- Context
- Different types of funding and importance of appropriate debt structure
- Cashflow Management
- Preparing a Bank Proposal incorporating a Cashflow Forecast

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CONTEXT

- As the Government plots out a course for the re-opening of the economy in a phased, stepwise approach, business continuity and cashflow plans for RoI businesses, across a range of activities and business sizes will come into sharp focus.
- A huge effort will be required to boost consumer confidence, as citizens remain uncomfortable from a health perspective of returning to the norm.
- For businesses, most of whom have experienced a cessation or significant reduction in revenue, there is no blueprint or road map forward, for the unique issues being caused by the Coronavirus pandemic, as they contemplate the re-commencement of trading.
- Despite this many businesses are preparing as best they can, in these uncertain and extraordinary times, with 53% confirming in a recent Pulse Poll conducted by ourselves as part of an InterTradelreland Webinar series for RoI businesses (Webinar 1), that they had business continuity plans in place.

CONTEXT cont...

- A business can't just open its doors and start again, it will need a business continuity plan.
- Liquidity will be the key to re-opening for businesses. Research reaffirms that planning for and implementation of an appropriate level of liquidity will be crucial in defining the success of businesses' recovery in post pandemic Ireland and the island of Ireland.
- Naturally, anticipating future market conditions and customer behaviours and attitudes will be pivotal to success, as will be labour resource and talent management.
- A new business landscape is evolving with expected changes in market and consumer behaviour and attitudes. We will all have to learn to do business in different ways. As a result we must focus our attention on re-engineering our business model going forward.

CONTEXT cont...

- This week's Webinar, will focus on preliminary business continuity planning, core funding principles, cashflow management, approaching Banks and other funders incorporating cashflow forecasts.
- A business can't just open their doors and start again they have to plan the restart and reflect changing circumstances, such as social distancing requirements in the short to medium term.
- The business must make sure it has enough cash to pay the wages at the end of week / month, enough to pay suppliers at the end of the month and something left over for the owners to live on themselves.
- A crisis is a good time to take a holistic look at the business. Businesses should review their products and services, adjust prices, products and services lines and delivery channels. But across all of this, if the business does not have strong financial planning and liquidity, it is destined to fail.

**“OUR PRESENT CIRCUMSTANCES
DON’T DETERMINE WHERE WE CAN GO;
THEY MERELY DETERMINE WHERE WE START”**



PLANNING

The future belongs to those who plan for it:

"If you don't have a destination you will never get there"

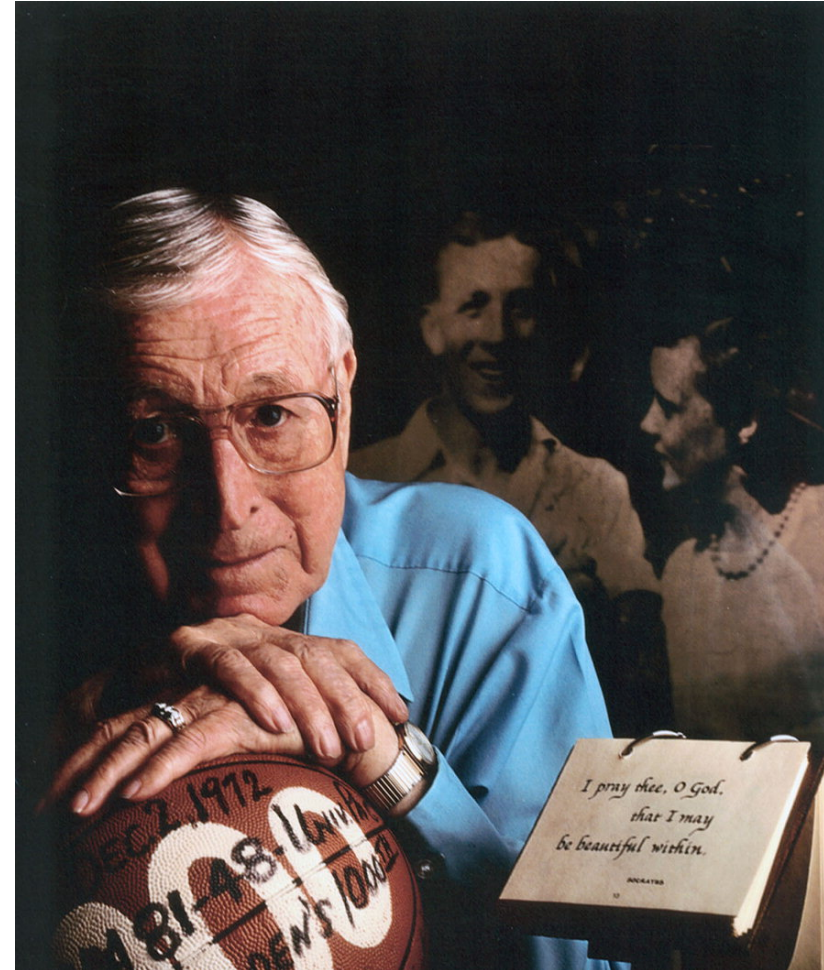
Remember



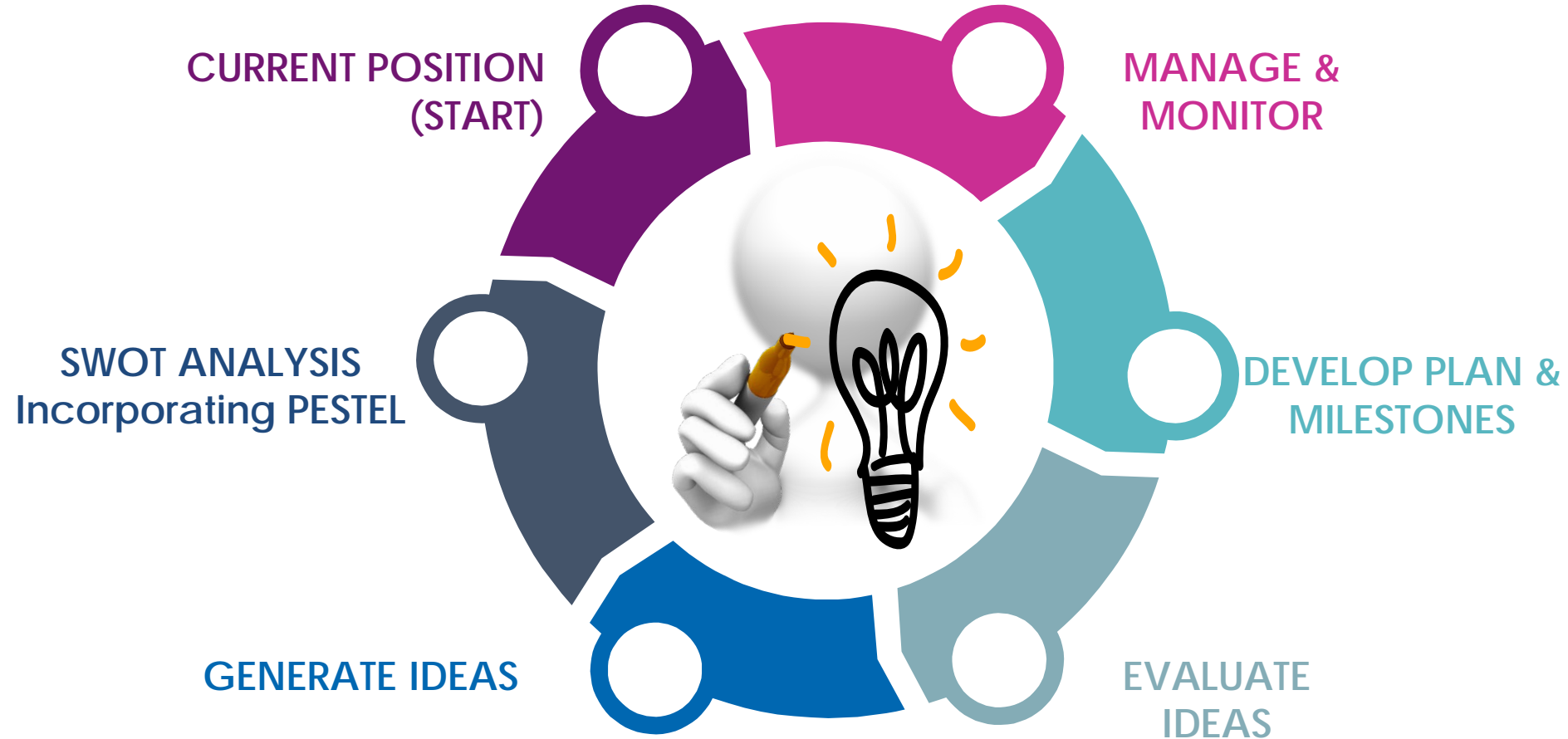
We can analyse the past, but we must design the future. Design means putting things together to deliver a value added solution to meet or exceed client/customer expectations and thus deliver market differentiation.

OVERVIEW – JOHN WOODEN

- The great basketball coach, John Wooden highlighted that success is found in the running of the race, when he said “how you run the race – your planning, preparation, practice and performance counts for everything. Winning or losing is a by-product, an after effect of that effort. For me it is the quality of effort that counts most and offers the greatest and most long lasting satisfaction. **Never cease trying to be the best we can become.** Success is piece of mind, which is a direct result of self satisfaction in knowing you made the effort to become the best of which we are capable of”.

