KPMG

When business as usual becomes unusual

Welcome to our weekly webinar. We will be starting shortly so if you don't hear any sound, don't worry, you're not missing anything - we'll be starting in a few minutes

KPMG

When business as usual becomes unusual

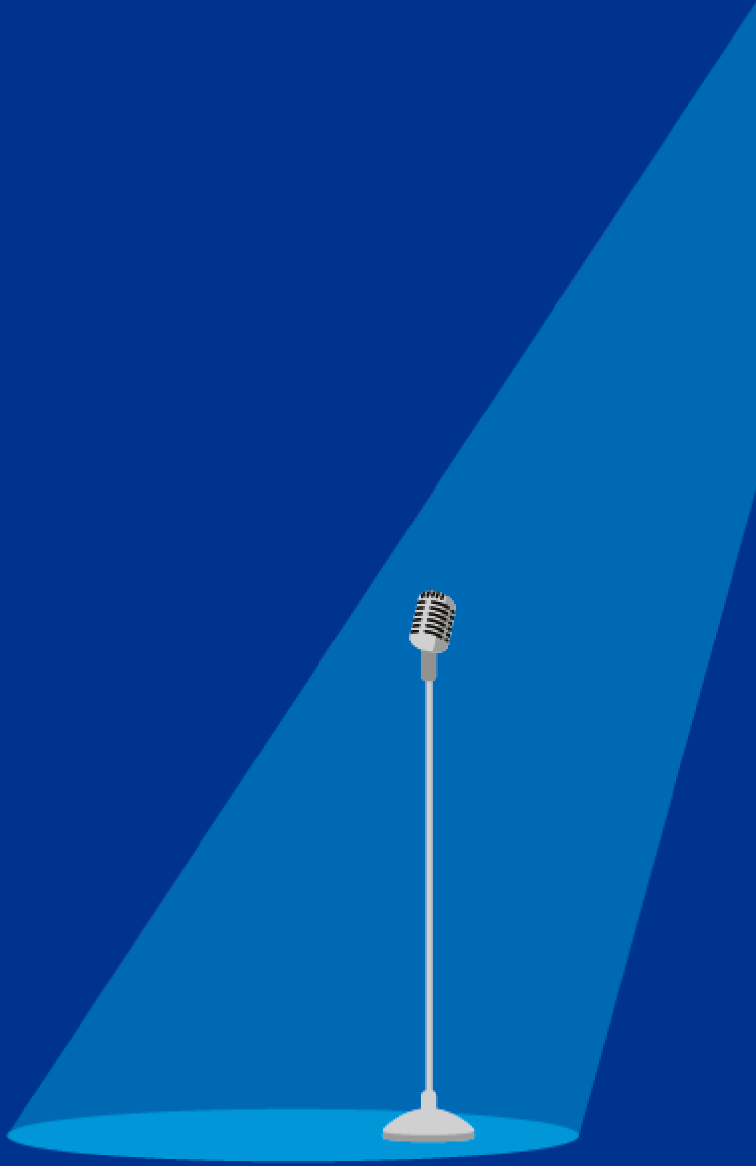
Session 2: Liquidity & other considerations in a crisis

—

15 April 2020

Introduction

- **Format of the webinar**
- **Asking questions**
- **Further webinars and updates**
- **Reference to materials / webinar playback**



KPMG

Webinar presenters

Russell Kelly
Senior Partner & Moderator
russellkelly@kpmg.co.im

Catherine Ridge
Senior Manager, Restructuring
Cridge1@kpmg.co.im

Kristan King
Director, Advisory
kristanking1@kpmg.co.im

Aidan Tucker
Senior Manager, Restructuring
aidantucker@kpmg.co.im

Agenda

Introduction

Cashflow forecasting

Financial modelling & Stress testing

When to consider Contingency planning

Where are you in your business cycle?

Wrap up and questions

Introduction

Russell Kelly - Senior Partner

Introduction

Updates from the Isle of Man Government re: support measures

- Department for Enterprise have launched their new tool kit
- Contains summary of support and eligibility
- Online application for most of the schemes is now open via website

Other updates

- Still no clarity on length of time restrictions will continue for and in what format

Introduction

During the COVID-19 crisis, businesses will need to maximise their existing working capital availability. Mitigating actions can take time to implement, therefore acting decisively is critical.

