

# Navigating Through Uncertainty



**A FOUR-PART WEBINAR SERIES ON COVID-19**



**WEBINAR #2**

*April 8, 2020*

# Crisis Cash Flow Planning and CARES Act Updates

# Welcome

**Andrea P. Sardone**  
*Director*  
*Today's Moderator*



# Introduction

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**Alex Crawford, CFP®, CIMA®**  
*Portfolio Manager,  
Wealth Advisor*



**Derek Hess**  
*Associate Wealth Advisor*

# What has changed since last week?

**Rob Klingensmith**  
*Partner*

**Consulting Line Leader**



# What should I be thinking about now?



# What should I be thinking about now?



**#1**

**NEGOTIATE  
WITH YOUR  
LENDER(S)**



**#2**

**PAYCHECK  
PROTECTION  
PROGRAM (PPP)**



**#3**

**SBA ECONOMIC  
INJURY DISASTER  
LOAN (EIDL)**



# What should I be thinking about now?

- 1) Negotiate on existing loans
- 2) Apply for the Paycheck Protection Program (PPP)
- 3) Analyze cash flow, forecast using multiple scenarios, and execute as necessary
- 4) Furlough strategy - employees can get enhanced unemployment insurance for up to four (4) months
- 5) Economic Injury Disaster Loan (EIDL) program – what do you need to qualify?
- 6) Consult with experts to consider strategies to survive the crisis

**So many changes in such a short period of time!**  
*What's next?*



# Paycheck Protection Program

## 1. Do I calculate the loan amount the same way?

- Salary or wages capped at \$100,000 BUT retirement benefits, healthcare premiums, and payment of state/local taxes can be added on top
- Payroll costs calculated on gross basis without regard to federal taxes imposed or withheld
- No 1099s can be included in the calculation
- Average employee count for the period you choose to calculate payroll (2019 or previous 12 months) OR the SBA standard which is the 12 calendar months completed before you apply

# Paycheck Protection Program

## 2. How have the loan terms changed?

Interest rate is 1% now with a 2 year term and  
6 month payment deferral for 6 months  
(interest accrues)

**1%**

# Paycheck Protection Program

## 3. How are the banks handling the demand?

Doors may start closing...Wells Fargo has ceased accepting applications. *(This may be related to sanctions stemming from their scandals.)*

Bankers are not always providing accurate information.

Online application process might be confusing (THE GOAL IS TO GET IN THE DOOR!!)



# EIDL - SBA Economic Injury Disaster Loan

- **If you received funds from an EIDL application BEFORE April 3<sup>rd</sup>**, you can use the funds in concert with PPP proceeds AS LONG AS funds from the EIDL are not used for payroll costs. If the EIDL was used for payroll costs, then you must use the PPP loan to refinance the EIDL loan.
- The SBA has indicated they will defer loan payments for 12 months.

