Is there cash left in the Post-COVID19 world?

Cash and Working Capital Management

CFA Society Malaysia
May 2020

pwc

About us

Ganesh Gunaratnam

Leader
Working Capital Management
PwC Malaysia

Qualifications

ACCA
MIA Chartered Accountant
Years of Industry Experience: 20

Specialises in:

- Restructuring and Turnaround
- Rapid Value Creation
- Supply Chain Finance
- Working Capital Optimisation

Pawan Kankanwadi

Manager
Working Capital Management
PwC Malaysia

Qualifications

MBA – Finance and IT
Years of Industry Experience: 12

Specialises in:

- Strategic Cost Reduction
- Working Capital Optimisation
- Supply Chain Optimisation
- Procurement Transformation

Agenda

1. Basic principles of cash and WCM
2. Tell-tale signs of poor WCM practices
3. Are companies ready for the post-COVID-19 world?

1 | Basic principles of cash and WCM

“

Entrepreneurs believe that profit is what matters most in a new enterprise. But profit is secondary.

Cash flow matters most.

- Peter Drucker

Companies that went bust in recent times

Shoe Chain **Aldo** Seeks **Bankruptcy** Protection to Trim Debt
Bloomberg - 7 May 2020
Shoe Chain **Aldo** Seeks **Bankruptcy** Protection to Trim Debt. By. Eliza Ronalds-Hannon. and. Paula Sambo. May 7, **2020**, 9:54 AM PDT ...
Aldo Files for **Bankruptcy** Protection, Cites Deep Coronavirus ...
Footwear News - 7 May 2020

Car rental firm **Hertz** prepares to file for **bankruptcy** if deadline ...
straits times (press release) - 4 May 2020
NEW YORK (BLOOMBERG) - **Hertz** Global Holdings is preparing to file for **bankruptcy** as soon as Monday night (May 4) if the company fails to ...
How Carl Icahn's **Hertz Car Rental** Got Dented
Washington Post - 5 May 2020

Luxury **retailer** Neiman Marcus files for **bankruptcy** amid ...
The Star Online - 7 May 2020
Luxury **retailer** Neiman Marcus files for **bankruptcy** amid COVID-19. Corporate News. Friday, 08 May **2020**. 7:15 AM MYT. AddThis Sharing Buttons. Share to ...
Luxury **retailer** Neiman Marcus files for **bankruptcy** as it ...
CNBC - 7 May 2020

Lack of focus on cash can place any company in danger of bankruptcy even in good times!

2018

January	February	March	April	May	June
KIKO MAKE UP MILANO, A'GACI	CHARLOTTE OLYMPIA, BON-TON	THE WALKING COMPANY, Remington, claire's, Southeastern Grocers	NINE WEST	ROCKPORT	

July	August	September	October	Nov	Dec
	FALLAS DISCOUNT STORES, GUMP'S, Brookstone, SAMUELS JEWELERS		sears, MATTRESS FIRM	DAVID'S BRIDAL	

2019

January	February	March	April	May	June
GYMBOREE, BEAUTY BRANDS, SHOPKO	charlotte russe, Payless SHOESOURCE, FULLBEAUTY BRANDS, THINGS REMEMBERED	ZGALLERIE, DIESEL	SONIA RYKIEL, roberto cavalli	HOLLANDER SLEEP PRODUCTS	FTD

July	August	September
charming charlie	BARNEYS NEW YORK, A'GACI avenue	fred's, sugarfina, FOREVER 21

Source: CB Insights

Cash flow management is a reality irrespective of a company's situation

Cash flow vs Cash burn

A 13 week cash forecast is relevant across all situations

1
- Sustaining the future - focus on automation, process optimization and centralization
- Be proactive - Improve governance and visibility

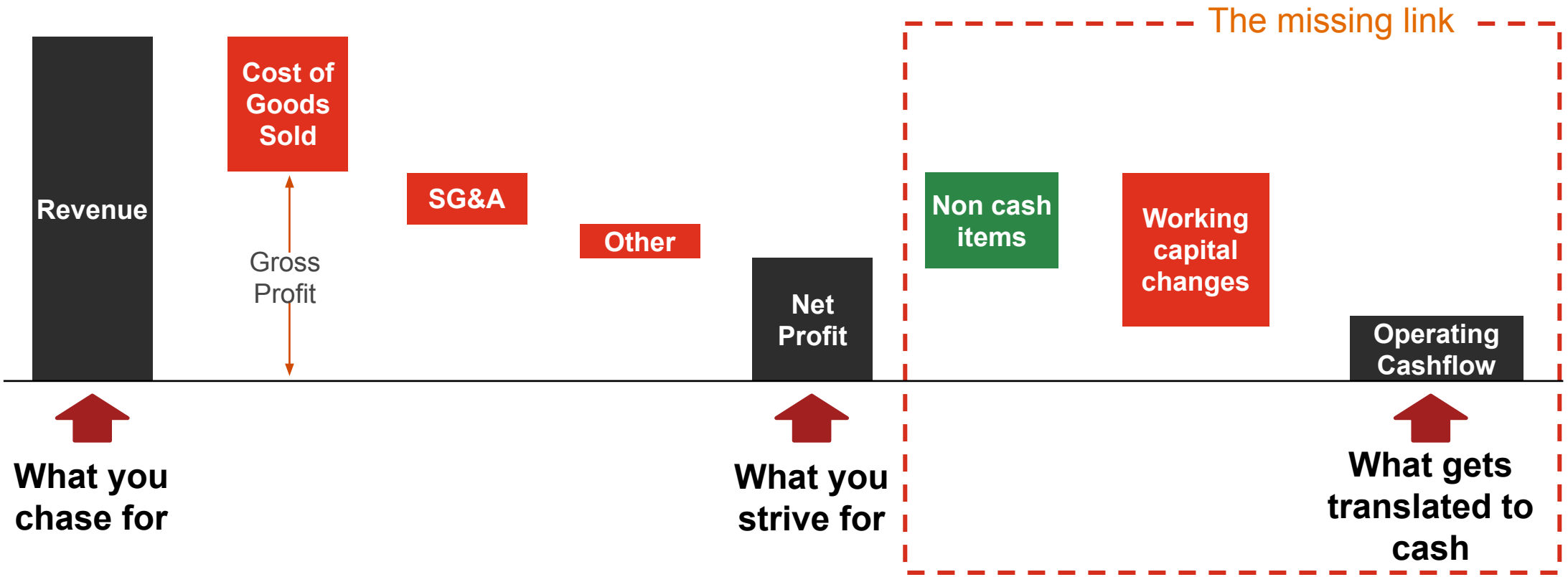
2
- Optimize contractual management - customers and suppliers
- Cash culture & zero based budgeting
- Improve processes - effectiveness & efficiency