1 Implementing and optimising ‘good practices’

Straightforward actions that can be implemented quickly:

- Review supplier contracts and maximise existing payment terms
- Chase up late/non-payment
- Ensure customer/supplier failure policies are reviewed e.g. via Retention of Title
- Review policies and identify ‘quick win’ cost reductions

2 Taking tactical actions

Options may have some long-term impacts, but may have a significant impact on cash:

- Defer capital expenditure
- Renegotiate supplier payment terms
- Remove or defer unnecessary costs e.g. contractors working on non-core activities, marketing expenditure

3 Making last resort changes

Aggressive cash preservation options that may be suitable in certain circumstances:

- Defer non-wage cash outflows
- Reduce overheads by closing/reducing some operations
- Consider voluntary reduced worktime or pay reduction options for employees

Stakeholder measures

Identify key stakeholders and proactive regular communication to maintain support.

Most will be crucial to right-sizing the business, making communication with them all the more key.

KPMG

Cashflow forecasting

Catherine Ridge – Senior Manager, Restructuring

Cashflow forecasting

Basic cashflow template: email - webinars@kpmg.co.im

Week		1	2	3	4	5	6	
	Priority	13 April 2020	20 April 2020	27 April 2020	04 May 2020	11 May 2020	18 May 2020	25 May
Opening cash balance		-	-	-	-	-	-	
Cash inflows								
Cash from debtors	N/A	-	-	-	-	-	-	
Cash sales	N/A	-	-	-	-	-	-	
Loans received	N/A	-	-	-	-	-	-	
Capital injections	N/A	-	-	-	-	-	-	
Total cash inflows		-	-	-	-	-	-	
Cash outflows								
Wages - self	N/A	-	-	-	-	-	-	
Wages - staff	N/A	-	-	-	-	-	-	
Supplier payments	N/A	-	-	-	-	-	-	
Rent	N/A	-	-	-	-	-	-	
Electricity	N/A	-	-	-	-	-	-	
Phone / internet	N/A	-	-	-	-	-	-	
Marketing	N/A	-	-	-	-	-	-	
Loan repayments	N/A	-	-	-	-	-	-	
Interest on loan	N/A	-	-	-	-	-	-	
Employment costs	N/A	-	-	-	-	-	-	
Total cash outflows		-	-	-	-	-	-	
Net cash flow		-	-	-	-	-	-	
Closing cash balance		-	-	-	-	-	-	