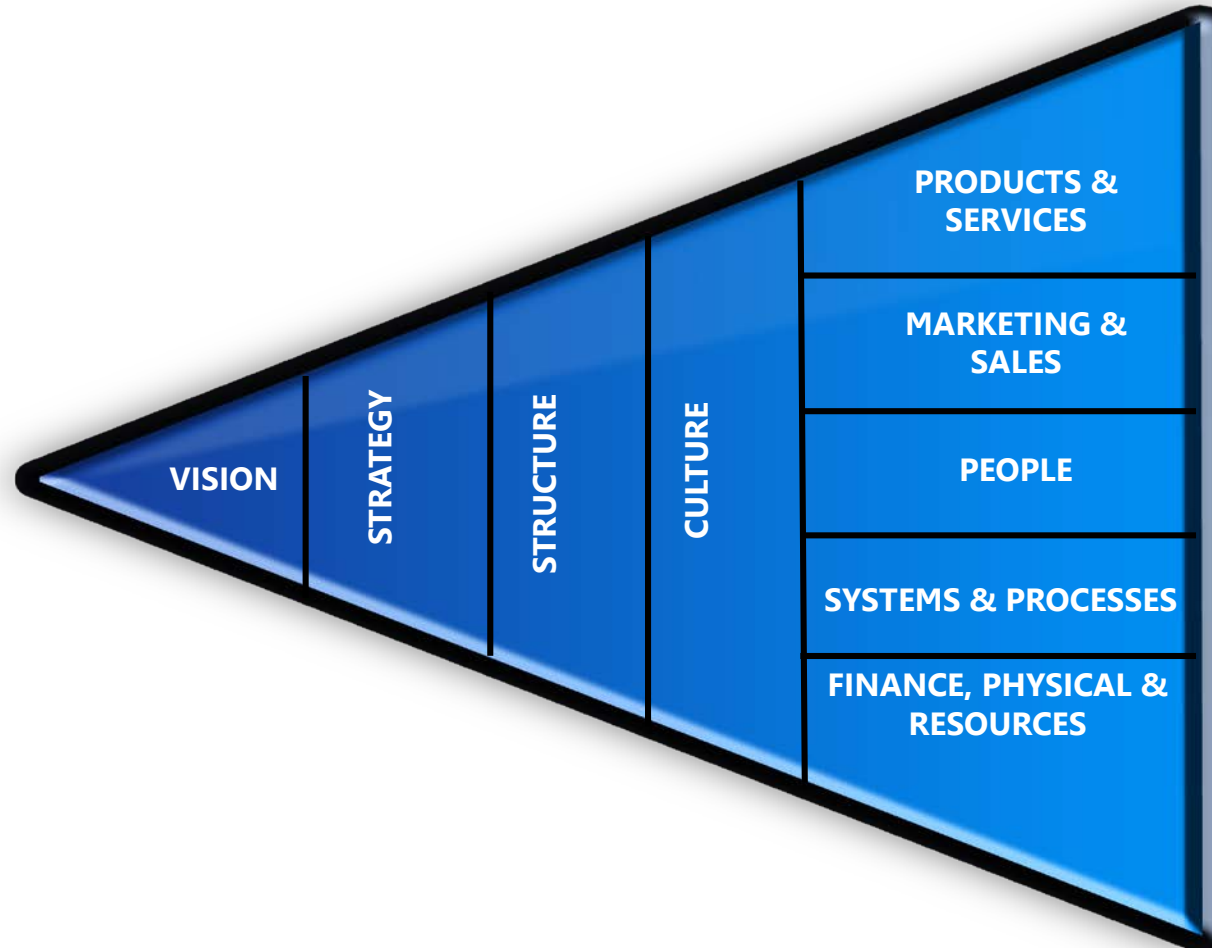


THE STEPS IN DEVELOPING A BUSINESS STRATEGY

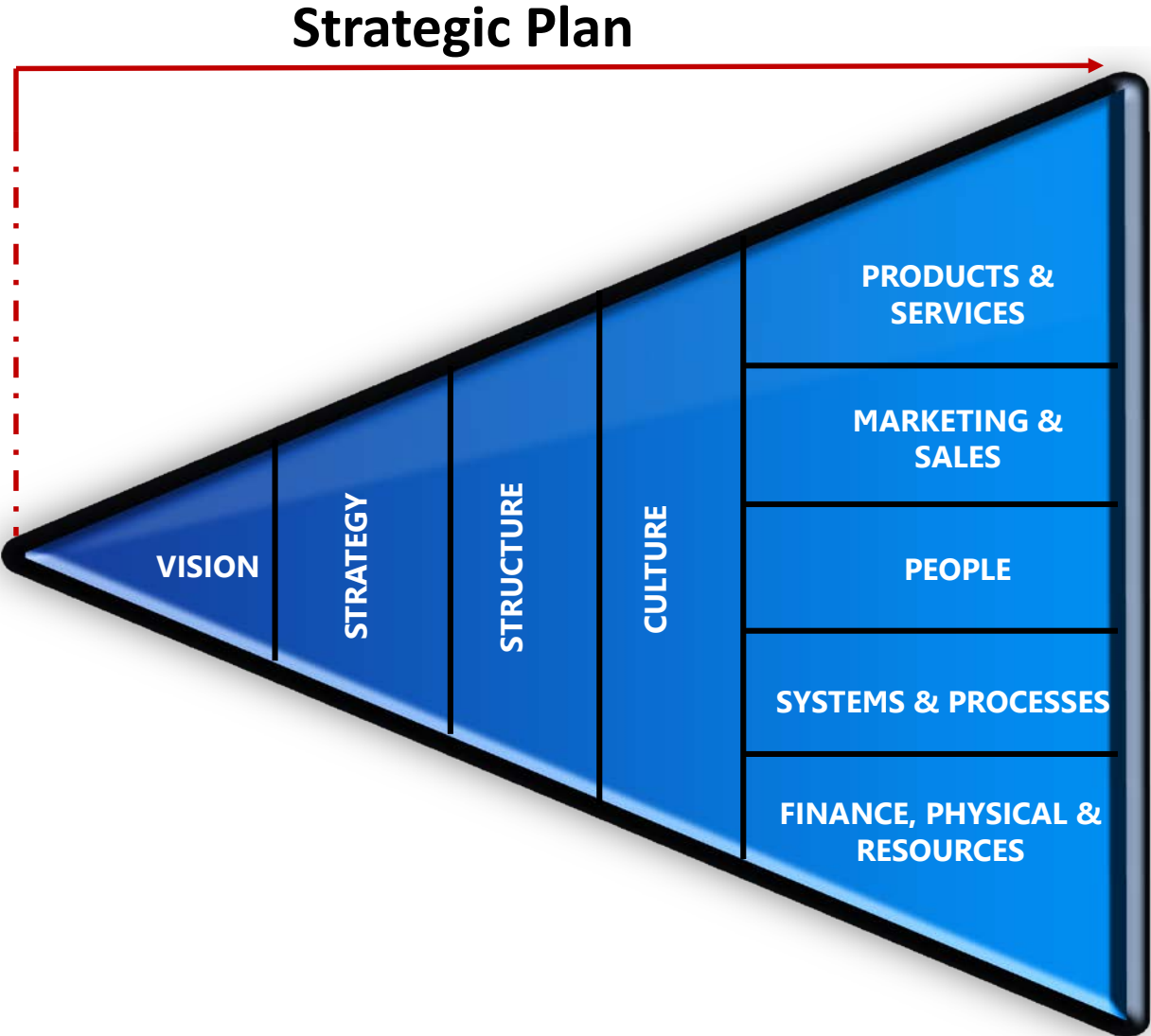


A BUSINESS NEEDS DIRECTION

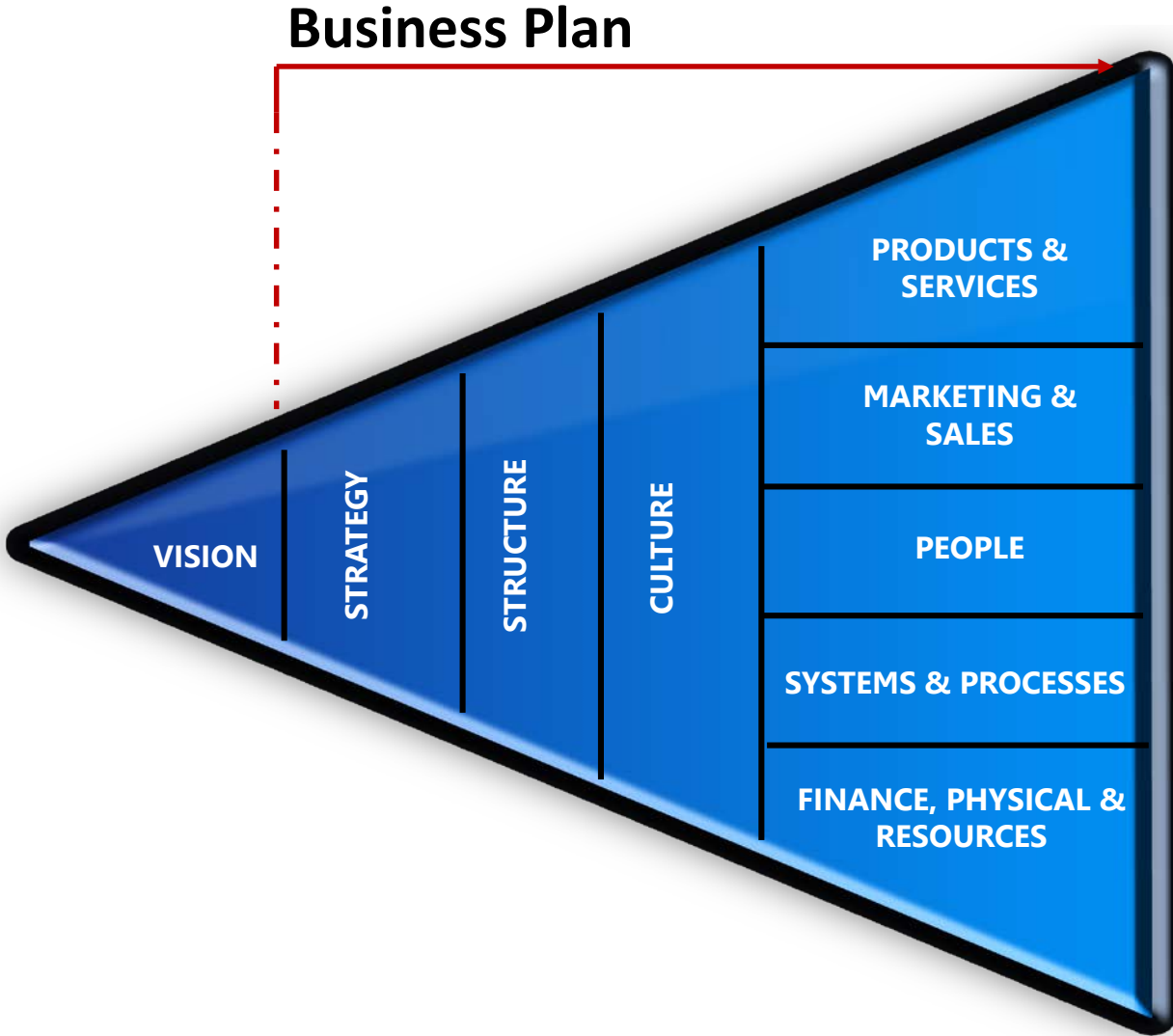
- A business needs direction, structure and processes. To facilitate Business Planning, we have developed a strategic management holistic tool, which we call the PKF-FPM Rocket.