3
- Focus on collections, cut costs & release trapped cash
- Mid/long term improvements - operational initiatives
- Long-term improvement program to deliver sustainable improvements

4
- Focus on being EBITDA positive
- Reduce cash leakage & cost burn
- Tighten control & compliance
- Implement quick fixes to fund longer term optimization

5
- Rapid improvement programs – cost & cash
- Defer payments, in a sustainable manner
- Early payment discounts to reduce AR

How do you know your profits are turning to cash?



Cash may be the last thing you see, but it's the first thing you need

An illustration - Are your profits turning to cash?

RM in millions	2015	2016	2017
Revenue	84	88	100
Profit after tax (PAT)	2	(0.2)	3
+ *Adjustments (e.g. depreciation, writeoffs)*	5	7	8
Operating cashflow before changes in working capital	7	7	11
+ *Changes in working capital*	(11)	(17)	(41)
Operating Cash Flow (OCF)	(4)	(10)	(30)
OCF / PAT	-2X	-50X	-10X

More growth ≠ More cash flow

Myth vs reality of working capital management

Perception		Reality
▪ Is purely a finance issue	⟷	▪ Is mainly an operational issue
▪ Is a balance sheet item	⟷	▪ Impacts P&L
▪ Is improved only with securitisation or systems implementation	⟷	▪ Is improved with new policies, processes and metrics
▪ Has a negative impact on customer service (collect early, push product out and pay late)	⟷	▪ Improves customer service (pay, deliver and collect according to negotiated terms
▪ Generates little benefit	⟷	▪ Is one of the fastest ways to enhance shareholder value

Back to basics: What is working capital? The balance sheet view

Balance Sheet

	RM million
Fixed assets	1,355
Current assets	
Stock	315
Debtors	505
Current liabilities	
Creditors	(283)
Customer discounts	(47)
Net working capital	537
Other assets and liabilities	(35)
Cash	263
Loans	(2,314)
Reserves / net assets	(194)

Stock

(raw materials, WIP and finished goods)

+

Debtors

(money owed to us for our products)

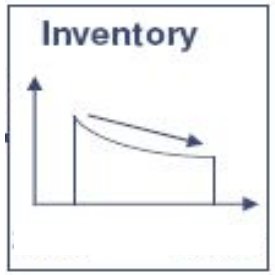
-

Creditors

(money we owe for our purchases)