# CARES Act & Families First Coronavirus Response Act



**Kasey M. Pittman, CPA, MSA Tax**

*Senior Manager, Tax*



# CARES Act & Families First Coronavirus Response Act



PHASE I



PHASE II



PHASE III



PHASE IV



## Paycheck Protection Program (PPP)

### What's next?

- Origination
- Uses
- Forgiveness
- Loan



## What if I have over 500 employees?

- 2% Loan
- Employee Retention Credit
- Deferral of Employer FICA

## Families First

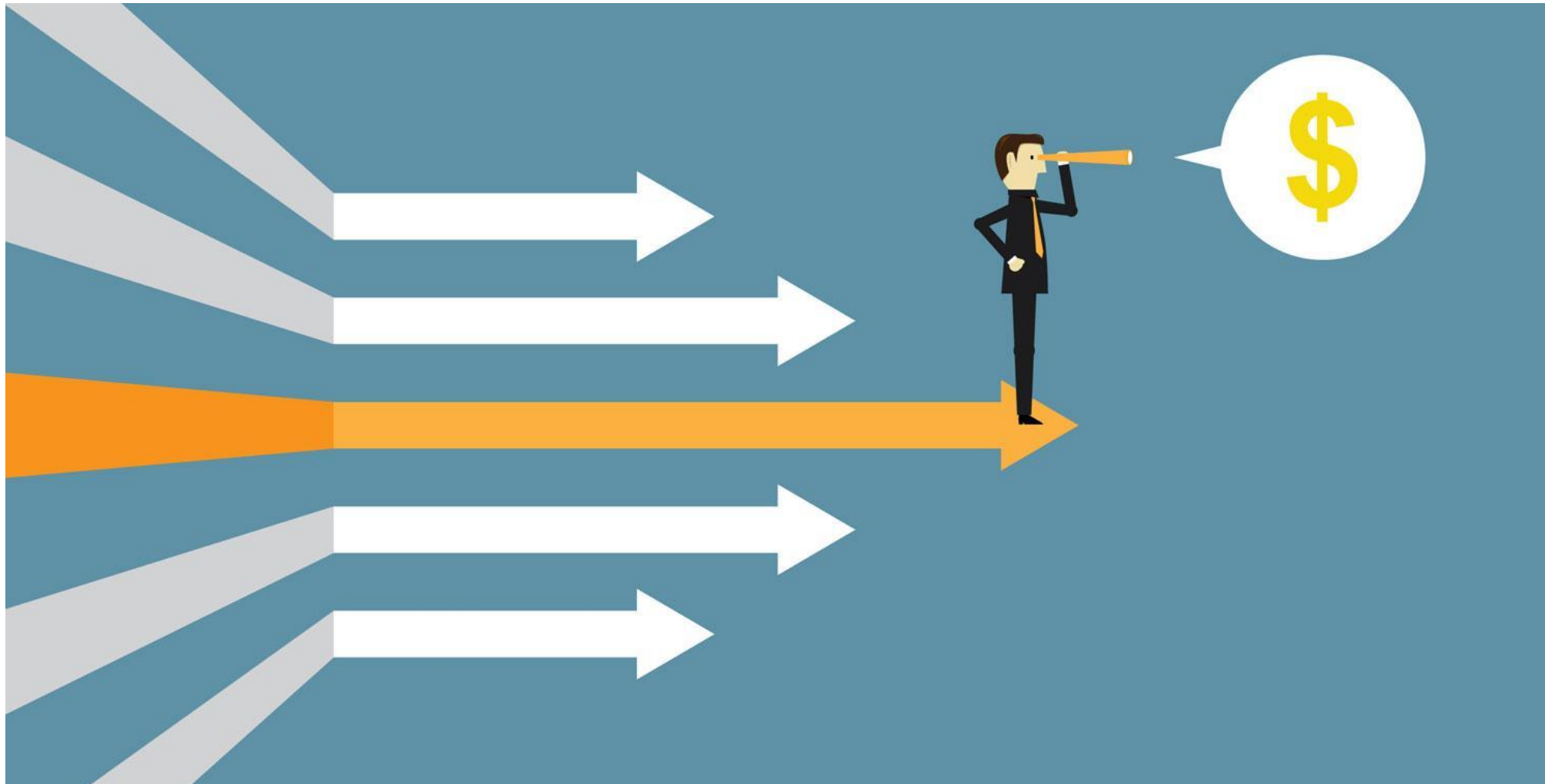
- Emergency Paid Sick Leave
- Expanded FMLA



CARES Act & Families First Coronavirus Response Act



## TCJA Changes: Opportunities to Amend



# CARES Act & Families First Coronavirus Response Act



## Individual Provisions

- Unemployment Insurance
- Recovery Rebates



# Cash Flow Forecasting

**Enrique C. Brito, CFA, CVA,  
CM&AA**

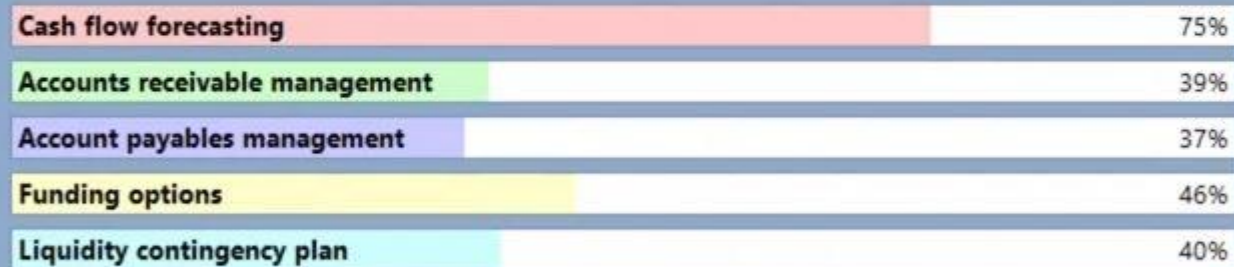
*Managing Director*  
**Transaction Advisory Services**