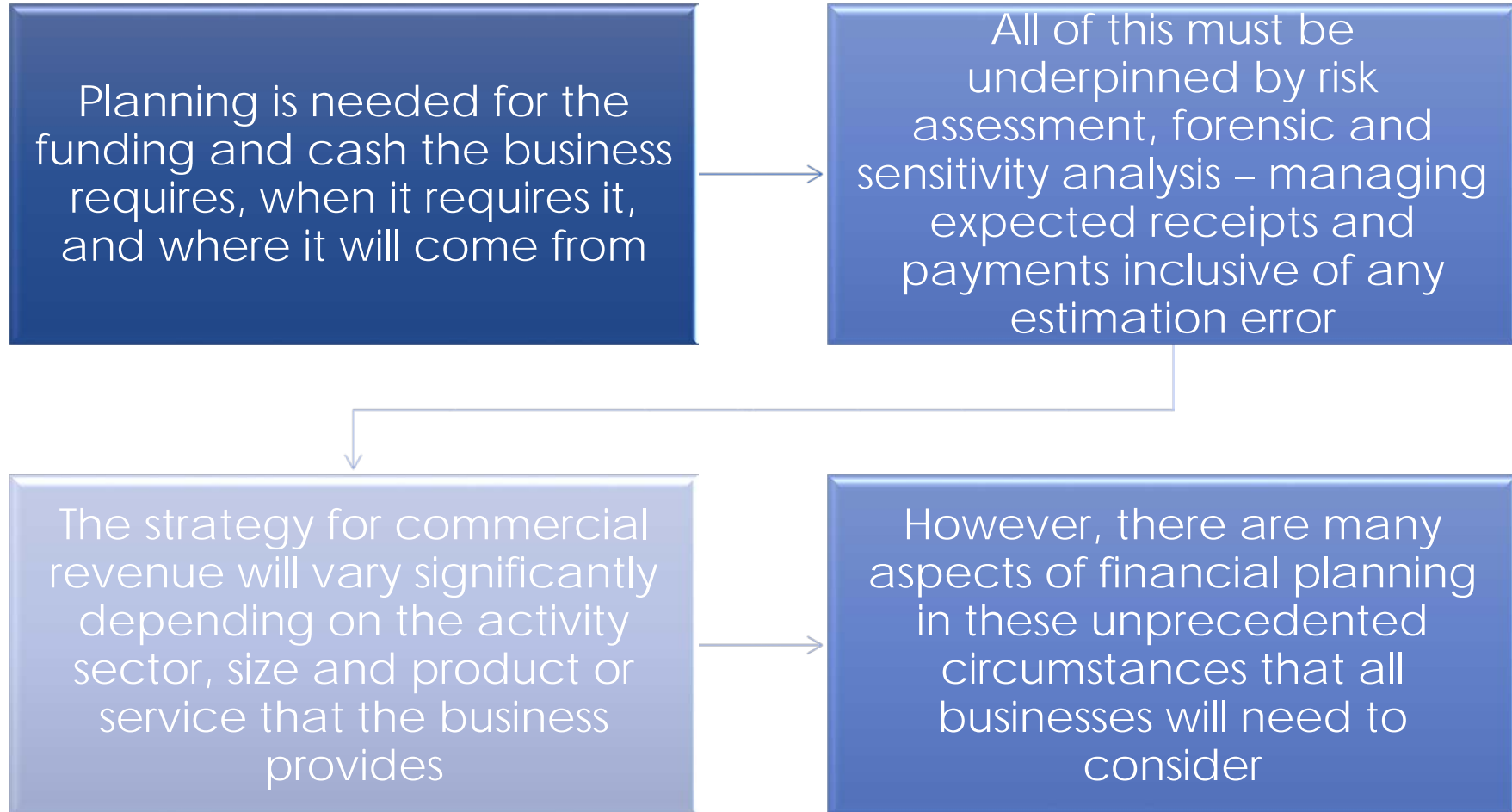
STRATEGIC PLAN DETERMINES THE VISION



BUSINESS PLAN ACCEPTS THE VISION AS IT IS AND REVISITS THE BEST WAY TO ACHIEVE IT



FUNDING AND CASH PLANNING



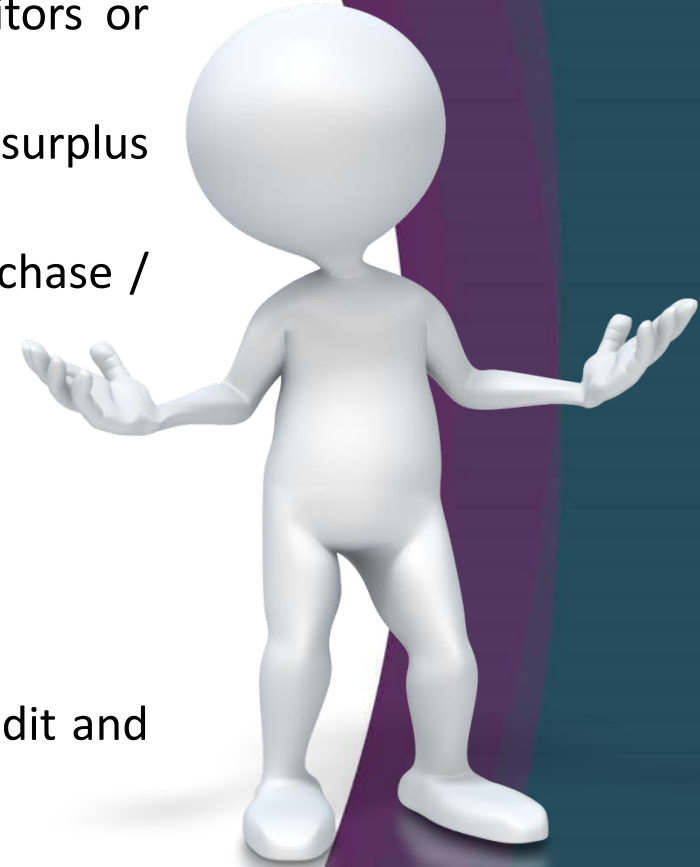
CAUSE OF FUNDING REQUIREMENT

- Identify the cause of the funding requirement:
 - Funding cash losses
 - Working Capital
 - Capital Investment
 - Research & Development
 - International Trade

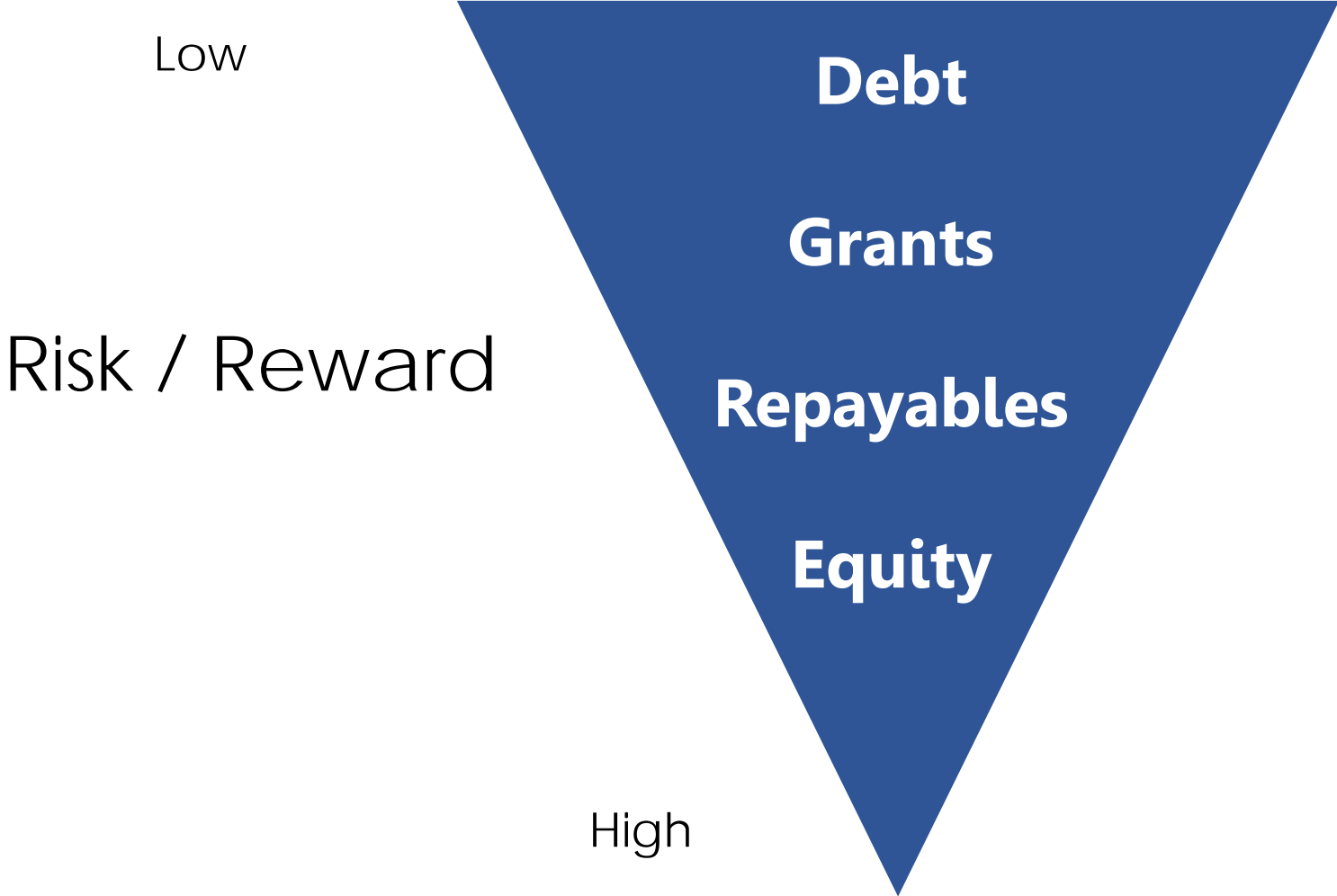


SOURCE OF FUNDS

- Cashflow within business can be supported by seeking an extension from creditors or negotiating reductions on outstanding debts
- Refinancing of existing unencumbered Assets or sell assets that you do not need (surplus assets)
- Bank Debt – overdraft, loans, invoice discounting, and Asset Finance e.g. hire purchase / leasing / lease hire
- Covid-19 Loan Supports
- Promoters Equity (Ordinary Shares, Preference Shares, Quasi Loans)
- Working Capital Finance
- Grants / Financial Incentives
- Trade Finance, both domestic and international trade (Letters of Credit, export credit and factoring)
- Loan Funds
- Other alternative funding sources including Venture Capital, Business Angels, Private Investors, Employment and Investment Incentive Scheme (EII)
- P2P Loans and Crowdfunding



TYPES OF FUNDING

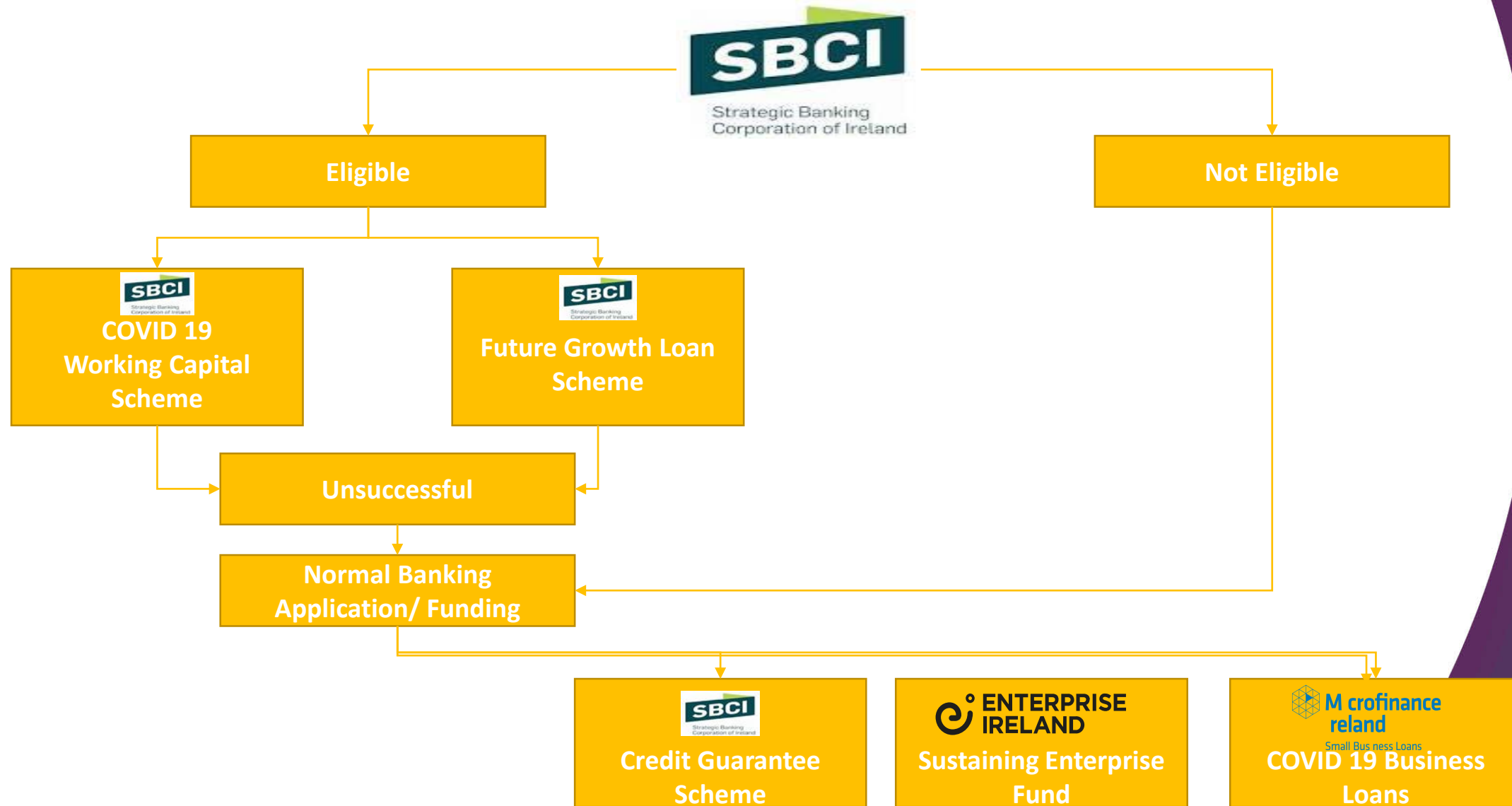


BANK FUNDING

- Working capital funding – overdraft, invoice discounting, stocking facility
- Asset backed funding – hire purchase, lease facilities, Chattels Mortgages
- Business growth/expansion – commercial loans
- Specialist funding – small business loans, EIB



RAISING FINANCE / WHERE SHOULD I START?



WORKING CAPITAL SCHEME

ELIGIBILITY OVERVIEW	FEATURES	PURPOSE	WHERE TO APPLY	BENEFITS AND OBSERVATIONS
<ul style="list-style-type: none"> • Less than 250 employees • Revenue < €50m / < €43m Balance Sheet • Business must be viable • Normal Bank lending requirements apply 	<ul style="list-style-type: none"> • €25k to €1.5m • Maximum Interest rate of 4% • Term 1-3 years - depending on purpose of loan • 80% guarantee provided to SBCI • Unsecured up to 500k • Interest only option maybe available at the outset for an agreed period of time - depending on application and need 	<ul style="list-style-type: none"> • Working capital • Fund Innovation, change or adaption of business to mitigate Covid 19 • Cannot be used to refinance 	<ul style="list-style-type: none"> • SBCI Website initially for eligibility criteria • Once eligibility certificate is received, apply to: <ul style="list-style-type: none"> • AIB • Ulster Bank • Bank of Ireland 	<ul style="list-style-type: none"> • Apply to SBCI to meet eligibility criteria • Two main criteria our clients have used are: <ol style="list-style-type: none"> 1. They have spent a minimum of 10% of operating costs on Innovation in one of the last 3 years (Verified by Accountant) 2. 80% of the loan will be spent on R&D activities • Clients initially have been wary of No 2 • Pillar banks signs off on the innovation at No 2 and we have found them to be very practical about what could work • Low Interest Rate and 500k unsecured with 80% Guarantee provided by SBCI to Pillar banks • Submit a full business plan, only application, short business plan template, Statement of Affairs, up to date financials and financial projections • Decision within 14 days or shorter

WORKING CAPITAL SCHEME INNOVATION CASE STUDY

EXAMPLES

1: Service/Training Business closed, requires working capital in order to continue to pay wages to some staff, meet bills etc. Business has now no income whatsoever and are assuming won't open again until later in the year.