=

Working capital requirement

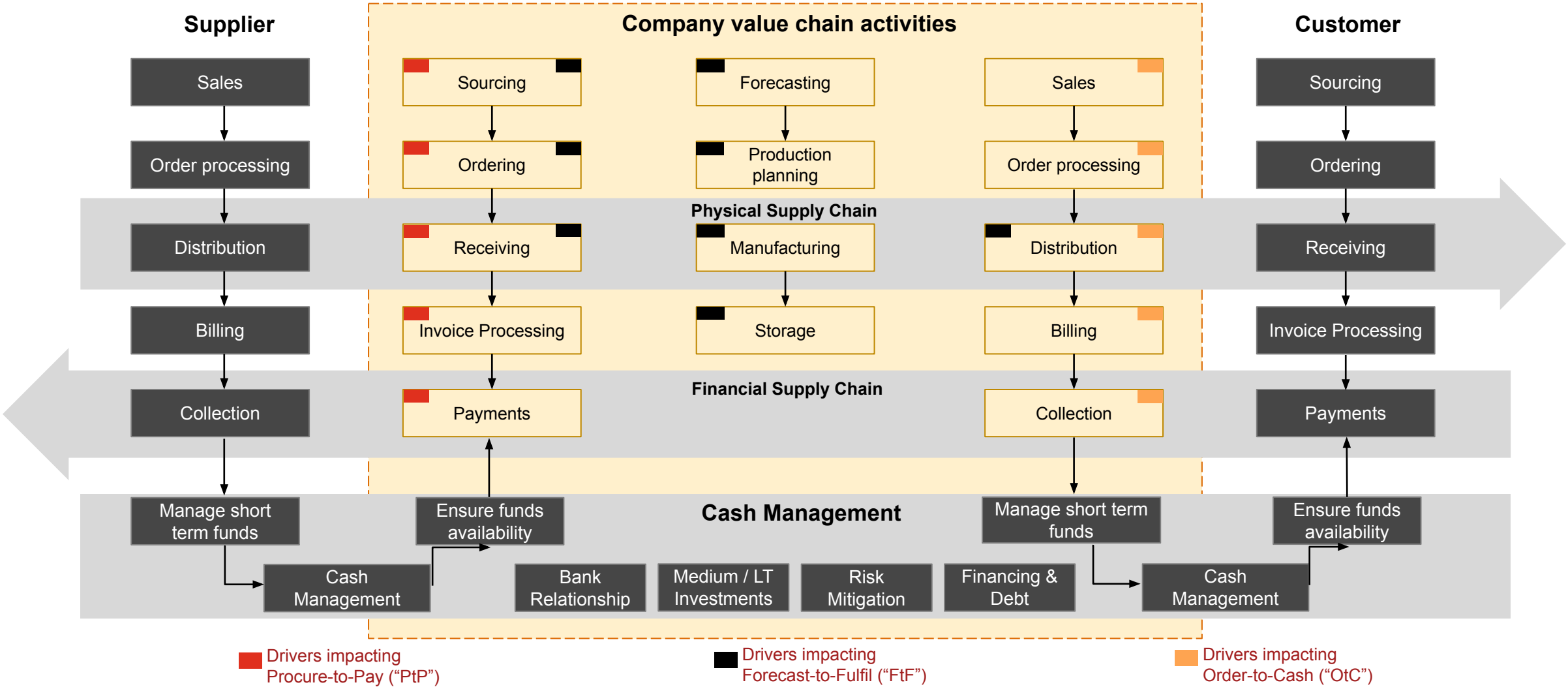


Days Inventory Outstanding

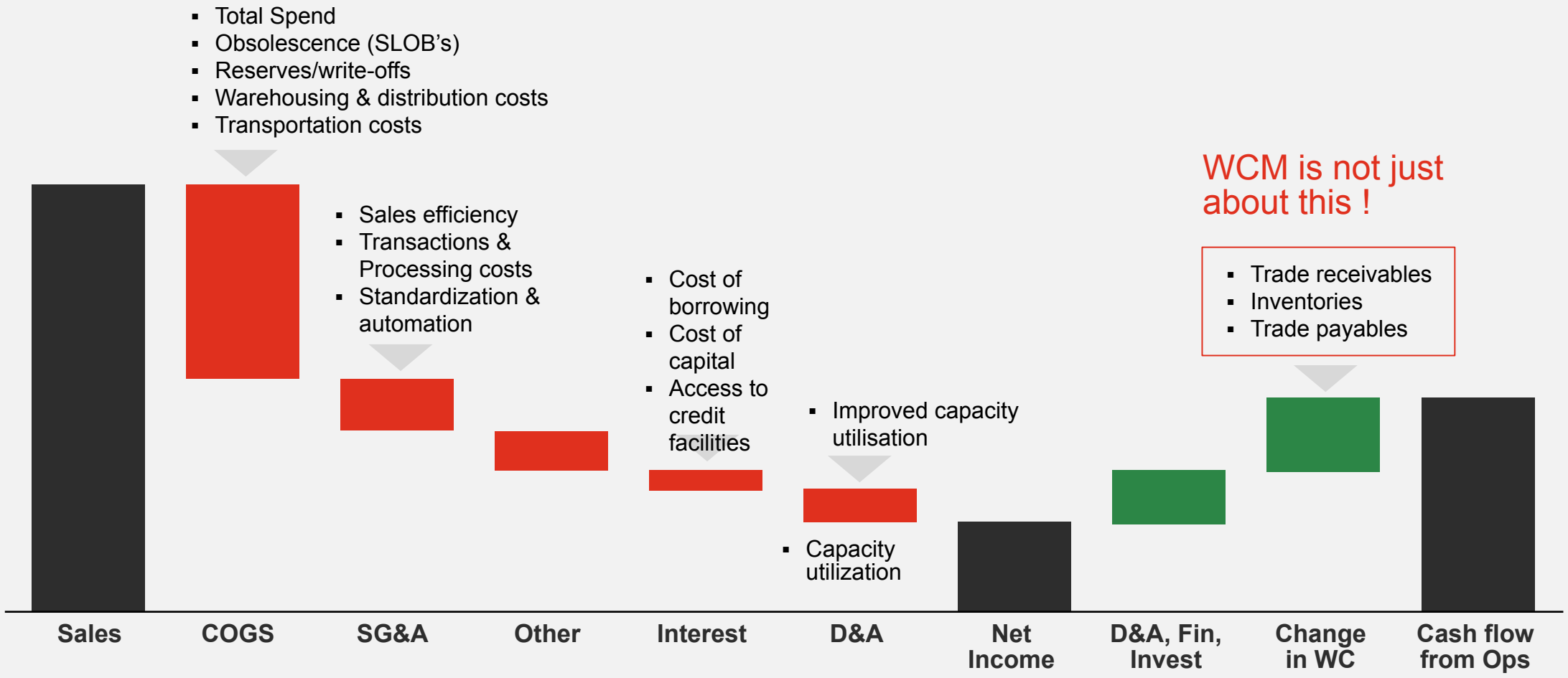
Days Sales Outstanding

Days Payables Outstanding

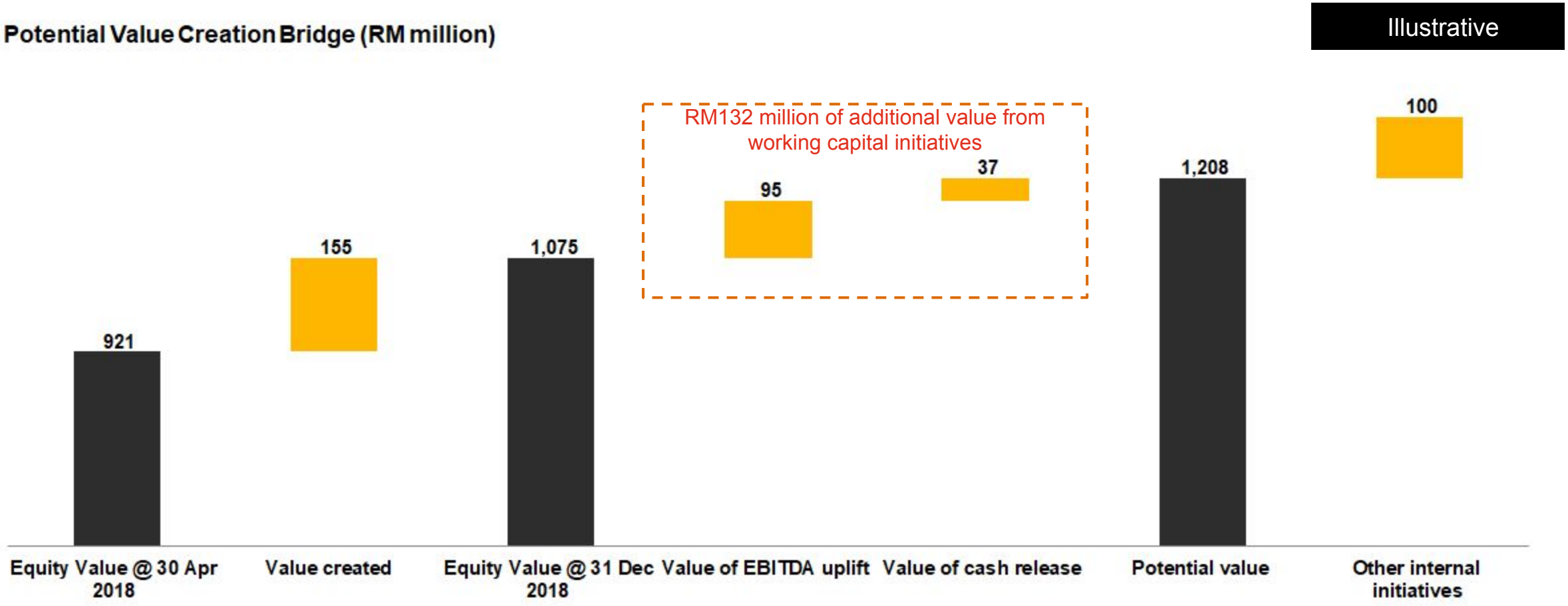
This is what cash and working capital management is all about. The operations view



So, are your profits turning into cash?



Working capital initiatives help increase the Equity Value of a business



2 | Tell-tale signs of poor cash and WCM

We were always focused on our P&L statement. But cash flow was not a regularly discussed topic.

It was as if we were driving along, watching only the speedometer, when in fact we were running out of gas.

- Michael Dell

Tell tale signs of poor working capital management

General Cash & Working Capital

- Short of cash
- Poor cash conversion efficiency (Operating Cash Flow/ Net profit)
- Poor visibility of Cash & Working Capital performance
- Cash forecast owned by finance only
- Working Capital exceeds 15% of sales

Inventory

- High DIO but low availability
- Poor stock visibility / demand forecast
- Empty shelves / stock in aisles
- Over 5% of inventory over 90 days old
- Over 40% of inventory 30-90 days old
- Annual inventory write off >5% of COGS

Account Payables

- DPO lower than DSO / peers