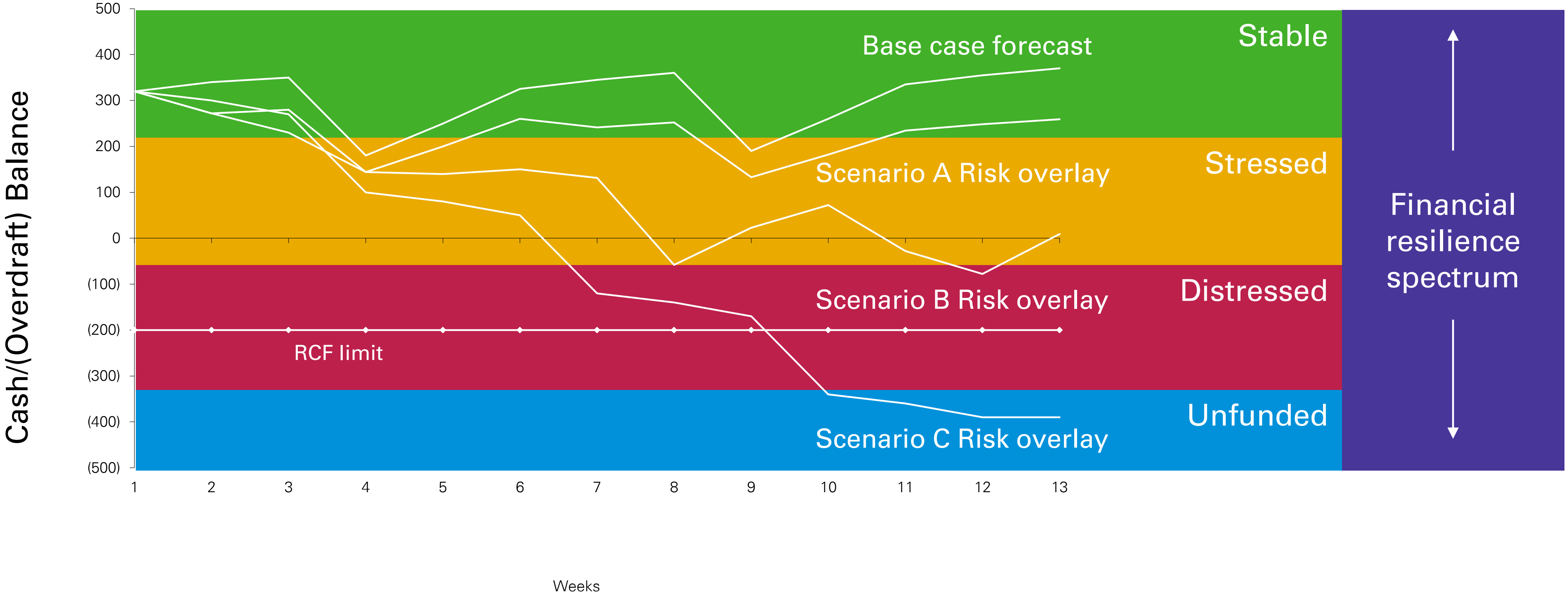
Financial modelling & Stress testing

Kristan King – Director, Advisory

Step 1: Do you have a suitable starting point?

- Do you have a budget that includes a cash flow statement?
- Is your budget prepared on a monthly basis and reflect any seasonality in the business?
- Has the budget been updated so that it is consistent with your three month cashflow forecast?
- Can you reliably and quickly adjust the assumptions in your budget to facilitate scenario analysis?

Step 2: Apply scenario-based 'risk overlays' to base forecast



Step 3: Prioritising actions re cash outgoings

Having identified the range of potential outcomes for your business, the next stage is to understand what tasks can be undertaken on a ‘self-help’ basis in order to maximise liquidity. Taking **proactive steps** now may help avoid more drastic action further down the line.

1 Implementing BAU liquidity ‘good practice’

Measures firms can take ‘with no regrets’ to improve liquidity.

Examples include:
- Accessing COVID-19 support
- Maximising existing supplier payment terms
- Ensure payments are received within agreed limits
- Reviewing policies and identifying ‘quick win’ savings

2 Moderate impact ‘tactical actions’

Measures are more extensive and may result in a short-term loss of goodwill:

- Engaging with landlords on rent reductions or holidays
- Deferring capital expenditure on growth projects
- Renegotiating payment terms with suppliers
- Removing or deferring unnecessary costs e.g. contractors working on non-core activities, marketing

3 Making ‘last resort’ changes

Aggressive cash preservation options that may be suitable in certain circumstances:

- Deferring non-wage outflow via agreement or temporarily withholding payment
- Reducing overheads by closing/reducing operations
- Considering voluntary reduced worktime or pay reduction options for employees

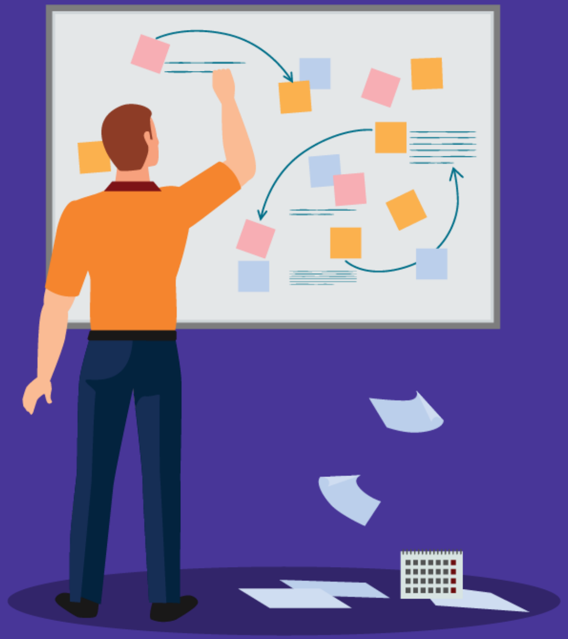
Summary: modelling and scenario analysis

Make sure your financial model is fit for purpose and is consistent with your short term cash flow assumptions/plans.

Model a range of potential scenarios that may occur and their impact on your business and decide now which actions you will take in each scenario.

Monitor actual performance of your business using a range of short term key performance indicators so that actions are taken promptly and proportionately.

When to consider Contingency planning



Catherine Ridge – Senior Manager, Restructuring

When to consider Contingency planning

When to consider contingency planning

Cash generation/ preservation

Government support

Limited refinancing options

Forecast cash crunch

Potential options

Hibernation

- Costs and liabilities
- Employees
- stock and logistics
- Exit strategy
- Communications

Limited trading

Full shut down

Where are you in your business cycle?