Innovation: Reorganisation of staff working processes to avoid infection is eligible

2: Services/ Manufacturers – reorganising employees into teams to limit the contamination effect of one/two people becoming infected which is limiting efficiency and output giving rise to increased working capital needs.

Innovation: Reorganisation of staff working processes to avoid infection is eligible

3: Retail - increased working capital requirements as the shops adapt to increased demand – including increasing staff costs due to longer hours and payments to staff unable to work.

Innovation: Adapting the shop layout

4: Haulage – change in client mix e.g. haulier now moving goods for a clothing manufacturer who is now making medical garments – this change in debtors is impacting on working capital.

Innovation: Have changed to a new market

WORKING CAPITAL SCHEME INNOVATION CASE STUDY

EXAMPLES

5: Business changing suppliers from Covid impacted countries impacting creditor days and working capital – this change is eligible

Innovation: Change in suppliers/market is eligible

6: Restaurants – conversion of business to fresh produce shop or other service e.g. delivery of cooked meals.

Innovation: Change of business is eligible

7: Closure of otherwise viable pubs/restaurants for a period of 3 to 6 months. Overall costs reduced significantly but critical payments are being maintained. Expectation business will return to normal and profitable trading position

Innovation: Changing processes/Business Model to cope with Covid 19 is considered eligible

FUTURE GROWTH LOAN SCHEME

ELIGIBILITY OVERVIEW	FEATURES	PURPOSE	WHERE TO APPLY	BENEFITS AND OBSERVATIONS
<ul style="list-style-type: none"> • Less than 250 employees • Revenue < €50m / < €43m Balance Sheet • Business must be viable • Normal Bank lending requirements apply 	<ul style="list-style-type: none"> • €100k to €3m • Variable interest rate of 4.5%, <€250k and & 3.5% >=€250k • Term 8-10 years - depending on purpose of loan, • 80% guarantee provided by SBCI (underwritten by European Investment Fund) • Unsecured up to €500k • Interest only option maybe available at the outset for an agreed period of time - depending on application and need 	<ul style="list-style-type: none"> • Machinery or Equipment • R&D • Business Expansion • Premises improvement • Process Innovation • People and /or systems • Loans for long term investment 	<ul style="list-style-type: none"> • SBCI Website initially for eligibility criteria • Once eligibility certificate is received, apply to: <ul style="list-style-type: none"> • AIB • Ulster Bank • Bank of Ireland 	<ul style="list-style-type: none"> • Apply to SBCI to meet eligibility criteria • Business plan must be provided • Open to business in Agri Sector • Low interest rate and 500k unsecured with 80% guarantee provided by SBCI • Longer repayment term allows more flexibility for business

SBCI CREDIT GUARANTEE SCHEME

ELIGIBILITY OVERVIEW	FEATURES	PURPOSE	WHERE TO APPLY	BENEFITS AND OBSERVATIONS
<ul style="list-style-type: none"> • Less than 250 employees • Revenue <€50 million/ <43 m Balance Sheet • No eligibility process • Businesses should approach their banks about the scheme and then the banks take it from there. 	<ul style="list-style-type: none"> • €10k to €1 million • SME Lending Rates (Plus 0.5%) • 80% Guaranteed • Term up to 7 years • Loan facilities can be term loans, demand loans or performance bonds 	<ul style="list-style-type: none"> • Working Capital • Support change or adaptation of business as a result of Covid 19 	<ul style="list-style-type: none"> • Details on SBCI website • But need to apply directly via: <ul style="list-style-type: none"> • AIB • Ulster Bank • Bank of Ireland 	<ul style="list-style-type: none"> • Assists viable SMEs, which under normal lending criteria are unable to borrow from their bank, in accessing credit. • Useful for businesses with inadequate collateral and for business in novel or higher risk sector • Irish Govt in process of extending funds available under this loan. • 80% Guaranteed

SUSTAINING ENTERPRISE FUND

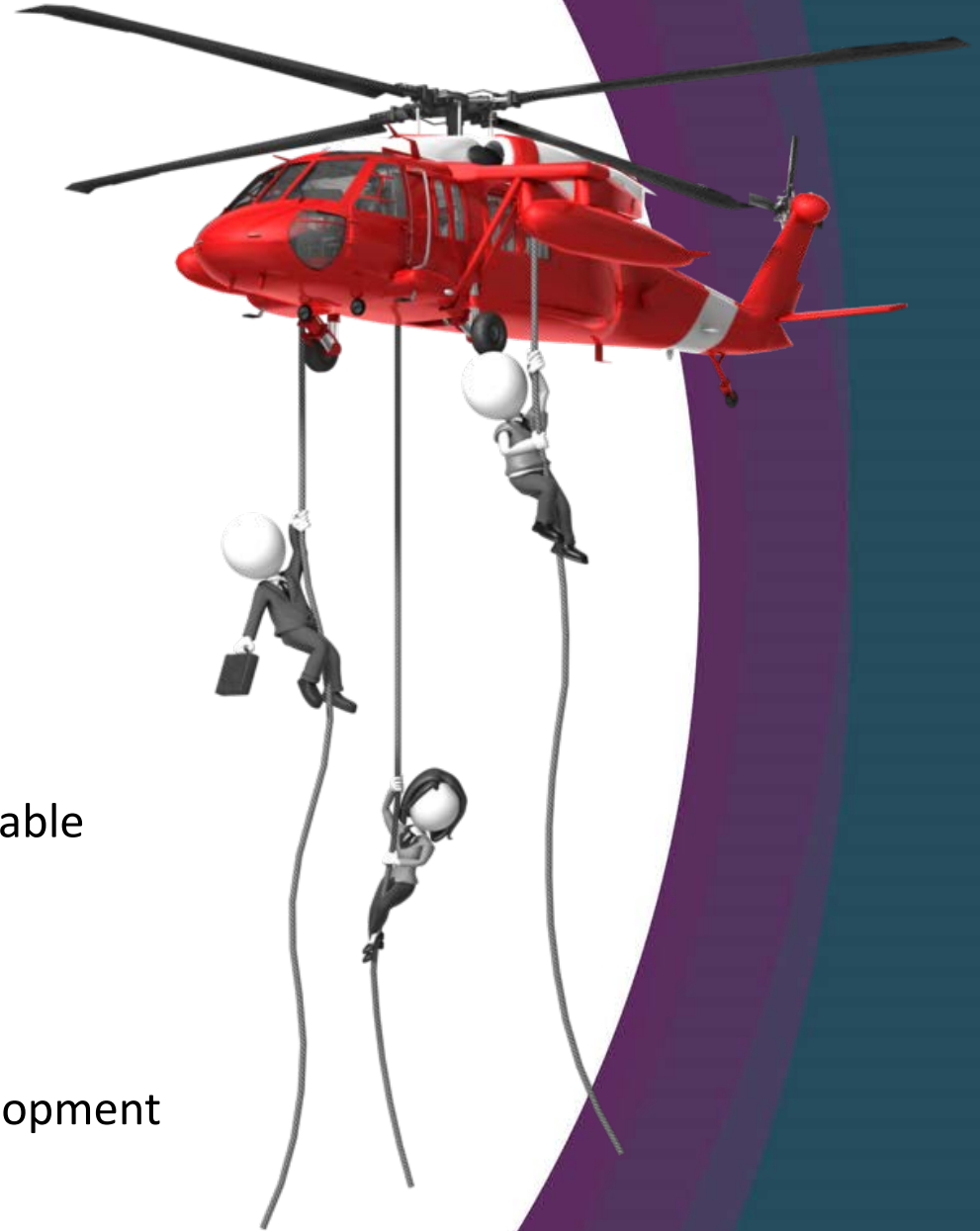
ELIGIBILITY OVERVIEW	FEATURES	PURPOSE	WHERE TO APPLY	BENEFITS AND OBSERVATIONS
<ul style="list-style-type: none"> • Manufacturing and Internationally traded service companies • Employees > 10 • 15% reduction in actual or projected turnover or profit and /or • Significant increase in costs • For SMEs - applied for finance through SBCI schemes • Large companies - applied for finance through appropriate financial institutions • Must be financially viable on 31 December 2019 	<ul style="list-style-type: none"> • Repayable loan up to €800k • Annual Administration fee of 4% • 3 year grace period on repayments • Repayment by the end of year 5 - on successful achievement of the project objective 	<ul style="list-style-type: none"> • Provide capital to assist with stabilising and rebuilding eligible business • Helps to develop a business sustainability plan. • Aid for Enterprises unable to raise sufficient funding 	<ul style="list-style-type: none"> • Contact Development Advisor or email businessresponse@enterprise-ireland.com 	<ul style="list-style-type: none"> • Need to have applied for support from financial institutions • Details business plan required showing clear need for funding • Identify sources of additional funding to fully implement the project • A good option for companies that perhaps cant get fully funded through the SBCI or normal banking schemes

MICROFINANCE IRELAND / COVID-19 LOAN SCHEME

ELIGIBILITY OVERVIEW	FEATURES	PURPOSE	WHERE TO APPLY	BENEFITS AND OBSERVATIONS
<ul style="list-style-type: none">• < 10 FT employees• Revenue < €2m• Having difficulties / cant avail of finance from financial institutions• 15% reduction in actual or projected turnover of profit	<ul style="list-style-type: none">• €5-€50k loans• 4.5% APR for applications through LEO and 5.5% for applications Direct• Up to 3 year term• No repayment for 6 months (Capital & interest)	<ul style="list-style-type: none">• Support Small businesses through impact of Covid-19	<ul style="list-style-type: none">• Apply through LEO for lower interest rate or register directly Microfinance	<ul style="list-style-type: none">• To apply you will need:<ul style="list-style-type: none">• Application form• Business plan• Cashflow forecasts• 6 months bank statements• Central Credit Register Report• Aged Debtors and Creditor reports along with details of preferential creditors

GRANT ASSISTANCE

- Covid-19 supports and unsecured loan assistance
- High Potential Start-Up Funding
- Employment Grants
- Training
- R&D / Innovation Supports
- IT / Marketing
- Capital Investment (All under Enterprise Ireland)
- Research & Development
- There are a range of supports under various government bodies available including Bord Bia, Bord Iascaigh Mhara, Teagasc & Failte Ireland.
- Local Enterprise Offices
- Foras Na Gaeilge / Udara Na Gaeltachta
- LEADER Programme via the Department of Rural & Community Development
- Cross Border Assistance (InterTradeIreland)



VENTURE CAPITAL/BUSINESS ANGELS / EII

- Venture Capital provides long-term monetary investments in exchange for equity in a business – it is a form of risk capital, unlike bank debt no guarantee of repayment or interest.
- The majority of Venture Capital firms target business requiring over €500k; mainly expansion stage companies and MBO's/MBI's. Business Angels tend to invest between €50k and €250k, in start-up and other early stage financing.
- Business Angels Networks feature highly – successful, self-made entrepreneurs who look to acquire shares in potentially lucrative early stage companies using their own funds.
- The government Employment & Investment Incentive Scheme (EII) provides tax relief to investors who invest in businesses that meet specific criteria. EII is great for SMEs as it provides an added incentive for investors.