- Lack of visibility on Spend and Contract Compliance
- Early / late payments
- Numerous “exceptional” payments made
- Retrospective Purchase Orders
- Large spread and variation from standard payments terms

Account Receivables

- Overdue receivables > 10%-15% of total AR
- DSO higher than peers
- Unbilled receivables >1 day (without reason)
- Level of write-off >0.5% of sales

A hierarchy of KPIs can be used to measure various aspects of working capital

Financial KPIs	OWC in Percent of Revenue (%LQR)								
	Days Operating Working Capital (DOWC)								
	Days Inventories Outstanding (DIO)			Receivables Days Sales Outstanding (DSO)			Days Payables Outstanding (DPO)		
Operational KPIs	OTIF Delivery	Consignment in % vs Stock	Supplier Service Levels	Average Credit Days	Overdues in % A/R	Bad Debt Recovery Rate	Average Supplier Credit Days	Amount Paid Pre Due	Suppliers Below Target Terms
	Share of MTO Products	Number of Stock-Outs	Stock Turnover	Invoicing Errors	Unallocated Cash	Non Bank Transfer Payments	Volume Under Dispute	Unallocated Invoices	Discounts Used
	Cycle Time	SLOBs %	…	Most Wanted Customers	Receivables Unbilled in Percent A/R	…	Share of Top 10 Suppliers	Supplier OTIF Service Level	…

3 | Are companies ready for the post-COVID19 world?