Aidan Tucker – Senior Manager, Restructuring

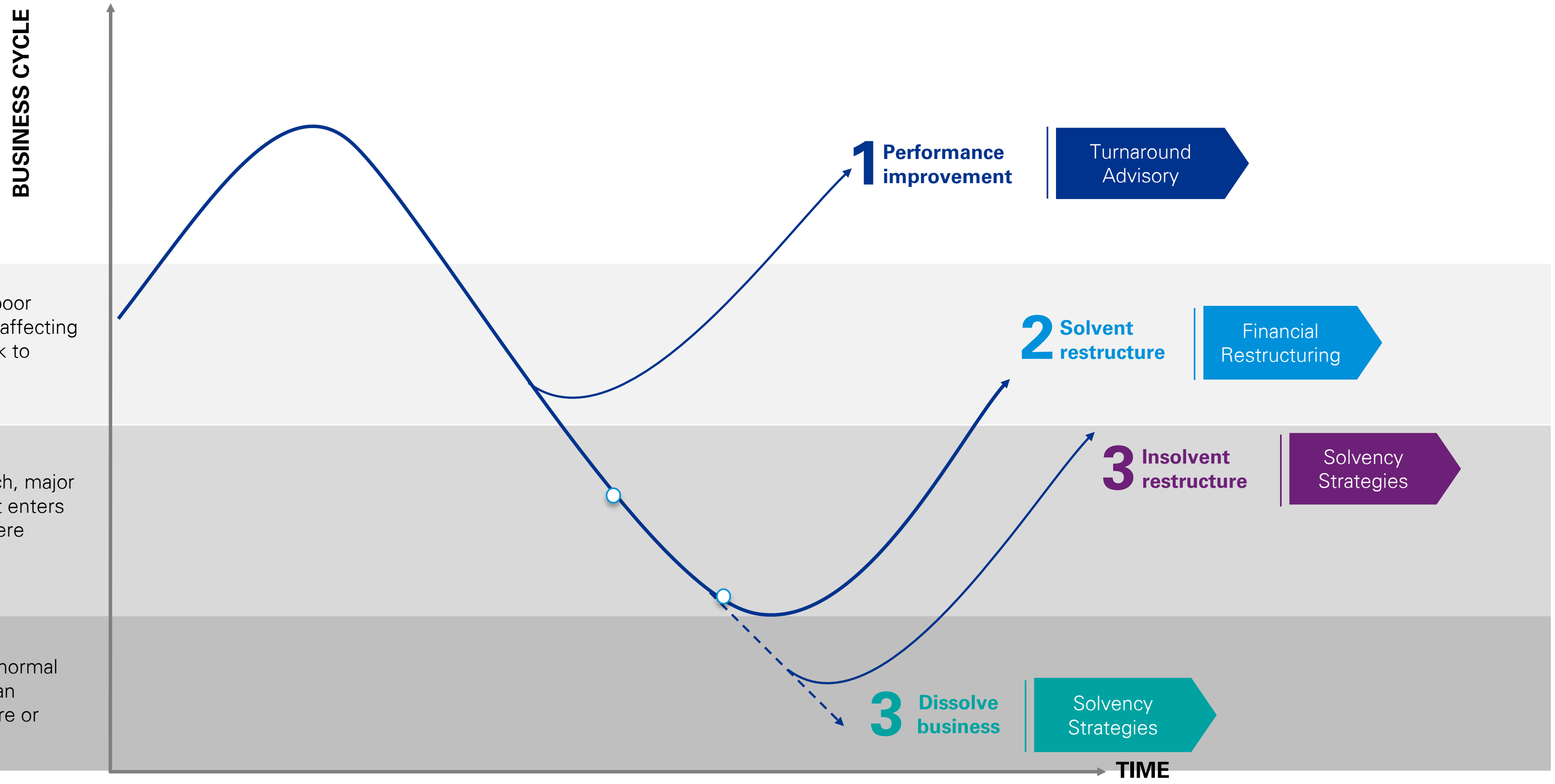
Where are you in your business cycle?

Where your business is operating in the business cycle will determine how we can help manage the downturn.

Underperformance
Business has reported regular poor performance results, adversely affecting the bottom line and creating risk to 'business-as-usual' trading

Distress
Potential/ actual covenant breach, major supplier / customer of the client enters insolvency / loss making or severe reduction in free cash flow

Insolvency
Business is unable to return to normal trading, and is likely in need of an insolvency process to restructure or dissolve its business



Six signs of distress

1. Cash flow
2. High interest payments
3. Defaulting on bills
4. Extended debtor or creditor days
5. Falling margins Unhappiness
6. Unhappiness

Insolvency Measures

Scheme of arrangement

- Allows many options and solutions to distressed companies;
- Can form part of a wider formal restructuring;
- Can be hard to implement; and
- Co-operation with Stakeholders is key

Provisional liquidation

Provisional Liquidation and / or Liquidation

- Provisional Liquidation is not Liquidation and winding Up;
- Provisional Liquidation provides moratorium and can provide breathing space;
- Liquidation is a measure of last resort; and
- If used correctly, it can protect Directors and Stakeholder interests.

