

Private equity in turbulent times

Portfolio company cost and capital rapid stress testing with data analytics

In the current market environment, PE firms benefit from an aggressive look at their portfolio companies to identify exposure to potential economic risks and proactively identify opportunities for rapid cost structure realignment, cash flow optimisation and capex prioritisation. A structured coordinated response is the best path to success in these turbulent times.

- Analytics-led approach into the portfolio company's financial and operational performance focused on actions
- Rapid two-week assessment across the cash-cost-customer-capital dimensions to help companies manage during demand volatility

Market environment

The current environment has created uncertainties in customer demand and supply shortages across industries. It has also rapidly exposed risks to the overall supply chain that have put certain portfolio companies in need of rapid turnaround or restructuring because of several concurring events:

Demand shocks: The current environment has adversely impacted customer demand for several goods and services, e.g. aviation, hospitality and consumer products. Small to mid-size companies are affected more acutely.

Supply shocks: Border closings and travel bans are causing significant disruptions to global supply chains. The biggest uncertainty for supply chains is customer demand. This has increased pressures on suppliers that historically experienced margin pressures prior to the downturn.

Reduced cash flow: In this environment customers may delay purchases or payments for longer than usual, often because they are waiting for their own customers to pay. This causes a chain reaction of delayed payments from one vendor to another, which typically slows down all aspects of business.

Capex collapse: Globally, reserve banks primed the economic pumps, i.e. by cutting interest rates and adopting other stimulus measures as yet another indication that recession fears are growing. This triggers the potential for business spending to ease for the next few quarters. Actions and implications differ, but the results are likely to influence companies globally.

Elements of structured organisational response



Active expense management

- Assess all expense categories and right-size to projected revenue
- Actively manage spend going forward



Revenue and cash forecasting

- Improve CCC (DIO, DPO and DSO)
- Initiate analytics to identify liquidity concerns and improve forecast accuracy
- Measure and report key cash metrics



Customer centricity

- Understand change to potential demand patterns based on segment outlook
- Realign go-to-market and customer support organisation to respond to changes



Supply chain resilience

- Assess exposures and risks from potential demand changes
- Prepare responses for cost efficiencies, inventory, alternate suppliers, capex, etc
- Future prove: Resilience, diversification, optionality, close to "home"