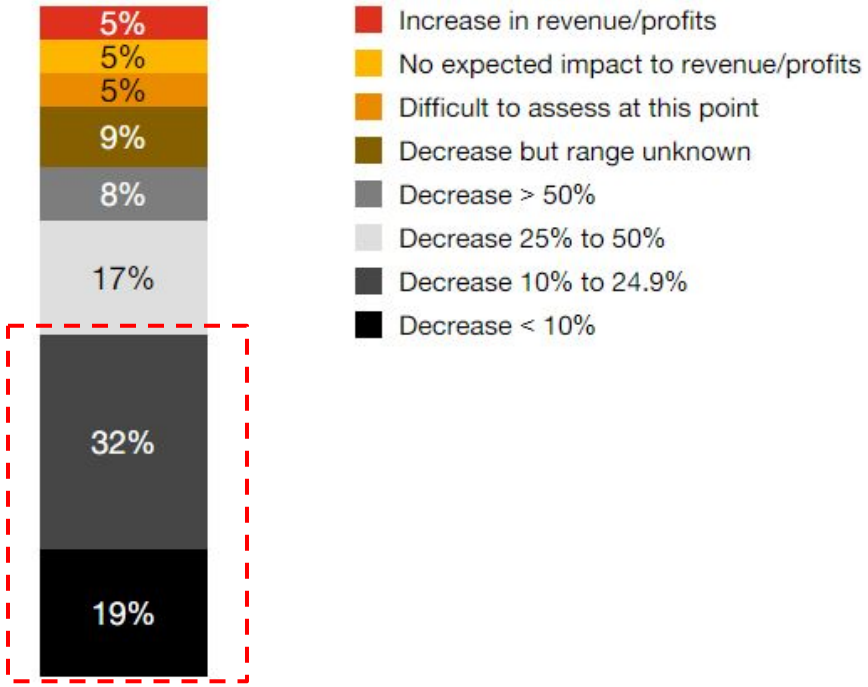
“

You must gain control over your money or the lack of it will forever control you

- Dave Ramsey

Revenues are expected to be impacted across most industries…

What impact do you expect on your company's revenue and/or profits this year as a result of COVID-19?

