How can we manage liquidity and financing given the impact of COVID-19?

Treasury responses for companies with liquidity and financing challenges

Implementing a liquidity management and mitigation approach is critical to providing short-term cash needs in the face of declining sales prospects. Many companies across a multitude of sectors are concerned that, due to deteriorating operating conditions, they will have insufficient access to liquidity and may potentially breach financial covenants, cutting off valuable sources of funding. Acting decisively is imperative to help manage global cash and financing arrangements.

The issues

The severity and term of adverse business conditions is unclear

- Drastically different cash flow performance of the business (reduced revenue, delayed collections)
- Strengthening USD affecting the contribution of foreign operations
- Concerns over whether there is sufficient capacity in funding lines to withstand a protracted decline in business performance
- Concerns over financial covenants and other possible breaches may further limit access to funding
- Out-of-the-money derivative positions given recent declines in interest rates and strengthening USD
- Difficulties in paying suppliers and payroll due to short-term cash-flow constraints

Treasury levers

To what extent have you assessed various liquidity scenarios and defined actions plans to pull treasury levers?

Cash and liquidity

- Centralize cash visibility and control with treasurer or CFO
- Create a dynamic cash forecast. Know how many weeks of net cash flow you can fund. Make sure the C-suite and board understand this. Discuss levers to extend weeks. Meet at least weekly to update given state of change
- Create central approval for cash outflow. Coordinate protocols with AP, Payroll, and Tax. Validate funding of proposed amounts and timing before release
- Confirm visibility to 100 percent of bank accounts on a daily basis
- Expand cash pools. Retrieve cash in accounts outside centralized structures with tax
- Confirm sales and collections are in constant contact with customers; be proactive to minimize dispute and late collection risk. Suspend discretionary spending, including debt and share buybacks
- Link payments terms to collection cycles by geography
- Where financially secure, consider dynamic discounting to secure supply chain

Financing, banking, and credit ratings agencies

- Refresh understanding of funding arrangements and terms
- Consider ability to meet financial covenants both now and prospectively
- Proactively seek waivers of financial covenants to avoid cross-default
- Cultivate a proactive and trusting relationship with funders
- Increase financing capacity (vanilla, asset-backed lending, securitization)
- Proactively manage financial performance and actions to ratings agencies

Derivatives and collateral

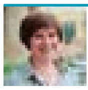
- Refresh understanding of risk strategies and intended objectives; reaffirm or adjust
- Revalue all derivative positions; consider blend and extend strategies to reduce near-term cash impacts
- Revisit levels of exposure with diminished financial outlook, if applicable
- Consider release of collateral to free up liquidity

How we can help

We are here to assist you virtually

- Develop dynamic cash forecasting and calculations of available weeks of cash, then estimate financial covenant compliance
- Prepare liquidity scenario planning and stress tests
- Technologists to accelerate cash visibility
- Cash management professionals to advise on mobilization of cash from around the world
- FX specialists to advise on resetting risk exposure, strategies, and existing derivatives
- Experienced debt advisers to help with managing funding and credit ratings impacts
- Surge treasury resources to help with increased demands, and potential impacts to workforce capacity from COVID-19

Even for companies that have not yet been adversely affected, we recommend proactively increasing cash visibility and control, and proactively managing funding, given the interconnected impacts of customers and suppliers.



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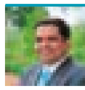

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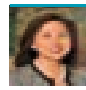

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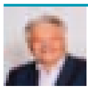

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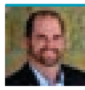

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