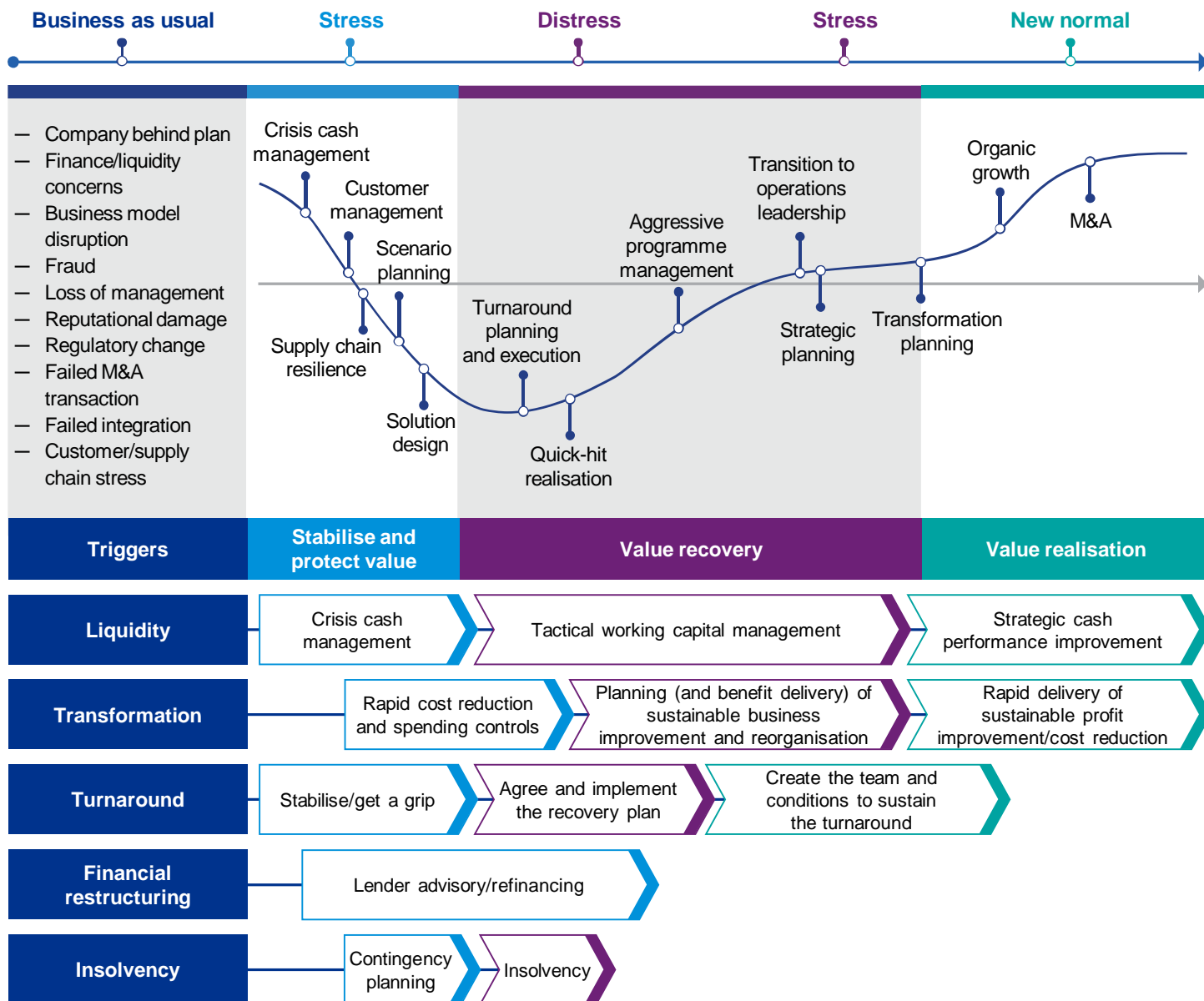


Scenario planning & management

- Conduct impact assessment and quantify demand and supply shocks on the business
- Build varying financial scenarios based on severity and duration
- Model actions across demand generation, working capital and cost containment

KPMG's framework for stabilisation, value recovery and value creation

At the heart of a turnaround are stabilisation and value recovery. Our range of capabilities allows us to provide a comprehensive solution.



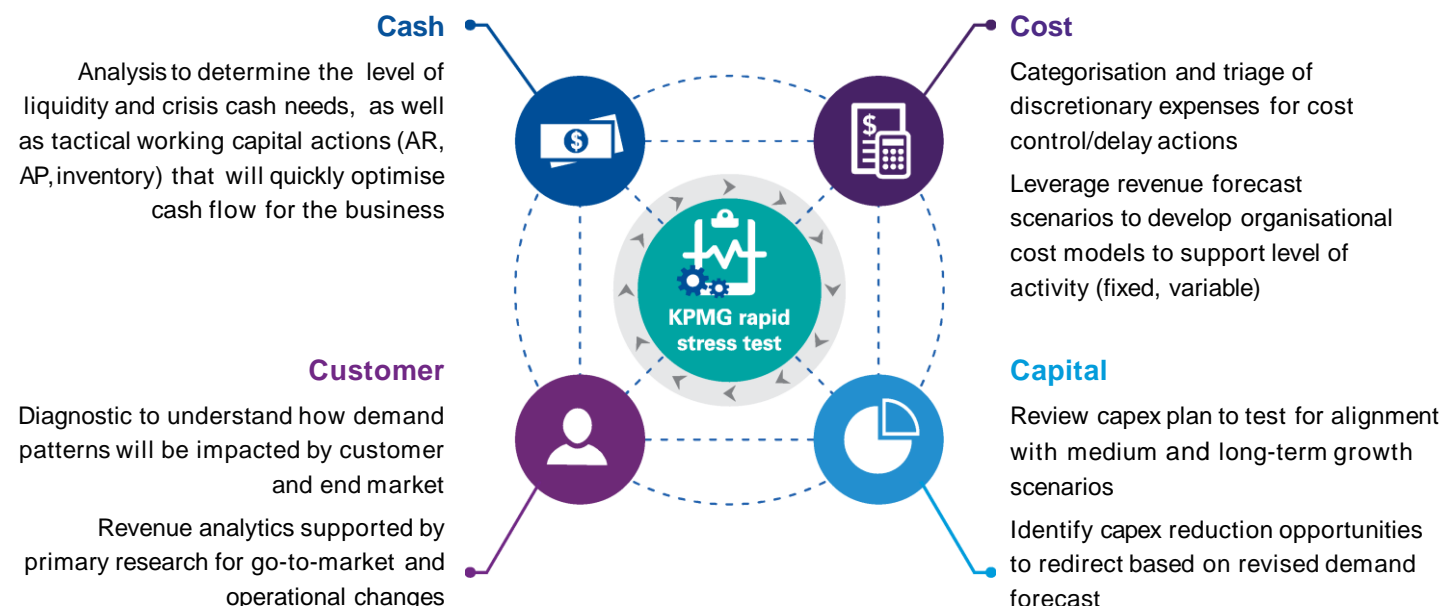
KPMG rapid stress test

- Rapid assessment of liquidity impacts and visibility (cash forecasting)
- Identify cash, cost and capital enhancements across back office, supply chain, procurement, core operations and the front office
- Initiate visibility and controls to drive quick-win delivery and generate/maintain momentum
- Leverage subject matter experts in finance, HR, IT, supply chain, etc where required
- Work at pace and stand by results, rapidly moving the dial on cost base and cash flow
- Provide a range of high-speed performance improvement interventions