QUICKPOLL

## 5. Which component(s) of a liquidity plan are your highest priority? (select all that apply)

Poll Results (multiple answers allowed):



# Overview

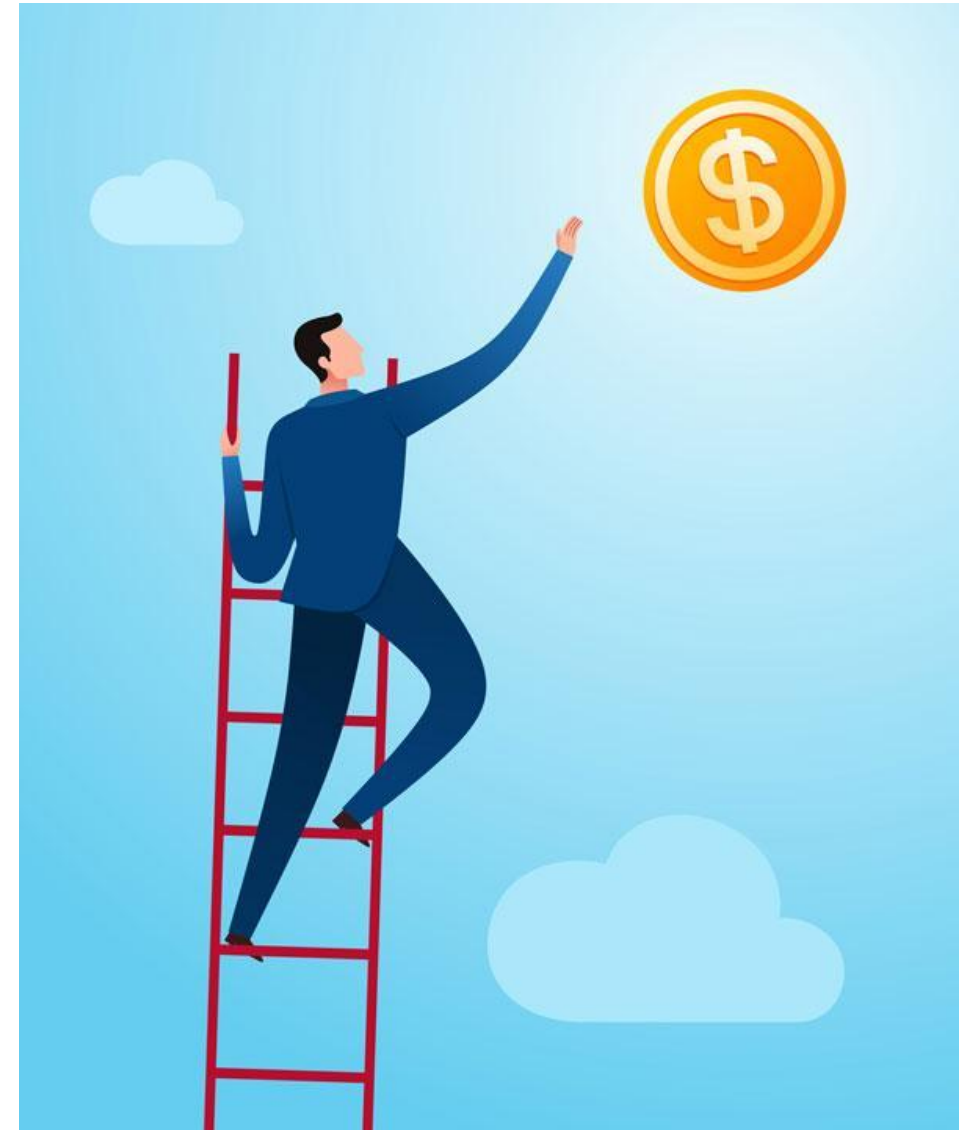
- **Cash is the lifeblood of a business.**
- Cash flow forecasting is a vital business planning tool:
  - ✓ *Determine optimal liquidity levels*
  - ✓ *Better allocation of resources*
  - ✓ *Better deal with unexpected market changes*
- Time horizon: 1 year - weekly for 13 weeks, then monthly for 9 months.
- It's not uncommon for a business to experience a cash shortage, even when sales are good due to credit policies.