ENTERPRISE IRELAND SUPPORT VENTURE CAPITAL (SVC) & DEVELOPMENT CAPITAL FUNDS

There is currently about €700 million under Mgmt in SVC Funds. These typically invest across a range of industries and typical investments range from €500k to €5 million and include:

- AIB Start Up Accelerator Fund II
- ACT V Venture Capital Fund
- Atlantic Bridge III
- Fountain Healthcare Partners Fund II
- Frontline Venture Fund II
- Bank of Ireland Kernel Capital Growth Fund
- Seroba Life Sciences Fund III
- Suir Valley Ventures
- University Bridge Fund

The Development Capital Scheme is aimed at mid-sized companies and is aimed at export driven companies. Funds invested range from €2m to €10m and can be debt, equity or both and are provided by:

- MML Capital Ireland
- BDO Development Capital Fund
- Cardinal Carlyle Ireland Fund

PEER-TO-PEER (P2) LOANS AND CROWDFUNDING

P2P Loans

- Peer-to-Peer lending platforms (e.g. Grid Finance and Linked Finance) arrange loans from groups of individuals or organisations to entrepreneurs looking to grow. It's a way for a business to get funding without having to visit a bank, and lenders can use the platform like a marketplace, where they choose, who they want to lend money to

Crowdfunding

- Crowdfunding portals offer a wealth of lending opportunities for start-ups and entrepreneurs. They can pitch on crowdfunding website for a sizeable investment in their business model, with the ability for multiple investors to invest small amounts towards achieving that final total. Unlike traditional forms of business finance, crowdfunding is not directly repaid. Start-ups may instead opt to offer their investors some form of service in return for their financial support, such as a free sample of their product

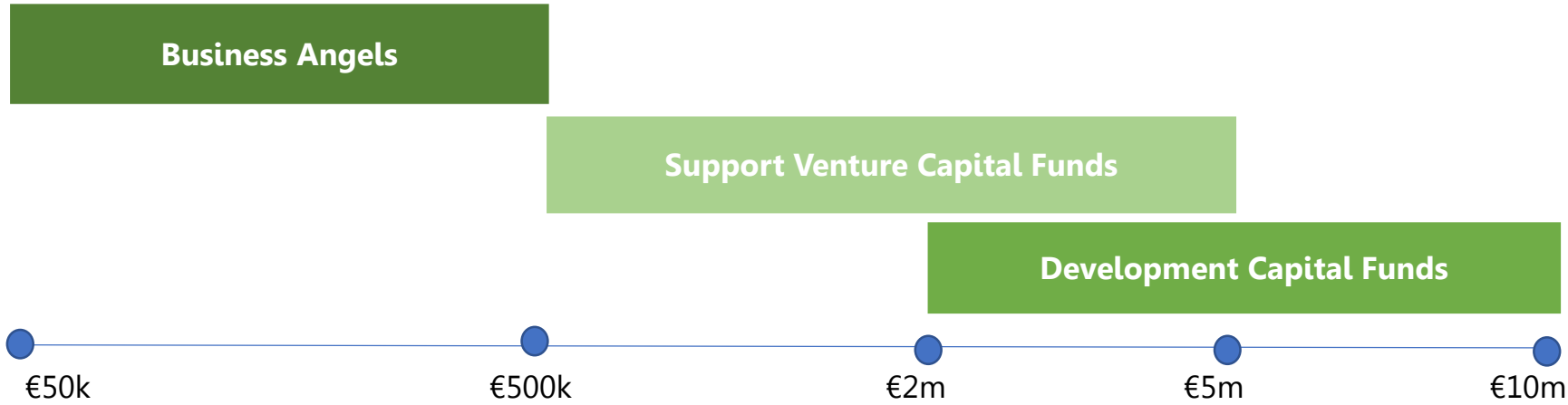
ALTERNATIVE SOURCES OF FINANCE

Ireland Strategic Investment Fund (ISIF) – Pandemic Stabilisation and Recovery Fund

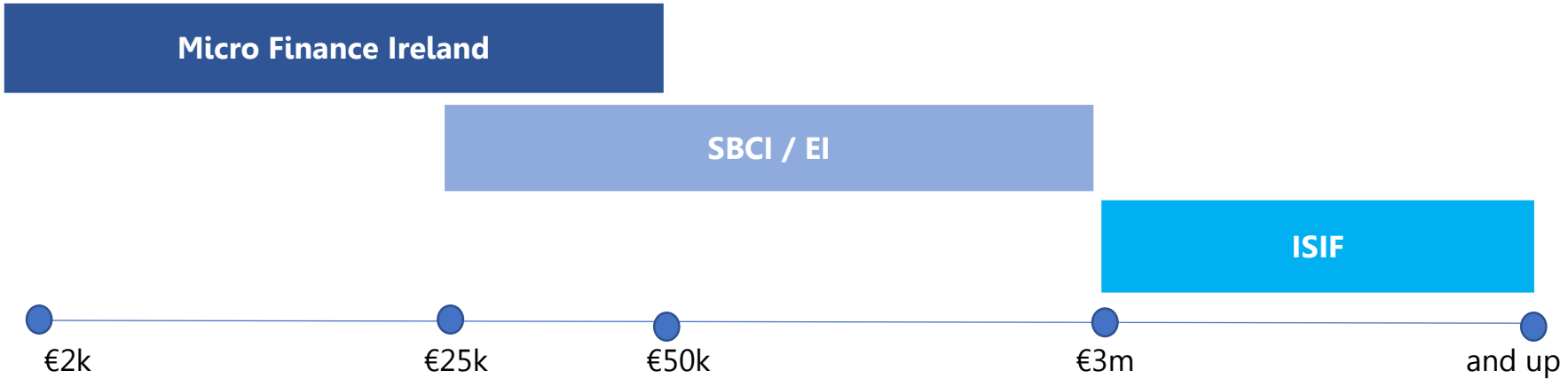
- Operated by the NTMA
- €2 Billion in total capital will be made available through a fund operated by the ISIF
- Investment will focus on commercially viable companies employing more than 250 employees or with turnover in excess of €50 million
- All business sectors will be considered.
- Investment will be via a range of instruments including equity, debt and other hybrid instruments and will be complementary to other government agency supports
- Further details available at www.isif.ie

ACCESS TO FINANCE STRATEGY

Equity Funds



Loan Funds



FUNDING PROVIDERS

- Key criteria for funding providers:
 - Level of funding required and for what purpose?
 - Ability to repay borrowings (if applicable)
 - Business case – is this realistic?
 - Growth potential for business
 - Project promoters – ability to deliver project



ACCESSING FUNDING

Basic Debt Finance Principles

- Borrow for long term needs with long term debt
- Borrow for short term needs with short term debt
- Match term of Loan/Lease/HP Agreement with expected useful economic life of asset
- Difficult economic climate but Banks (albeit with Covid-19 assistance from government) are funding businesses that they consider to be viable post Covid-19 pandemic



WHY IS CASHFLOW MANAGEMENT ESSENTIAL?

Covid-19 has caused significant disruption to cashflow

- Decline in current and future sales
- Issues with debtor collection
- Reduction in suppliers credit
- Increase in costs for certain materials due to supply issues
- Increase in costs to facilitate meeting social distancing requirements
- Forex rates volatility
- Delays in receiving grants/supports
- Impact on supplier credit terms
- Stock holding

WHY IS CASHFLOW MANAGEMENT ESSENTIAL? Cont...

Cash Flow Management helps to Navigate the Way Forward

- Helps chart the way forward for the next 6-12 months
- Helps to ensure the business is protected and able to recover quickly post the pandemic
- Ensures that you only borrow what you require and able to service
- Helps honour commitments to suppliers and employees
- Assists in planning the right combination of various Government backed lending and supports to avail.
- Useful to plan various scenarios including extended disruption period

INTERPRETATION OF FINANCIAL STATEMENTS

- Profit & Loss Account
- Balance Sheet
- Cashflow Statement



FREEING UP PROFITS

“Are You Sure I Made a Profit?”

**I have less money now than
I had at the start of the Year.**



CASH IS NOT PROFIT

- Profit is the difference between the total amount your business earns and all of its costs, usually assessed over a year or other trading period.
- Cash is the amount you have on hand to pay debts.
- You can be showing a good profit on the books and still be strapped for cash to cover immediate debt.
- Working capital management will impact cashflow.



FREEING UP PROFITS

Company A				
	P&L	Paid	Debtors	60,000
Sales	100,000	40,000	Bank	10,000
CoS	80,000	30,000	Creditors	(50,000)
Profit	20,000			
			Net Assets	20,000

Company B				
	P&L	Paid	Debtors	80,000
Sales	100,000	20,000	Bank	(30,000)
CoS	80,000	50,000	Creditors	(30,000)
Profit	20,000		Net Assets	20,000

CASH MANAGEMENT

- Cash is the life blood of any business.
- Quality internal management information and Cash Flow forecasts are essential.
- Try and move from focusing on what credit the banks will provide business, to generating cash within your business.
- Businesses should endeavour to be self sufficient from a working capital / day to day operations perspective).
- Robust, rigorous and regular reporting (4 R's) on cash flow – daily bank reconciliations, weekly and monthly forecasts.
- Self discipline and good management will yield positive results by improving profitability and reducing risks.



WORKING CAPITAL/CASH MANAGEMENT

3 Core elements of Working Capital Cycle which will absorb cash requirements:



WHAT IS CASHFLOW?

- The three components of cash flow:
 - Cash on hand at the beginning of any period
 - Monies received and spent during an ensuring period
 - And the cash remaining at the end of that period