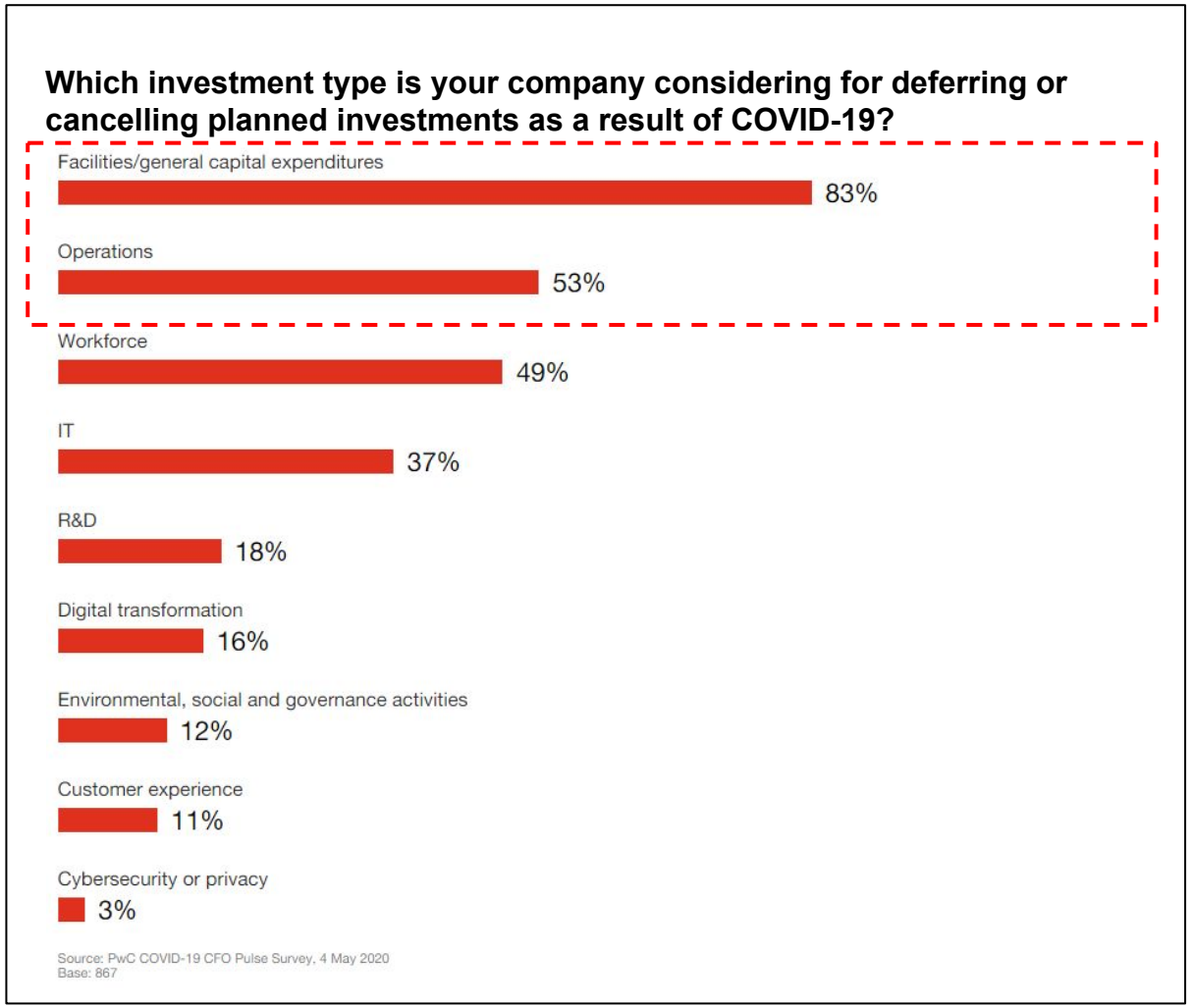


:e: PwC COVID-19 CFO Pulse Survey, 4 May 2020
867

Results from PwC's CFO COVID-19 Pulse Survey - released 4 May 2020

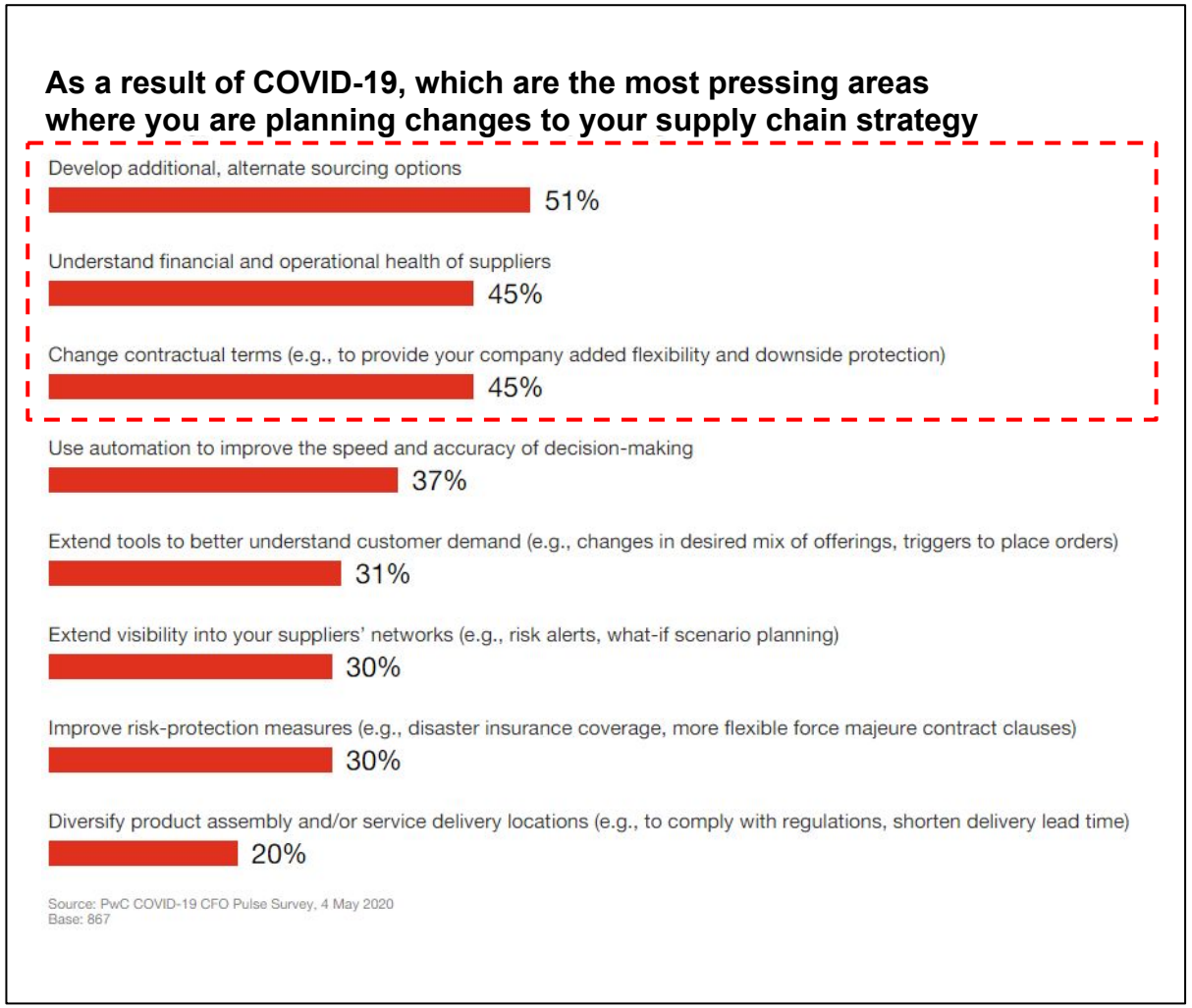
Half of CFOs expect a decrease of up to 25% in revenue as a result of COVID-19

… as investments dry up



Many CFOs are expected to cut or defer capex investment, mainly related to facilities and operations

… and buying strategies are tightened



Many CFOs plan to:

- **Understand financial and operational health of their supply base**
- **Develop additional sourcing options and introduce flexible contractual terms**

What can you do to survive?