# Benefits

- **Minimizes liquidity risk** – the inability to meet short term obligations.
- **Enables planning in advance** for cash shortages thus mitigating their impact.
- **Helps guide business decisions** that lead to improved efficiencies and optimized working capital management.
- **Highlights trends** in cash inflows and outflows.
- **Improves relationships and reputation** with employees, vendors, financing sources and shareholders.



# Things to Keep in Mind



- **Seasonal fluctuations in sales and collection cycles** (account for week-of-the-month and day-of-the-week effects).
- **Account for months** with three payroll periods.
- **Remember annual payments** (e.g. insurance premiums, software subscriptions, etc.).
- **Include estimated tax payments** (Apr., Jun., Sep., Jan.).
- **Inherent long-term uncertainty** (using historical data to predict future results; use a rolling 12-month forecast).
- **Avoid developing a cash flow model in isolation of the balance sheet and P&L.**  
The rigor of balancing the interaction between these two financial statements increases assurance that the cash forecast is realistic.

# Develop Key Assumptions

- Develop two scenarios: baseline and worst case

US\$ '000	Actual				Forecast			
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
<b>Revenue Assumptions</b>								
Existing clients	13,360	16,513	18,772	20,550	22,194	24,413	28,075	32,287
Existing clients growth rate	38%	24%	14%	9%	8%	10%	15%	15%
New clients	3,340	4,657	5,928	6,850	7,535	8,439	10,127	12,659
New clients growth rate	38%	39%	27%	16%	10%	12%	20%	25%
<b>Operating Assumptions</b>	16,700	21,170	24,700					
Cost of Revenues								
Fixed costs	353	412	453	508	525	550	575	600
Variable costs	42%	39%	37%	37%	33%	33%	33%	33%
Gross Margin	58%	61%	63%	63%	63%	63%	63%	63%
Operating Expenses								
Fixed expenses	836	1,060	1,237	1,372	1,500	1,550	1,600	1,650
Variable expenses	18%	17%	18%	21%	21%	21%	21%	21%
Operating Margin	35%	39%	40%	37%	38%	38%	38%	38%
<b>Tax Assumptions</b>								
Effective tax rate	18%	25%	22%	27%	27%	27%	27%	27%
<b>Working Capital Assumptions</b>								
Inventory turnover	6	5	5	5	5	5	5	5
Days Sales Outstanding (DSO)	8	7	8	8	8	8	8	8
Days Payable Outstanding (DPO)	41	36	39	43	40	40	40	40
<b>Capex Assumptions</b>								
Maintenance Capex (depreciation)	420	400	450	460	477	490	512	526
Growth Capex ( $\Delta$ Rev/Capex)	1.7	1.2	0.7	0.7	1.0	1.0	1.0	1.0

# Develop the P&L Forecast



The P&L forecast is derived from the operating assumptions.