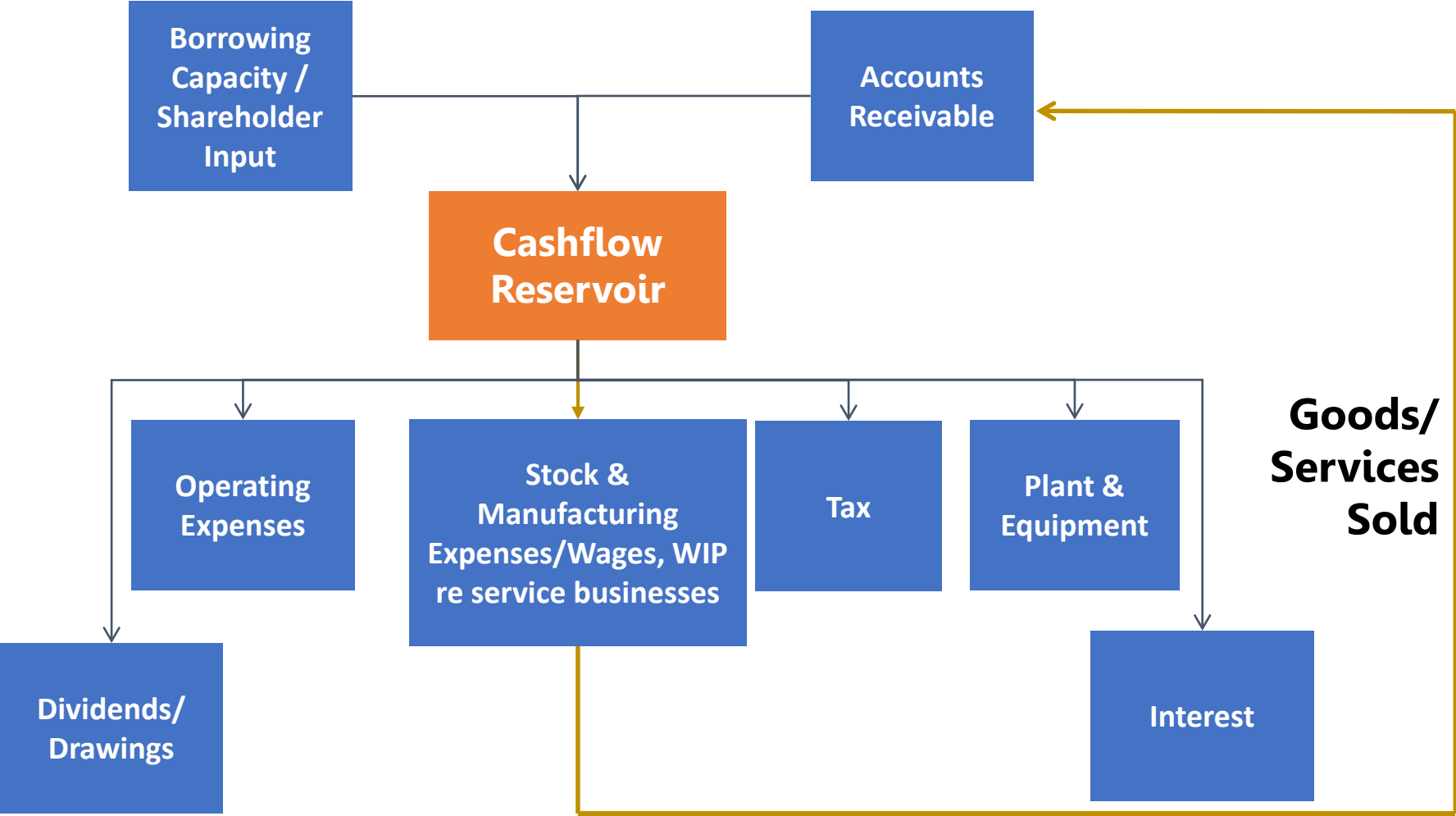


CASH INFLOWS AND CASH OUTFLOWS

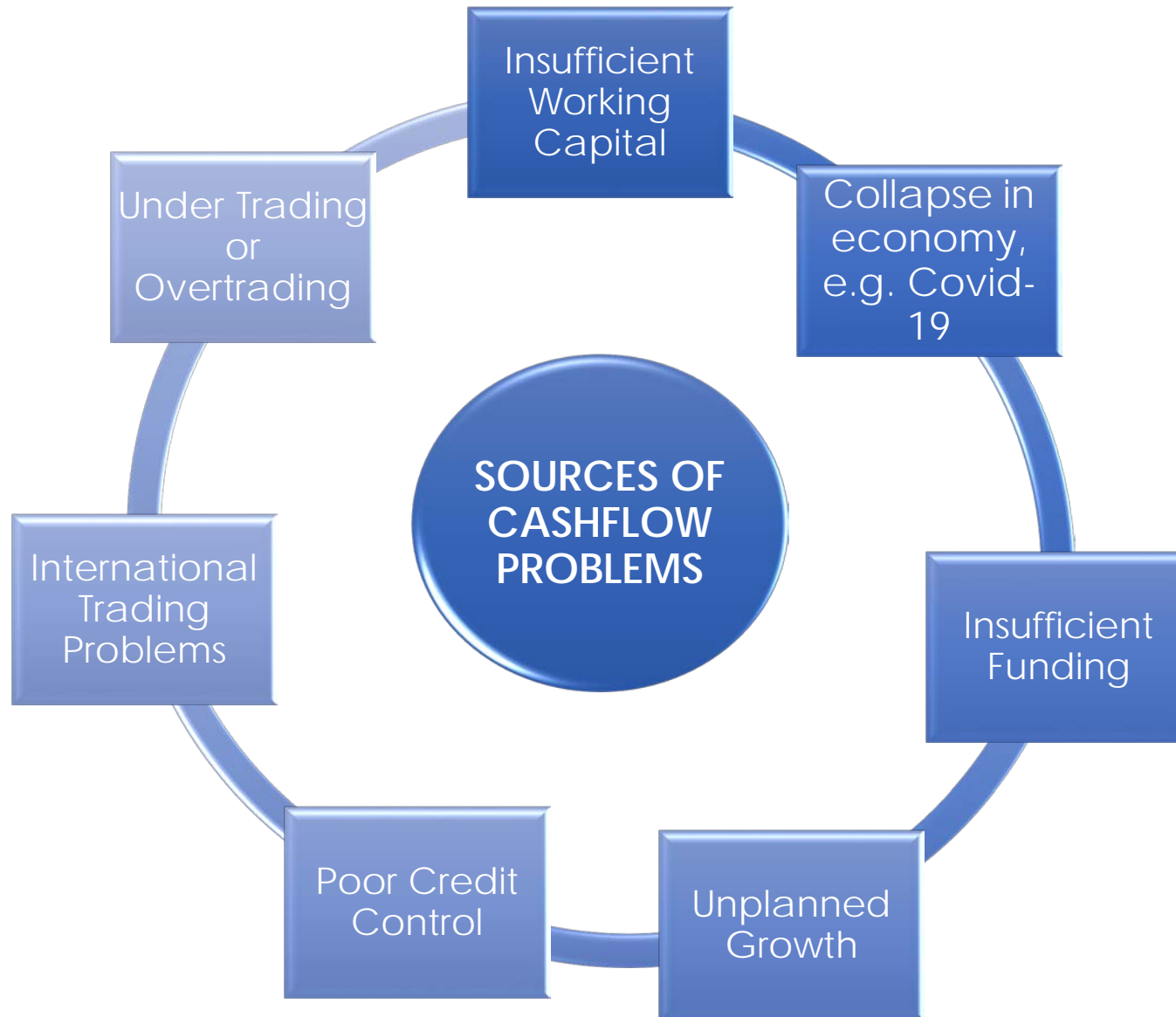
- Cash flow management is basically about speeding up the inflows and slowing down the outflows.
- Income and expenditure cash flows rarely coincide BUT you **must always** be in a position to meet your scheduled payments.
- This means there can be times when you could simply NOT have enough ready cash to meet your commitments.



THE CASH FLOW CYCLE

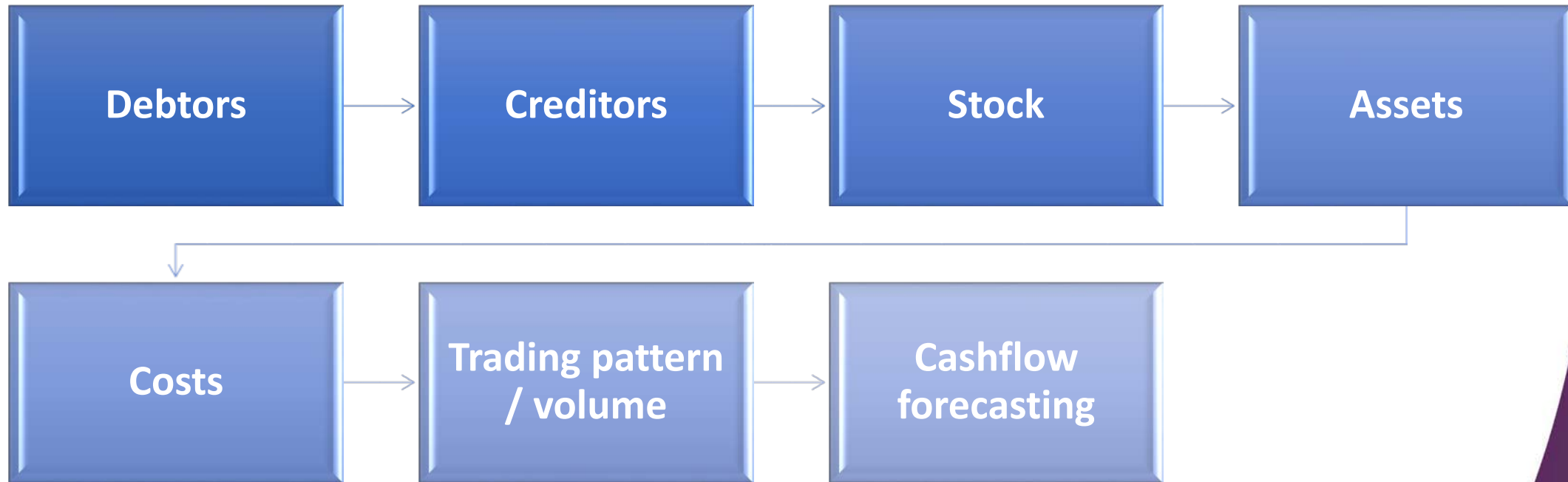


SOURCES OF CASHFLOW PROBLEMS



IMPROVING CASH FLOW

- To improve cash flow you need to work on the drivers of cash flow:



STEPS TO EFFECTIVE CASH FLOW MANAGEMENT AND FORECASTING

STEP 1 – Establish Starting Position

- Opening Balance sheet (if available)
- Bank and loan statements
- Debtor and creditor listings (Statements ideally)



STEP 2 – Outline Priorities for Future Trading

- Customer and supplier relationships
- Business structures
- Brand
- Cash Flow



STEP 3 – Investigate the Support Available

- Research all the support available
- Discuss with your accountants & advisors the best combination of support to avail

STEPS TO EFFECTIVE CASH FLOW MANAGEMENT

STEP 4 – Cash Flow Forecasting

- Create forecast with inflows and outflows for each interval
- Cash flows include operating, financing and investing revenues / costs
- Include all the support available



STEP 5 – Implement and Monitor

- Take steps to access the grant/loan schemes
- Closely monitor assumptions made in the forecast especially debtor collection, sales and profit margins
- Compare actual vs forecasts
- Constantly review and amend cash flow forecasts in regular intervals

APPROACHING THE BANK

Points to Note

- Banks are keen to work with their existing clients and build on trusted relationship.
- A sensible mix of debt and equity is important. Banks are not there to take an equity risk for a banking return.
- Banks will want to see project promoters accepting some pain.
- Commerciality/Reasonableness Check.
- Does the Bank Proposal look realistic in the context of the market, competitors, returns etc.?



INDEX FOR BANK PROPOSAL

- Executive Summary
- Business Overview
- Coronavirus Impact
- Historic Financial Position
- Outline Business Case Going Forward
- Financial Projections with achievable and realistic Assumptions
- Funding Requirement & Funding Request
- Identify KPI's and Smart Objectives
- Apply Sensitivity Analysis
- Conclusion

EXECUTIVE SUMMARY



BUSINESS OVERVIEW

- A brief overview of the business operations and market in which the business operates
- Where relevant, provide details of changes to be made to the management or wider organisation as a result of the Covid-19 crisis. Highlight management expertise / roles / responsibilities subject to bank's knowledge of the business and its management
- Any additional relevant background to the proposal that would be helpful for the bank to understand



CORONAVIRUS IMPACT

- Highlight the key issues experienced by the business and identify risks as a result of the virus (e.g. staff / payroll, supply chain, customers etc.)
- Try and assess the impact of Coronavirus on:
 - Current and future sales revenue
 - Costs of purchases
 - Supply chain
 - Anticipated availability of labour
 - Debtor collection
 - Supplier credit terms



CORONAVIRUS IMPACT CONT...

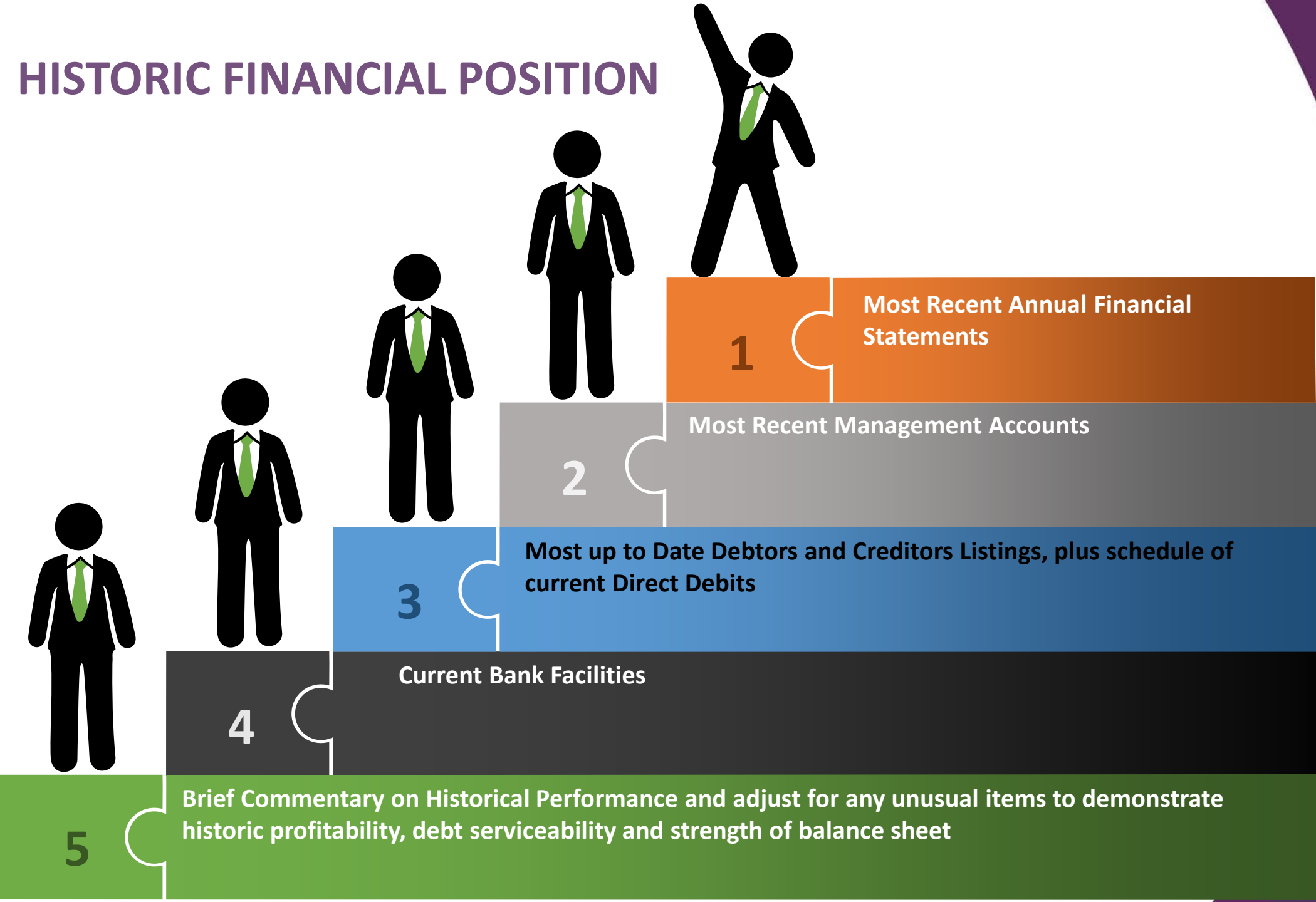
- Linked to the key risks highlight the steps taken to mitigate and manage cash flow to date, including any opportunities that the business has had to avail of Covid-19 supports provided by Irish government e.g.:
 - Temporary Wage Subsidy Scheme
 - SBCI COVID-19 Working Capital Scheme
 - SBCI Growth Loan Scheme and SBCI Credit Guarantee Scheme
 - New Irish Government €6.5m Support Package
 - Enterprise Ireland Sustaining Enterprise Fund
 - Microfinance Ireland COVID-19 Business Loans
 - Enterprise Ireland Business Financial Planning Grant and Retail Online Scheme
 - Enterprise Ireland Rescue & Restructuring Fund & Other supports
 - LEO – Business Continuity Voucher and Trading Online Voucher
 - InterTradeIreland Emergency Business Supports

CORONAVIRUS IMPACT CONT...