1 Conserve Cash

- Establish visibility
  - 13-week cash flow
  - Cash zero day
  - Scenario analysis
- Take control

2 Explore Funding Options

- Internally from operations
- Banks
- Alternative financing
- Shareholders

3 Execute Quick Wins

- Supplier rationalisation
- Right-size inventory
- Collect and pay as per contracted terms
- Defer or stop non-essential spend
- Defer capex and divest non-core assets
- Leverage Government programmes

13-week cash flow forecasting during a crisis situation

13-Week Cash Flow

- **Operating Cash Flow**
- **Investing Cash Flow**
- **Financing Cash Flow**

Business as Usual (BAU) mode	Crisis mode
Assumptions based on past data	Data-driven based on new realities
Prepared mainly by Finance	Cross-functional inputs are critical
Monthly/quarterly cash visibility	Drill down to weekly cash position
Cash flow forecast used primarily for treasury management	Integrated purpose; to identify cash burners & cash generators

- Visibility on cash
- Cross-functional
- Single source of truth
- Warning and alerts
- Informed decision-making

Illustrative 13-week rolling cash flow forecast

Navigator

Summaries
- 13 week dashboard
- Actual dashboard
- Forecast vs Forecast
- **Summary cash flow**
- 12 week comparison
- Act vs Prior Forecast
- Current vs Prior

Tables
- Current Forecast
- Prior Forecast
- AR Ledger
- AP Ledger

Operations
- Line areas
- File import
- Input 1

Consolidated 13 week short term cash forecast & actuals

£'000

Month	April	April	April	April	May	May	May	May	May	June	June	June	June	July	July	July	July	July	August	August	August	August	September	September	Forecast
Actual / Forecast indicator	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	period total
Week ended	03 Apr	10 Apr	17 Apr	24 Apr	01 May	08 May	15 May	22 May	29 May	05 Jun	12 Jun	19 Jun	26 Jun	03 Jul	10 Jul	17 Jul	24 Jul	31 Jul	07 Aug	14 Aug	21 Aug	28 Aug	04-Sep	11-Sep	
Balance B/F	44,448	31,7							19,713	19,438	11,264	580	27,758	10,217	(913)	(9,712)	55,373	(6,106)	(6,381)	(8,416)	56,142	27,118	(4,750)	(66,229)	580
Receipts (inflows)																									
DoH - National RTT, ED Monies & Project Diamond	0								0	117	0	1,392	(408)	0	0	339	0	0	284	545	0	358	0	0	2,510
Health Boards	0								0	0	0	0	10,735	219	0	159	0	0	0	0	0	0	0	0	11,113
LSB - Financial Investment CY	52	3							(43)	483	313	161	(175)	301	43	92	10	(43)	159	231	0	185	10	(43)	931
LSB receipts	166	2,7							35	2,553	2,737	33,942	1,790	179	3,302	33,464	542	35	656	36,455	2,329	144	542	35	113,415
NHSE Inflows	31								19	39	10	46	403	10	57	35	39	19	20	42	37	7	39	19	773
Non NHS Bodies	114								21	37	0	64	2,105	169	0	2	0	21	3,463	3,433	171	3	0	21	9,452
Other	650	3							148	4,088	363	28,426	153	606	4,073	26,711	1,109	148	1,213	31,384	3,301	4,146	1,109	148	103,127
Patient SLA Overperformance	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Patient SLA Overperformance - Proir FYs	21	1							28	45	105	148	410	197	35	177	58	28	403	308	108	123	58	28	2,141
Patient SLA Overperformance - Current FY	0	5							3	17	530	60	0	0	21	253	2	3	37	204	43	121	2	3	809
Private Patients receipts	1,282								7,206	207	0	8	687	755	0	(46)	0	7,206	1,831	486	304	73	0	7,206	19,110
SLA receipts	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Training & Education receipts	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT reclaims	0	169	0	0	0	0	0	0	0	0	169	0	0	0	0	0	0	0	0	0	0	56	0	0	56
Total Receipts	2,316	4,227	64,247	15,700	2,436	7,591	61,186	1,760	7,417	7,646	4,227	64,247	15,700	2,436	7,591	61,186	1,760	7,417	8,126	73,688	6,893	5,216	1,760	7,417	263,437
Payments (outflows)																									
AAH	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Abu Dhabi clinical salaries	9,881	7,733	33,568	31,459	12,918	8,443	11,428	58,527	9,734	10,180	1,105	28,102	25,269	4,708	2,151	5,319	51,533	5,369	2,922	1,622	23,460	28,778	51,533	5,369	236,135
Agency Spend	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Agency Spend (Agency)	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
AR / AP Net off payments	5,094								0	5,195	0	2,871	1,336	500	4,447	0	4,635	0	4,766	0	4,069	0	4,635	0	27,319
Consultants' Fees	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NHSLA Clinical Negligence	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-pay Direct Debits (leases, rates)	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pathology	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pay monthly (incl Pay Awards)	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PAYE/NIC/SUPER (CHAPS)	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PFI project	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Restructuring costs	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sainsbury's	0								0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Trade Creditors	0								0	0	11,970	5,466	6,190	8,210	6,292	6,174	7,025	4,365	6,885	6,975	7,932	7,047	7,025	4,365	83,951
Total Payments	14,975	7,73							9,734	15,375	13,075	36,439	32,855	13,418	12,890	11,493	63,193	9,734	14,573	8,597	35,461	35,825	63,193	9,734	347,405
Cash from operations	#####	(3,50							(2,317)	(7,729)	(8,848)	27,808	(17,155)	(10,982)	(5,299)	49,693	(61,433)	(2,317)	(6,447)	65,091	(28,568)	(30,609)	(61,433)	(2,317)	(83,968)
Capital & Financing Items																									
Capital expenditure (outflow)	50	1,836	641	386	150	3,500	184	46	459	445	1,836	641	386	150	3,500	184	46	459	588	541	456	1,259	46	459	8,715
Capital gross exp (Donated)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Income (Donated)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Indemnity Funding (inflow)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on Loans (outflow)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(5,000)	0	0	0	0	0	(5,000)
Interest Paid on Overdraft	0	0	0	0	0	0	0	0	(2,500)	0	0	0	0	0	0	0	0	(2,500)	0	0	0	0	0	(2,500)	(5,000)
Interest Paid on Revolving Credit Facility	0	0	0	0	0	0	(15,567)	0	0	0	0	0	0	0	0	(15,567)	0							0	(15,567)
Loans Repaid (outflow)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0							0	0
LSB CCGs - Financial Advance 15/16 (inflow)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0							0	0
Other (inflow)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0							0	0
PDC Dividends (TDR) (outflow)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0							0	0
PDC Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0							0	0
Receipts from sale of Capital Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revolving Working Capital Facility	(2)	0	(11)	0	(2)	0	(3)	0	(1)	0	0	(11)	0	(2)	0	(3)	0	(1)	0	(8)	0	0	0	(1)	(32)
Total Payments	48	1,836	630	386	148	3,500	#####	46	(2,042)	445	1,836	630	386	148	3,500	(15,392)	46	(2,042)	(4,412)	533	456	1,259	46	(2,042)	(16,884)
Net Inflow / Outflow	(12,707)	(5,342)	27,178	(17,541)	(11,130)	(8,799)	65,085	#####	(275)	(8,174)	#####	27,178	(17,541)	(11,130)	(8,799)	65,085	(61,479)	(275)	(2,035)	64,558	(29,024)	(31,868)	(61,479)	(275)	(67,084)
Forecast Balance C/F	31,741	26,399	53,577	36,036	24,906	16,107	81,192	19,713	19,438	11,264	580	27,758	10,217	(913)	(9,712)	55,373	(6,106)	(6,381)	(8,416)	56,142	27,118	(4,750)	(66,229)	(66,504)	(66,504)

