

MANAGING YOUR CASH FLOW THROUGH COVID-19

Know your position, know your options.

This guide, prepared by NZTE's Investment team is intended to help you get a better grasp of your current cash position, so you can identify what decisions are most appropriate for your business, and have informed conversations with funders and advisors.

COVID-19 has affected thousands of New Zealanders and their businesses, and will likely continue to cause disruption in the short and long term. While we always hope for the best, we should also prepare for worst case scenarios.

How to use this guide:

Read through each section, using the notes space to answer each question, keep track of all relevant information, and note down any actions you can take.

Use the summary page at the end of this document to name your two or three biggest issues, list possible sources of support, and draft an action plan.

Ideally, you will have the following with you:

- your latest financial statements
- management accounts (profit and loss, balance sheet and cashflow)
- forecasts
- funding/refinancing proposals
- a list of any immediate cash flow concerns.



CURRENT CASH POSITION

What is your current cash position?

Now is a good time to re-examine the demand assumptions that drive your revenue lines – not just demand from your customers, but from customers' customers, as well as all associated cost assumptions. Even if you don't see any direct exposure, there is likely to be an indirect effect on sales.

What's your current position?

- How much cash do you have in the bank and how long is it forecast to last? Will it really last that long?
- Have you scenario-modelled for a decrease or increase in your sales forecasts, shift in your business model, or for a shift in your supply?
- How often are you modelling cashflow? Daily, weekly, monthly?

Can you create liquidity from within your business?

- What aspect of your business can you create liquidity from? For example, calling in debtors, reducing stock, or reducing cost. Can you get creditors to extend terms?
- On a review of your variable costs, what could be examined further for cost reductions or savings? Focus on key lines like cost of goods sold, contractors, wages and others, such as marketing and R&D.
- Is there any possible movement in your fixed costs, for example a temporary rent holiday or reduction that could be capitalised?
- Can you defer any current or planned Capex?
- Consider speaking with the Inland Revenue Department (IRD) to defer and enter into arrangement plans for GST.

Notes:

FORWARD CASH EXPECTATIONS

What is your forecast working capital position over the next six months?

What adjustments are necessary?

- How are you managing current assets such as debtors and stock? What levers can you pull here?
 - What are your current liabilities (overdraft and creditors)?
 - What is your current ratio? Is it >1? Are your current assets greater than your current liabilities? What about in six months?
 - Are you meeting or forecast to meet your creditors' payment terms over the forecast period? If you are outside of those terms, or forecast to be, are you in communication with key creditors about extending terms?
-

Notes:

How will you finance the next six months?

Can you implement the necessary adjustments?

- Do you have debt funding? If so, are you speaking with your bank or financier? Are you currently meeting covenants, or are you forecast to? Could you have a conversation with your bank regarding temporary interest relief?
- Do you have equity funders? What current commitments do you have from them? Are you speaking with shareholders about the company's current cash and capital position? This is your most likely source of cash/capital.
- What options do you have, in terms of rights issues or convertible loan notes with existing shareholders?
- Have you prepared any funding and/or refinancing documentation? Does this factor in your revised forecast sales fall and recovery? How can you position this challenging situation into an opportunity and set your company up for long term success?
- If refinancing, have you considered building in short-term cashflow relief, such as an interest-only period of, say, 6-12 months? Are you speaking with the New Zealand Export Credit Office for trade finance collateral/guarantee support?
- What other alternative sources of funding are available to the company? Consider new shareholders, second tier/non-bank lenders, invoice financing, Capex financing, crowdfunding/peer-to-peer lenders, lease back existing assets to finance companies etc.

Notes:

GENERAL FINANCIAL CONSIDERATIONS

Have you considered all opportunities?

What are the possible impacts?

- From a balance sheet perspective, what is your solvency position? Are your total assets greater than your total liabilities? What about in six months? What levers can you pull, eg what excess assets can be sold? Some companies are requiring employees to take holiday pay to reduce contingent liabilities. Could any related party convertible loans be capitalised?
- Have you spoken with your insurer over possible business interruption insurance cover? (It may be difficult to establish cover.)
- Consider the situation from your investors' point of view. Do they have new ROI policies? SaaS investors who are interested in scalable models to drive revenue are looking at how tipping in x dollars drives y revenue: are you adjusting your costs/unit metrics to best drive these outcomes in the current environment?
- Ensure your management is regularly updating the board on cash, capital and solvency positions.

Notes:

THE ECONOMIC RESPONSE

What is the impact of external policy on your cash flow position?