- Describe the cash flow constraints and challenges that are arising
- Details of any actions you have been taking to address Covid-19 business implications (e.g. Social Media activities etc.)
- Details of any scenario planning that has been run to estimate the cash requirement



HISTORIC FINANCIAL POSITION



OUTLINE BUSINESS CASE GOING FORWARD

- Covid-19 pandemic will be temporary, albeit we are not sure when it will end. We must plan to be in a position to have a potential sustainable business going forward, to exploit the recovery when it comes
- From a business perspective, perhaps focus on preparing for the recovery and the 3R's – how you plan to **R**eset, **R**efocus and **R**ebound faster
- Good idea to include any opportunities that you have identified as a result of Coronavirus
- How are you planning to address social distancing requirement, what cost / resources
- Also address potential change in customer profile, there is expected to be an increasing desire for leisure given change in daily life, but need to bear in mind disposable income habits to drop
- Potential changes in food demand, e.g. healthy foods

OUTLINE BUSINESS CASE GOING FORWARD CONT...

- Perhaps need to expand if relevant the availability of your service - believed demand for 24/7 services will increase
- Younger generation less fearful, perhaps a need to look at your customer tolerances etc. and plan
- Develop strategic alliances with various activity tourism providers



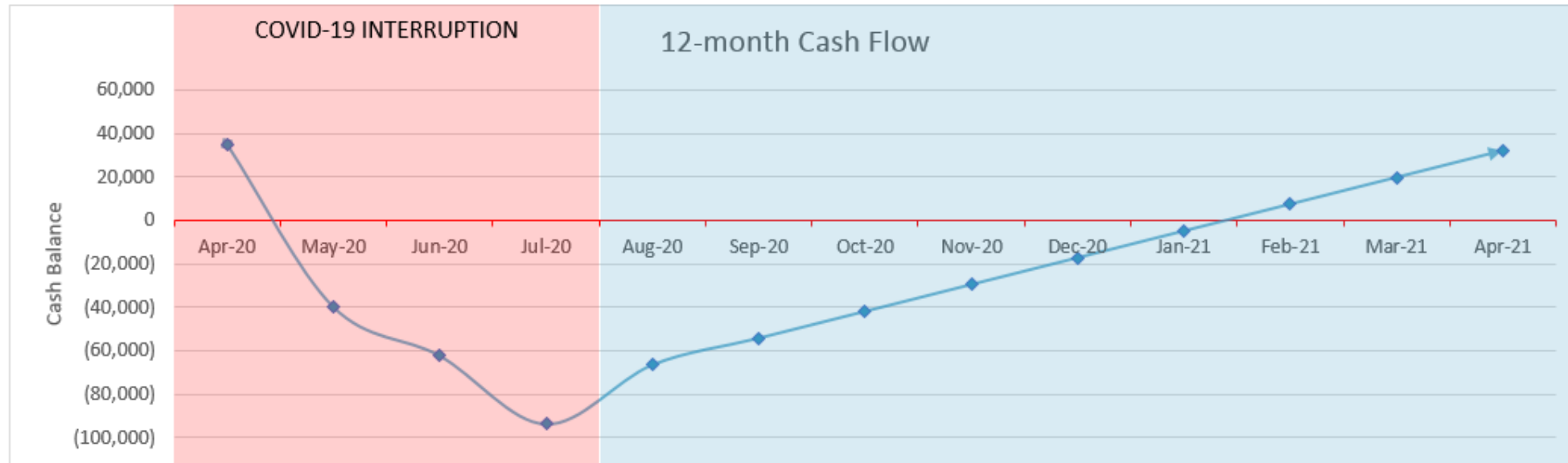
FINANCIAL PROJECTIONS WITH ACHIEVABLE AND REALISTIC ASSUMPTIONS

- Nail the Financial Model – include integrated monthly cash flow, Profit & Loss Account and Balance Sheet for at least 12 months (seek help from an accountant) and extend until period of perceived normal trading – 2 years???
- Achievable and Realistic Assumptions:
 - Opening Balance Sheet
 - Sales
 - Cost of Sales
 - Divide cost base between fixed, variable and semi-variable
 - Outline key components of working capital and how these will operate: debtors, creditors, stock / WIP (e.g. any obsolete stock) and cash management
 - Labour Resource, reflecting any furlough assistance, arising from designating some employees “furloughed”
 - Nature of Finance e.g. bank overdraft / term loans etc.
 - VAT
 - Post pandemic staffing requirements may reduce, so there maybe redundancy costs to finance
 - Social distancing costs
 - Finance Costs
 - Proposed Capital Expenditure
 - Grants

CASH FLOW FORECASTING BASICS

What is Cash Flow Forecasting

- A cash flow forecast looks at the balance of all money flowing into and out of the business at regular intervals



CASH FLOW FORECASTING BASICS

Example

	May-20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov-20	Dec-20	Jan 21	Feb 21	Mar 21	Apr 21
Opening Bank Balance	35,000	(39,650)	(62,100)	(93,550)	(66,400)	(54,100)	(41,800)	(29,500)	(17,200)	(4,900)	7,400	19,700
Receipts												
Sales	6,000	12,000	6,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Debtors opening balance	-	25,000	35,000	-	-	-	-	-	-	-	-	-
Coronavirus Job Retention Scheme	-	15,600	7,800	-	-	-	-	-	-	-	-	-
Total Receipts	6,000	52,600	48,800	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Payments												
Cost of sales	(30,000)	(21,600)	(26,400)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Salary costs	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)	(20,950)
Administration costs	(6,000)	(6,000)	(6,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
Marketing costs	(1,200)	(1,200)	(1,200)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Other costs	(12,000)	(12,000)	(12,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Creditors opening balance	(5,000)	(15,000)	(10,000)	-	-	-	-	-	-	-	-	-
VAT payment/(refund)	0	7,200	4,800	7,100	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)	(7,750)
Deferred VAT payment	-	-	-	-	-	-	-	-	-	-	-	0
Fixed asset purchases	-	-	(3,000)	-	-	-	-	-	-	-	-	-
Loan Repayment	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)
Total Payments	(80,650)	(75,050)	(80,250)	(92,850)	(107,700)	(107,700)	(107,700)	(107,700)	(107,700)	(107,700)	(107,700)	(107,700)
Closing Balance	(39,650)	(62,100)	(93,550)	(66,400)	(54,100)	(41,800)	(29,500)	(17,200)	(4,900)	7,400	19,700	32,000

CASH FLOW FORECASTING BASICS

How to Forecast?

- Decide forecasting interval – weekly or monthly
- Familiarise yourself with forecasting tools like MS Excel
- Link calculations and assumptions so that you can amend them later
- Carefully evaluate every aspect of the business and include all elements of cash flow:
 - Operating – sales, cost of purchase, wages and operating costs
 - Financing – loan repayment, interest commitments, grants and new loans
 - Investing – maintenance of capital expenditure programme



ASSESSING A FUNDING PROPOSAL

Financial Analysis – Key Ratios

- Sales trends
- Gross margin trends
- Net profit margin trends
- Productivity/Value Added Ratios
- Working Capital as a percentage of sales
- Debtor/creditors days
- Debt/Equity



FINANCIAL ANALYSIS

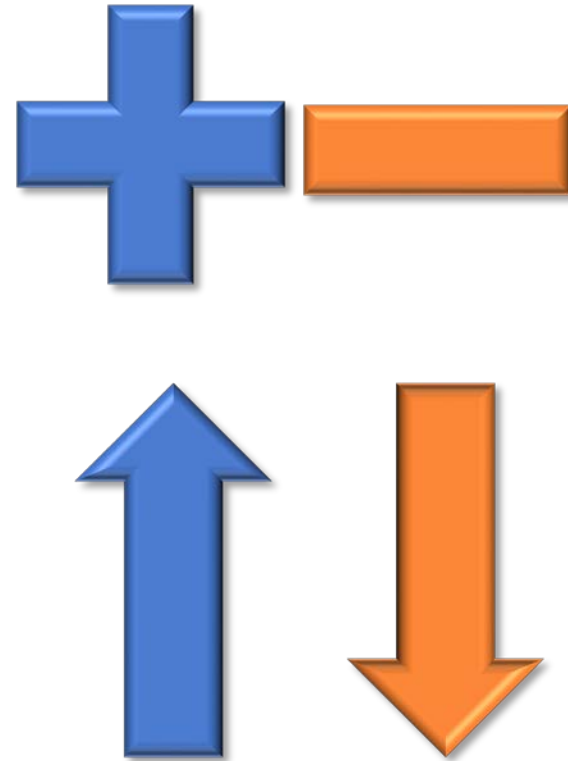
Finance providers – Key Ratios

- Times Interest Cover =
$$\frac{\text{PBIT}}{\text{Interest}}$$
- Debt Service Capacity =
$$\frac{\text{PBIT} + \text{Depreciation}}{\text{Loan \& Interest Commitments due within one year}}$$
- Leverage % =
$$\frac{\text{Bank Overdraft} + \text{Finance Creditors} + \text{Bank Term Loans}}{\text{Net Assets} + \text{Bank Overdraft} + \text{Finance Creditors} + \text{Bank Term Loans}}$$
- Loan to Value % =
$$\frac{\text{Total debt Facilities}}{\text{Value of Security Held}}$$

FINANCIAL ANALYSIS

Sensitivity Analysis

- Delay in commencement of business by 2 months
- Sales 20% individually up or down
- Gross profit 20% up or down
- Working capital 20% up or down
- Capital expenditure 20% up or down



CREDIT CONTROL AND DEBTORS MANAGEMENT

Credit Control

- Try not to give credit – get aid up front if you can
- Good Credit Control is about Systems

Debtor Management

Companies can accelerate monies due from debtors by following a few simple steps to try and **reduce debtor days**:

- Agree Terms of Business including payment terms in advance.
- Establish credit practices as a matter of company policy.
- Establish limits for each category of customer; never allow exposure to slip beyond these limits.
- Credit checks i.e. credit agencies, company searches, bank references for new customers.
- Visit Customer premises



DEBTORS MANAGEMENT CONTROL

- Monitor debt outstanding for customer before deciding to make any further sales.
- Maintain regular contact with client
- Consider charging interest on overdue accounts.
- Consider all payment options – deposits, multiple stage payments, credit cards, BACS payment.
- Offer early payment incentives
- Sales Credit Insurance to be considered.
- Option of factoring debts
- Option of Invoice Discounting
- Reservation of Title Clauses (if applicable) or secure return of goods if possible
- Issue written request for payment
- Quantify costs of pursuing debt
- Pursue legal remedies



DEBTORS MANAGEMENT CONTROL

Potential Bad Debt Indicators

Some of the key indicators about a potential bad debt problem include:

- Longer credit terms taken without approval followed by smaller orders.
- The issue of post-dated cheques by debtors who normally settle within terms.
- Evidence of regular switching to different suppliers for the same goods.
- New customers who are reluctant to give credit references.
- Receiving round sum payments from debtors.



CREDITORS MANAGEMENT CONTROL

- Who authorises purchasing? Is it tightly managed or spread among a number of people? Purchasing authority should be tightly controlled.
- Do you shop around for best value for money.
- Do you know the cost to the company of carrying stock?
- Do you have alternative sources of supply?
- If a supplier of goods or services lets you down, can you charge back the cost of the delay?
- Can you arrange to have deliveries of suppliers staggered?
- How many suppliers have a return policy?
- Can you pass on cost increases quickly with price increases to your own customers?
- Maximise credit terms (within reason)
- Make prompt payments, only when worthwhile discounts apply
- Possibility of consignment stock terms.
- Possibility of Reservation of Title Clauses.