Director Considerations

Directors Duties, Responsibilities & Obligations:

- Wrongful Trading (Does it apply to the Isle of Man?);
- Fraudulent Trading (It does apply to the Isle of Man);
- Duties to Members, Creditors and Stakeholders; and
- Asset Protection Regime.

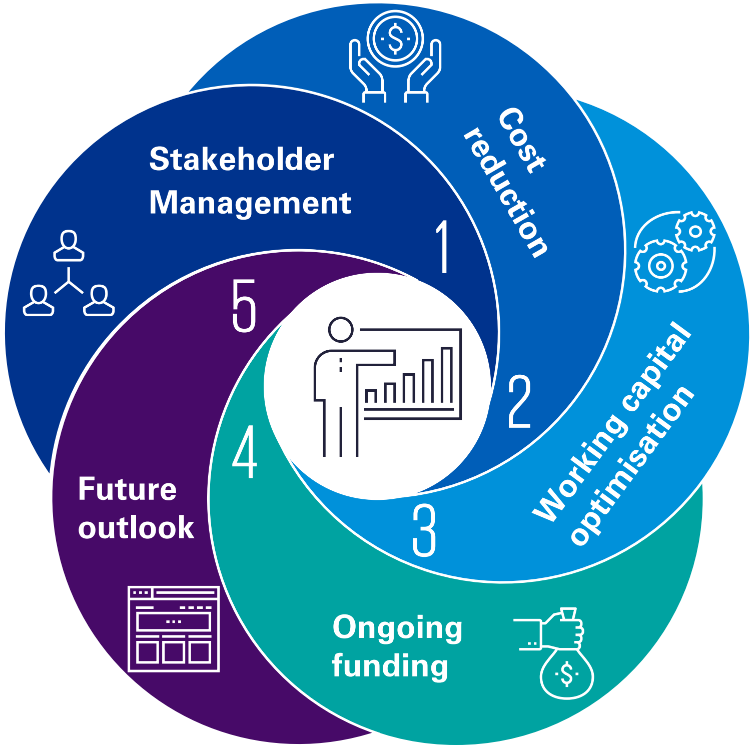
Wrap up and questions

Russell Kelly - Senior Partner

Wrap up

Critical levers to optimising outcomes in the downturn

There are several levers that can be pulled to manage the business through a crisis, preserve value and maximise outcomes for the company to continue operating when market conditions change



Summary of levers to optimise outcomes

1. Managing key stakeholders (employees, customers, suppliers, funders, tax office etc..) to provide ongoing support as you work through a restructuring plan.
2. Identify and execute immediate cost reduction strategies to reduce cost base and preserve value.
3. Managing the unwind of working capital and identifying other sources of cash generation to manage the cash flow requirements of the business.
4. Sourcing additional funding to support the business and compromising debt with key stakeholders (where possible).
5. Assessing the future viability of the business, redesigning the operating model and positioning the business for future trading once the disruption ceases.

How can KPMG help?

- Determine available routes to funding
- Understand requirements: clear view on liquidity requirements
- Maximise prospects of success: funding outcomes and speed with be improved with a well structured request
- Act at pace: financial institutions are likely to be inundated with requests

- Email: **webinars@kpmg.co.im**

Dates for your diary

Join us every Wednesday at 10:00 for our webinar:

22 April - Tax update

29 April - Managing risk through turbulent times

6 May - Financial reporting impacts of COVID-19

13 May - Tax update

Thank you

Russell Kelly
Senior Partner
KPMG in the Isle of Man
T: +44 (0) 1624 681000
E: russellkelly@kpmg.co.im

Kristan King
Director, Advisory
KPMG in the Isle of Man
T: +44 (0) 1624 681000
E: kristanking1@kpmg.co.im

Aidan Tucker
Senior Manager, Restructuring
KPMG in the Isle of Man
T: +44 (0) 1624 681000
E: aidantucker@kpmg.co.im

Catherine Ridge
Senior Manager, Restructuring
KPMG in the Isle of Man
T: +44 (0) 1624 681000
E: cridge1@kpmg.co.im

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.