The wider economic response is highly changeable and ongoing.

Notes:

SUMMARY OF ACTIONS

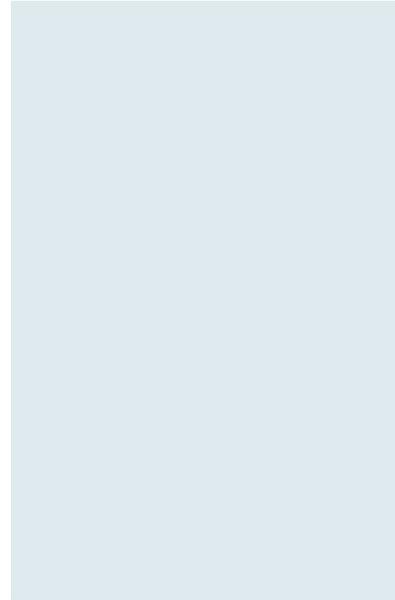
What can I do to mitigate my cash flow position?

Summarise your two or three biggest issues below, then note down how you could respond, or options to explore. Also note any sources of external support that may be required, including NZTE and third-party service providers.

Your main focus should be to try to reserve cashflow immediately; re-examine the demand and cost assumptions that drive your revenue lines, and to speak to your current funders about your situation.

My biggest issues are:

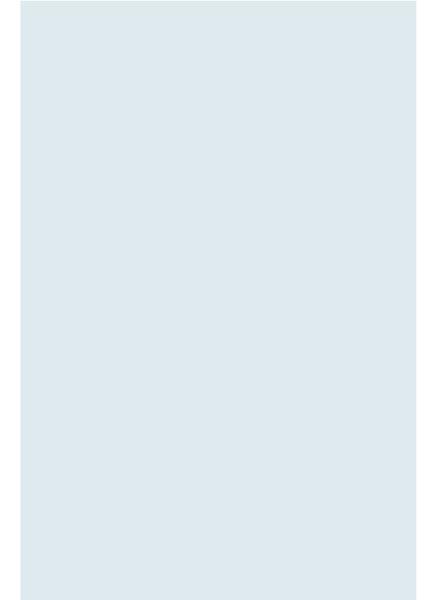
1.



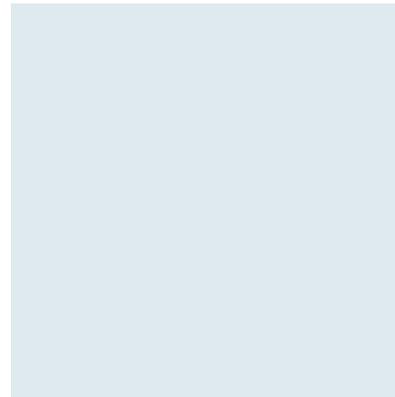
2.



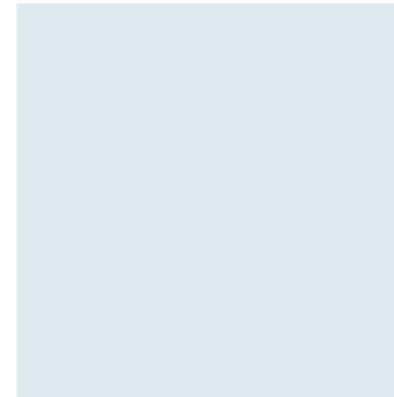
3.



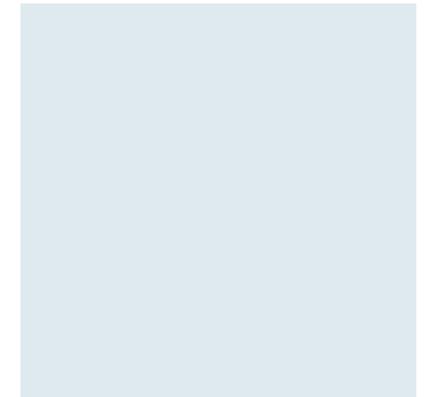
Options to explore:



Actions to take:



Sources of support:



For information for
New Zealand exporters,
visit **[covid19.nzte.govt.nz](https://www.nzte.govt.nz/covid19)**



© Copyright New Zealand Trade and Enterprise (NZTE) 2020

Disclaimer: this document is not formal business or legal advice. We recommend you seek independent advice on any matter related to the use of the information. While every effort is made to ensure the accuracy of the information, NZTE is not responsible for any loss or damage arising from the use of the information.

March 2020