STOCK / INVENTORY MANAGEMENT

For better stock control measurements try the following:

- Carry out physical stock takes at least twice a year.
- Know the number of times each major item of your stock turns in a year.
- Consider selling off outdated or slow moving merchandise, it will only get more difficult to sell if you keep it.

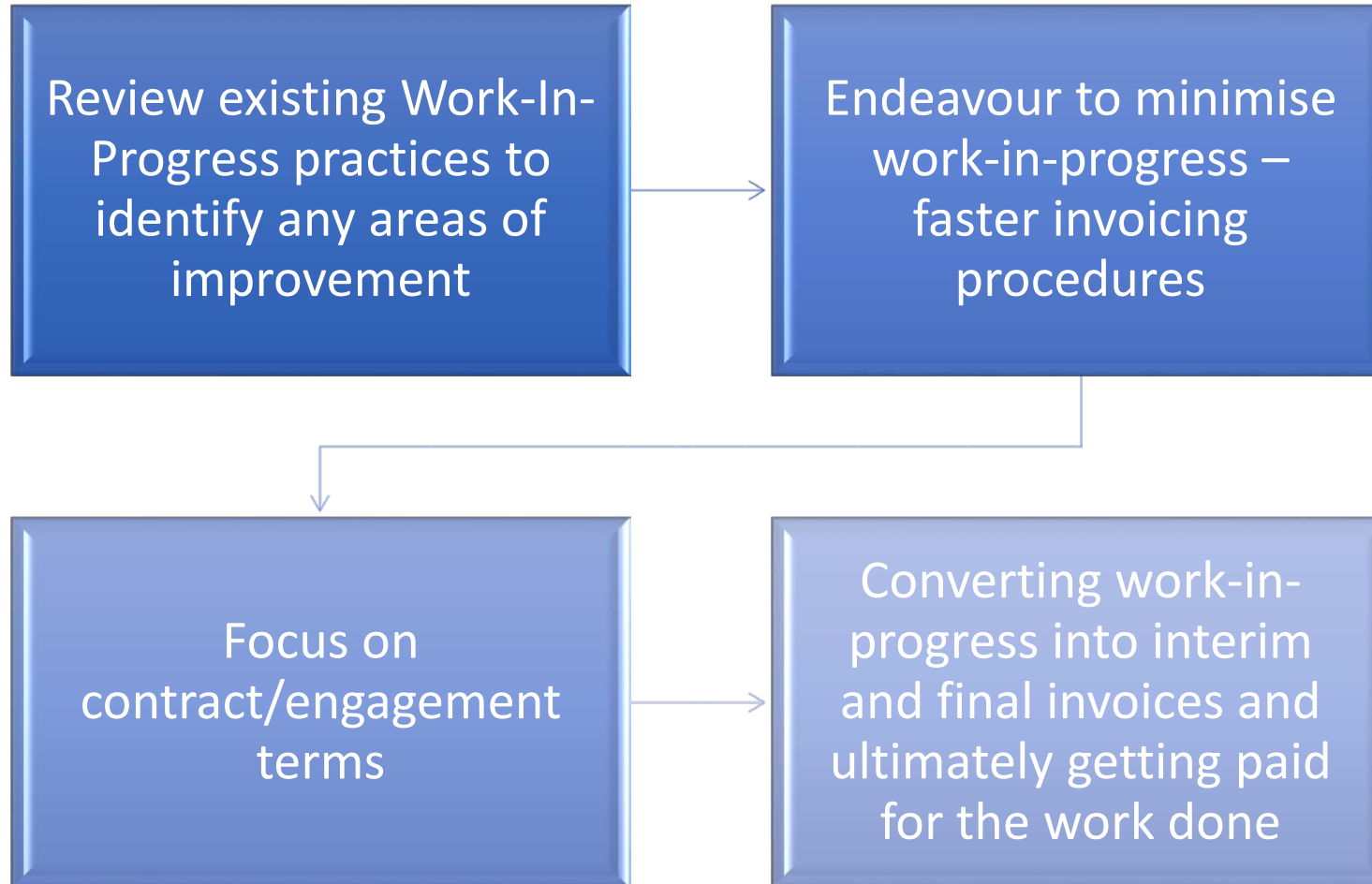


STOCK / INVENTORY MANAGEMENT Cont...

- Consider having part of your product out-sourced to some other manufacturer rather than make it yourself.
- Review your security requirements to ensure that no stock is going out the back door.
- Benchmark average stock levels against other businesses.
- Reduce stock to the most necessary items.
- Implement a just-in-time policy.



WORK-IN-PROGRESS (WIP) MANAGEMENT



COST CUTTING / OVERHEADS CONTROL

- If cost cutting, make sure the cuts are from the fat and not the muscle of the business. Cost cutting is essential within any working capital strategy, but do not impose arbitrary budget costs, have a well structured plan
- Keep overheads under constant review, have the courage to discontinue some costs, if no longer consistent with the goals of the business



CURRENCY MANAGEMENT

- Simply allowing currency developments to take their course can seriously affect working capital and may mean, your business is selling at a loss
- Hedging techniques are key and can range from matching receipts and payments to forward buying
- If a lot of customers pay in Euro, Sterling or US Dollars, then consider sourcing suppliers in the same currency



PRACTICAL TIPS

Before Borrowing

- Before you borrow, consider the following:
 - In short term encourage payment of debtors by offering cash discount
 - Negotiate additional credit from suppliers.
 - Reduce raw material / finished goods level and sell off slow moving stock.
 - Seek additional support from shareholders.
 - Reduce, defer or even consider cancelling drawings, dividends
 - Defer capital expenditure in the short-term.
 - Lease rather than buy equipment
 - Consider external equity funding

INABILITY TO HONOUR COMMITMENTS – PRACTICAL TIPS

- Speak to creditors, Banks, HMRC/Revenue Commissioners
- Explore options re deferring/restructuring debt
- Involve Business Advisors
- Regular communication with creditors
- Reduce, defer or even consider cancelling drawings, dividends or other payments to shareholders or proprietors
- Defer capital expenditure in the short term, or lease rather than buy equipment
- Early decisive action is key
- Consider insolvency procedures



PRACTICAL TIPS

What to do with Surplus Cash

1

- Carefully consider using surplus to funding disruption period

2

- Use to reduce borrowings and debt commitments

3

- Take advice on how best to ringfence surplus cash to protect investment to use for future opportunities

4

- Consider risk-free investments opportunities

5

- Talk to your IFA and Tax Advisor

INHERENT CULTURE

- The cashflow culture and working capital processes for the organisation must be inherent and interwoven throughout the business's entire operations, recognising that working capital problems are not just the domain of the finance department
- Ensure that everyday conversations are used to drive continuous improvement in working capital performance
- Are there KPI's specifically in place to measure and monitor various aspects of working capital in the business
- Are we eating and sleeping this working capital culture within the team? Does everyone know the policies and are they adhering to them? We need to keep asking these questions in-house



THE POWER OF SHARING AND TALKING ABOUT YOUR GOALS

- Share and talk about the organisation's working capital and personal goals with the people you are sitting alongside for two great reasons:
 1. The more you talk about your goals, the more you become committed to them; and
 2. As you verbalise your goal to others, you gain more clarity in your own mind about what you really want.
- With clarity comes certainty and with certainty comes confidence
- The act of talking about your working capital goals is powerful and profound



OVERARCHING PRINCIPLES TO CONSIDER

Cash is critical but saving the business is more important

Get your priorities right

Shield your core ideas, business structures, relationships, people, brand first

Be agile and adapt quickly to change and technological advancements

Time for decisive and caring leadership

PREPARING A PITCH FOR FINANCE

Do's



- Is there a funding requirement. ✓
- Calculate cost of obtaining finance. ✓
- Match borrowings with the life of the asset. ✓
- Discuss various options with Business Advisor. ✓
- Be aware of risk versus reward. ✓
- Think about the funder's decision making process. ✓
- Shop around (if relevant). ✓

PREPARING A PITCH FOR FINANCE

Dont's



BANK DEBT

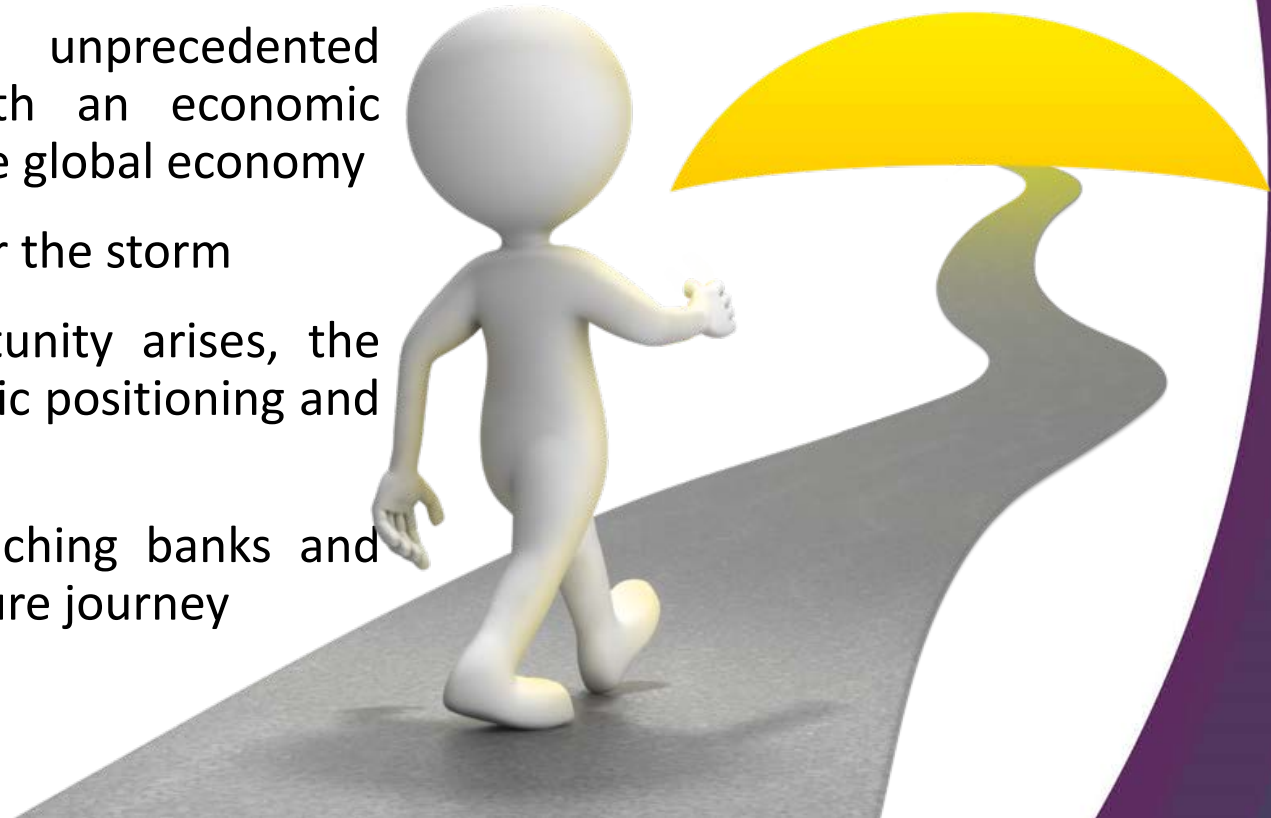
Final Thoughts

- Banks aren't there to take equity risks.
- Banks back people not projections.
- Focus on the commercial reality underlying the cashflows.
- Don't be too aggressive - build in head room even if it means more equity.
- Be willing to invest in the Banking relationship.
- Difficult economic environment at present but with Covid-19 supports from Government such as Coronavirus Job Retention Scheme, Self Employment Income Support Claim, Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme, good projects are getting banked.



CONCLUSION

- A Pulse Survey carried out by ourselves during our InterTradeIreland Webinar on 7th May suggested 79% of ROI Business had accessed Covid-19 Bank Support initiatives (compared to 24% in NI)
- We are currently experiencing unprecedented uncertainty due to Covid-19 – with an economic recession forecast for the island and the global economy
- We are currently attempting to weather the storm
- But going forward, when the opportunity arises, the need will change to focusing on strategic positioning and delivering a sustainable business
- Hopefully today's webinar on approaching banks and other funders will help you on your future journey



DISCLAIMER

We have made every effort to ensure that the information provided in this seminar is accurate, but we cannot accept responsibility for the consequences of any action you take in reliance on its contents. If following the seminar you have any matters which you would like to discuss, please contact Feargal McCormack at f.mccormack@pkffpm.com



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