



Has All This Change Stressed You Out?

It looks like COVID-19 issues will continue to affect business for the foreseeable future. In our previous column, we introduced a cash-flow management tool. We hope you were able to download the tool and instructions.

Having created your detailed 13-week cash-flow model, you will want to consider a longer-term (most use 12-month) income statement projection model. The projection should look like your regular monthly financial statements, statement of operations, balance sheet, etc. As with the 13-week model, get your advisors (like FocusCFO) to help if this is not your strong suit. Remember, the hard part is creating the model. Once the models are created, they are

easy to maintain.

Let us assume you have annual budgeted financial statements for 2020. Then COVID-19 hits. Things have changed! None of us really know what the future holds, but stress-testing the annual model is a way to see what the future might look like. If “X” happens, what is the impact on your revenues, expenses, etc.? What is your plan of action?

Financial Stress Tests

Stress-test the business for multiple revenue scenarios. We want to understand what our finances look like at 75%, 50% or even 25% of historic levels so we know what changes will be necessary at each level. This analysis

is equally important if you model for revenue increases.

The stress test is going to lead right back to a cash-flow analysis. At the new premised revenue levels, you want to determine your projected cash burn rate, working capital needs, and impact on debt and leases. For several scenarios (worst case, best case, most likely case are most used), generate a projected income



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<https://www.focuscfo.com/resources-recovery>

statement and a balance sheet to see future cash balances and to determine impact on debt covenants.

Some of the things you will need to consider are shown below. Assemble your team and consider your business as it is now.

- Assess the effects of new health standards such as staff distancing
 - What are the additional costs of public health compliance?
- Assess your customers
 - Are they still in business or also re-starting?
 - What volume of business can be anticipated?
 - What if customers extend their payment terms?
 - What if demand falls and/or a key customer goes out of business?
- Assess your supply chain
 - Can your vendors support your restart?
 - Can they supply client critical requirements?
 - Do vendors and creditors have new payment terms and/or longer delivery times?
 - What if a key supplier goes out of business? Have you identified alternatives?
 - Has shipping of products or receipt of supplies/raw materials changed?
- Assess current inventory levels and requirements
- Assess and determine what it will take to get your equipment back on line

- Are there additional costs to restart?
- Is the workforce available and willing?

- Assess variable costs
 - Can they be reduced (particularly headcount)?
- Assess fixed costs
 - Can they be renegotiated, or is the underlying asset sold?

The answers to these questions will be a range of possibilities that can give you direction on potential adjustments you may need to take.

Share this information with the team and prepare a summary plan of action. Strive to be approximately correct rather than precisely wrong. We recommend keeping your banker in the loop; surprises to your bankers are especially poor in an economic downturn. You will want to hear their thoughts and give them some reassurance that you are prepared as the future unfolds. If the facts warrant it, this may be a time to talk to the bank about financing. You may find them willing to work with clients that are planning for the future.

Remember: No one plans to fail, but those who don't plan fail. ❖



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