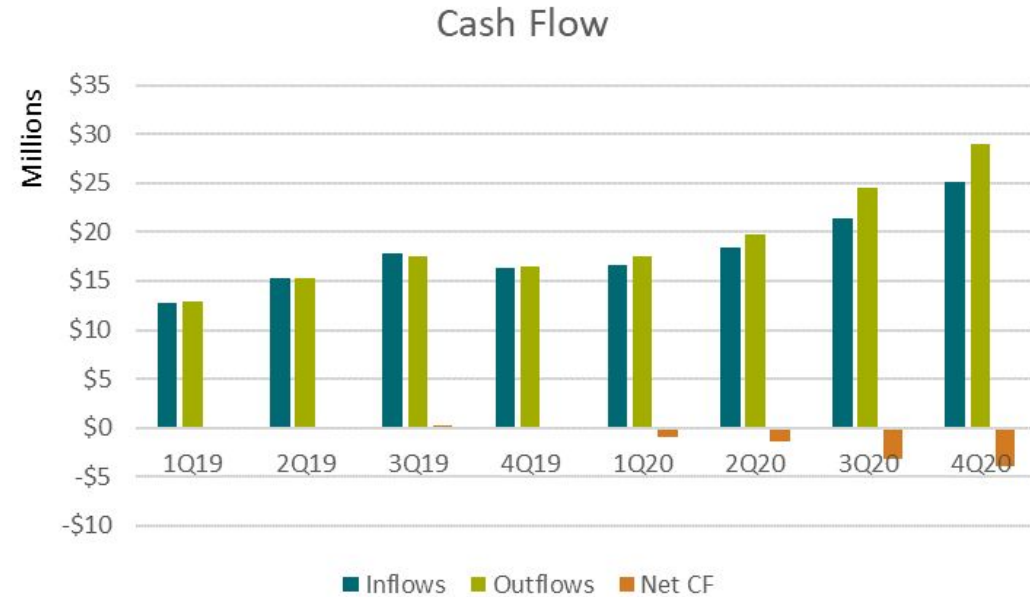
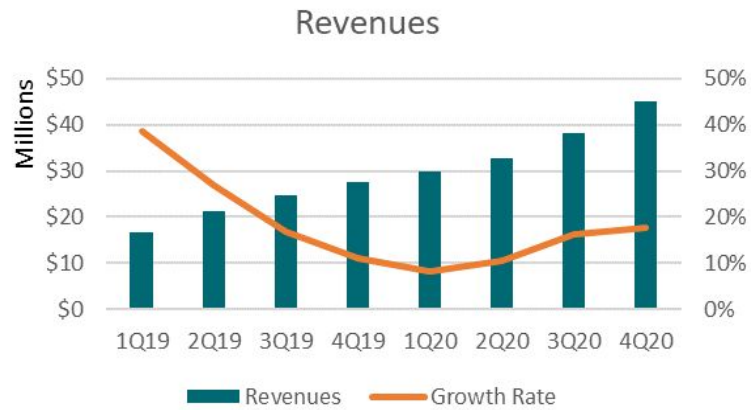
US\$ '000	Actual				Forecast			
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Revenues	16,719	21,196	24,737	27,448	29,729	32,853	38,202	44,946
Revenue growth rate	38%	27%	17%	11%	8%	11%	16%	18%
COGS	7,050	8,233	9,050	10,150	10,993	12,149	14,127	16,620
Gross profit	9,669	12,963	15,687	17,298	18,736	20,704	24,076	28,325
Gross margin	58%	61%	63%	63%	63%	63%	63%	63%
S,G&A	3,880	4,637	5,670	7,120	7,477	8,263	9,608	11,304
Operating profit	5,789	8,326	10,017	10,178	11,258	12,441	14,467	17,021
Operating margin	35%	39%	40%	37%	38%	38%	38%	38%
Taxes	1,005	2,050	2,105	2,660	2,946	3,256	3,794	4,480
Interest	122	216	282	304	324	356	383	390
Net income	4,662	6,060	7,630	7,214	7,989	8,830	10,290	12,151
Net margin	28%	29%	31%	26%	27%	27%	27%	27%

# Develop the CF Forecast

US\$ '000	Actual				Forecast			
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
<b>Cash beginning balance</b>	990	950	901	998	870	(1)	(1,394)	(4,517)
<b>Inflows</b>								
Cash sales	10,478	12,670	14,455	14,235	15,418	17,038	19,812	23,310
A/R collections	1,130	738	1,041	707	1,192	1,317	1,532	1,802
Bank Financing	1,044	1,460	1,880	1,105	0	0	0	0
Sale of assets	176	382	378	240	0	0	0	0
Non-operating cash receipts	0	0	0	0	0	0	0	0
<b>Total inflows</b>	<b>12,828</b>	<b>15,250</b>	<b>17,754</b>	<b>16,287</b>	<b>16,610</b>	<b>18,355</b>	<b>21,344</b>	<b>25,112</b>
<b>Outflows (as paid)</b>								
Vendor payments	1,933	1,130	1,215	1,097	1,683	1,860	2,163	2,544
SG&A	2,430	2,678	3,105	2,308	3,692	4,080	4,744	5,582
Debt service	650	898	801	961	868	785	674	571
Taxes	994	2,039	2,113	2,671	2,945	3,254	3,793	4,479
Capex maintenance	420	400	450	460	498	551	640	753
Capex growth	2,750	3,880	5,220	4,108	2,281	3,124	5,350	6,743
Investments	1,813	1,862	2,302	2,609	2,683	2,965	3,456	4,081
Non-operating cash expenses	0	0	0	0	0	0	0	0
Dividends	1,918	2,461	2,354	2,329	2,832	3,130	3,647	4,307
<b>Total outflows</b>	<b>12,908</b>	<b>15,348</b>	<b>17,560</b>	<b>16,543</b>	<b>17,481</b>	<b>19,748</b>	<b>24,467</b>	<b>29,059</b>
<b>Net cash flow</b>	<b>(80)</b>	<b>(98)</b>	<b>194</b>	<b>(256)</b>	<b>(871)</b>	<b>(1,393)</b>	<b>(3,122)</b>	<b>(3,947)</b>
<b>Cash ending balance</b>	<b>950</b>	<b>901</b>	<b>998</b>	<b>870</b>	<b>(1)</b>	<b>(1,394)</b>	<b>(4,517)</b>	<b>(8,464)</b>