Integrated - Owners assigned to each line item

Detailed - Payments classified by essential & non-essential

Data driven - Cash Zero Day

PwC case study - consumer durables manufacturing

Client context

Growing revenues:

- >RM600m in revenues
- Healthy order book
- Exports to 3 continents contribute to 80% revenues
- 3 large manufacturing units

Reducing cash pool:

- Operational inefficiencies
- Very high inventory
- High cash burn
- Unable to make timely payments to creditors

What we did

1. Deployed a 13-week cash flow forecast tool
2. Set up a cross-functional cash conservation management office
3. One-plan approach
4. Improve inventory flow-through
5. Improve cash collections & cash advances
6. Standardised SKUs
7. Supplier rationalisation

Project outcomes

Improved cash visibility

Averted and deferred "cash zero day"

Informed decision making by management led to reduction in cash burn

PwC case study - construction company

Client context

The Client was a USD6+ Bn conglomerate

Manual processes, lack of 'first time right' documentation, absence of integrated IT systems, repeated follow-ups & process iterations and lack of internal & contractual SLAs were leading to collection delays

Financials (In USD)	FYXX
Revenue	6.4Bn
Revenue per day	17.4Mn
Outstanding (Receivables)	3.2Bn
% of revenue	50%
Unbilled Revenue	1.6Bn
% of revenue	26%
Gross Outstanding	4.8Bn
% of revenue	**75%**

Metrics (Days of revenue)	FYXX
DSO (Days Sales Outstanding)	180
UBR (Unbilled Revenue Days)	94
Total Days	274

What we did

1. Baselined current processes and metrics around Time to Invoice, Time to Collect, DSO and UBR

2. Implemented solutions to drive
   - system enabled process simplification & standardization
   - contractual controls and standardisation
   - robust AR governance structure and dashboards

3. Recommended contract T&C and billing schedule formats

Project outcomes

The 26% reduction in Receivable days

Released $820 mn cash

Approx. $100 mn P&L impact via interest cost reduction

Thank you

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Understanding the Client Operations

The Client had the strongest retail footprint by far, but it faced tough challenge from competitors

Parameters	Our Client	Compete 1	Compete 2	Compete 3	Int'l Compete 1
Brand strength*	84 year old legacy and presence in over 500 cities	Created segmented brands with different brand ambassadors.	Though well-known is limited in size and presence.	Has in the past used celebrities as brand ambassadors and well known in urban centres.	Global brand; collection of footwear including specific casual range has made it a USD210 mn brand.
10 year revenue CAGR	14%	21%	15%	14%	31%
Days inventory outstanding	**237**	**105**	**168**	**177**	**156**
No. of stores	1400	225	550	305	400
Brand strength*	Moderate	Moderate	Moderate	High	High
Brand investment as a % of sales	1%	8%	5%	4%	NA
Ability to withstand competition*	Around 13% of portfolio and any high value product vulnerable to more aspirational brands; high fixed costs at 35% of sales	Average selling price of USD3 per pair and catering to low value categories and has limited store network - no immediate threat	Vulnerable as availability of foreign brands at similar price points is high	Popular brand online as well as offline. Moreover it has smaller but very efficient store network	Contemporary store design appeals millennials Derives nearly 30% of revenues from E-commerce

* As per 3rd party Brand audit conducted by leading media agency for the Client