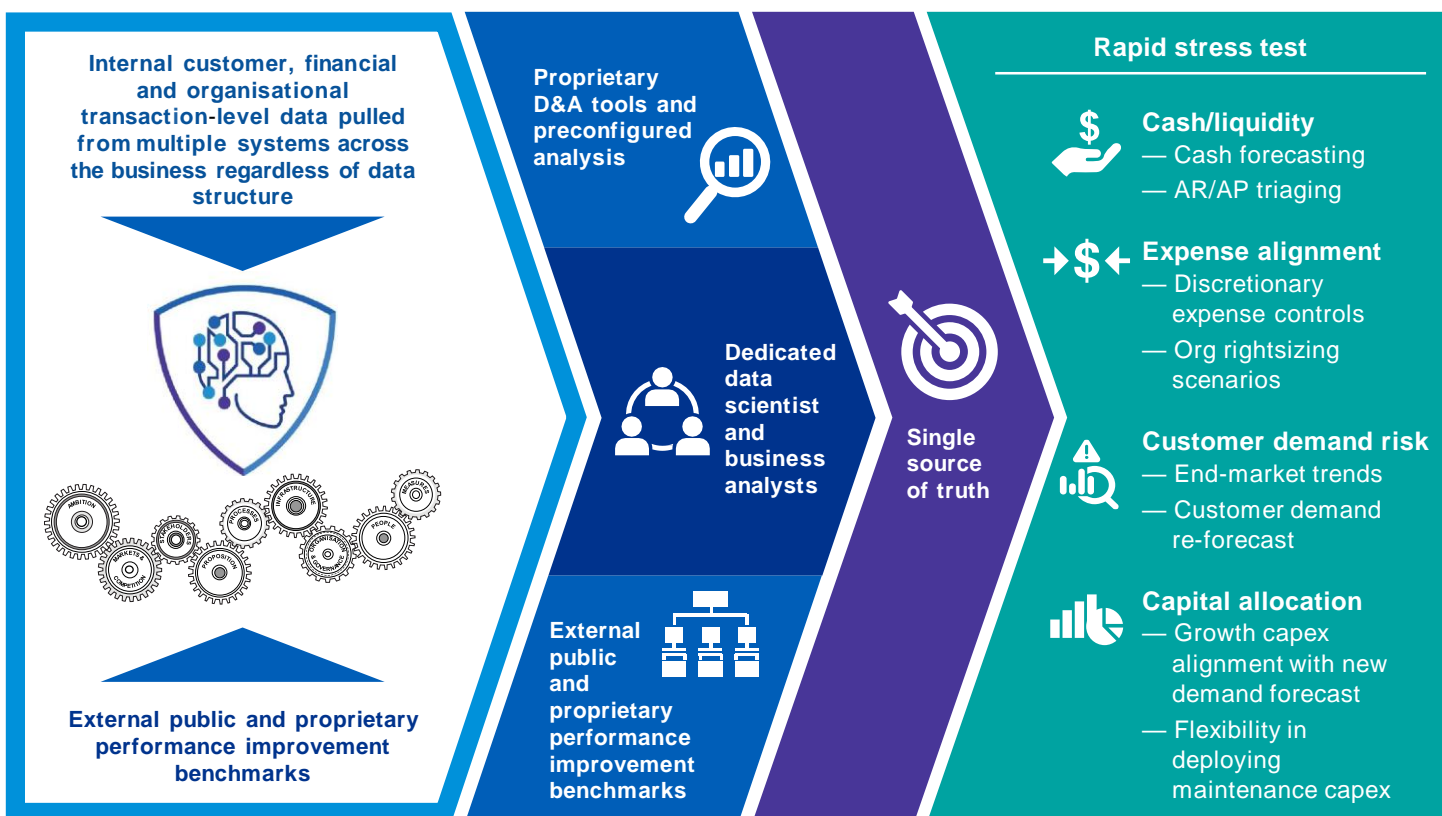
Speed to insights – insights to actions – actions to results

We have a proven approach to improving performance for our clients. Our two-week rapid approach leverages our data and analytics as well as our dedicated team to look at the four stress areas to facilitate value-driven activities.

The four key Cs: Rapid stress test-data and analytics-driven approach



KPMG's framework to assess business impact and drive cash and contain costs



Contact us for more information on how KPMG can help accelerate rapid organisational and financial assessments, develop cost-containment plans, and help implement targeted measures



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