# Monitoring Progress

- Update the cash flow forecast on a weekly basis and monitor key operating metrics.



# Important Questions

- What do you believe the **economic environment** will look like for each of the next four quarters?
- What is the **cash burn** at the most-likely projected low revenue level?
- What is the likely **zero-cash date** under the worst-case scenario?
- What potential **sources of capital** are available? (restructuring debt commitments, new lenders, new pricing and extended credit from vendors).
- What **fixed costs and expenses** (sales, marketing, general) can be postponed, restructured or optimized?
- What's the financial situation of your current **top 20% clients**?



# Dealing with CF Problems

- **Common causes:**

- Declining sales
- Build-up in inventories
- Increase in receivables
- Increase in debt/assets ratios (particularly short-term portion)

- **Typical responses:**

- Control overhead (improve efficiencies, right-size staff, centralize disbursements)
- Seek alternative sources of supply (better prices)
- Improve receivables collection process
- Increase short term borrowing



# Best Practices

- Focus on **short-term (13 weeks) and medium-term forecasting** (1 year).
- **Automate the process** as much as possible.
- Analyze **forecast vs actual** variances.
- **Think in terms of probabilities**, not certainties.
- **Separate the signal from the noise.**
- **Develop a driver-based model** and assign accountability for driver targets.
- **Regularly share cash forecasts and performance information** with lenders, to encourage their support in lean times.



# Looking Forward

- The current situation is creating a **structural change**:
  - *What changes are likely to be permanent?*
  - *How can we best take advantage of these changes?*
- **Which parts of the business model need to evolve** to adapt to the “new normal”? (remote work, cloud services, virtual meetings, RPA).
- **What tools can be implemented** to enable virtual workforce management and collaboration on client engagements?
- What administrative and client-related processes can be **automated**?
- How can we **enhance our competitive edge** by hiring people who were previously unavailable?

# In Closing

- PBMares Webinar Series on COVID-19
  - *Wednesday, April 15th – Noon to 1PM*
  - *Wednesday, April 22nd – Noon to 1PM*

*QuickResponseTeam@PBMares.com*



**Harvey Johnson, CPA, CGMA, CISA**

*Partner*

**Consulting & Advisory**

# Questions



# Visit our COVID-19 Resource Center

www.pbmaries.com/covid-19-resource-center

## Coronavirus (COVID-19) Resource Center

Home / Coronavirus (COVID-19) Resource Center

### Helping You to Navigate Information

Given the rapidly changing news ranging from the federal, state and local government agencies, we have created this resource center to make it easy to find the information most relevant to your family and business. The information is from a variety of sources including insights from our trusted team of tax and business professionals. We understand this is a difficult time and we're here to help navigate these uncertain times.

Please visit this section often for regular updates on news and information.

### PBMares COVID-19 Insights



#### CARES Act Webinar – Insights for Your Business

March 30, 2020



#### How the CARES Act Helps Non-Profits

March 28, 2020



#### How the CARES Act Directly Helps Individuals

March 27, 2020



#### Business Benefits Available, Courtesy of the CARES Act

March 27, 2020



#### Forgivable Small Business Loans – How the \$2 Trillion Stimulus Bill Can Help You

March 27, 2020



#### Plan Options for COVID-19 Impacted Businesses

March 26, 2020

### CORONAVIRUS (COVID-19) RESOURCE LINKS

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