



RESTRUCTURING

Crisis Cash Management

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ADVISORY

Introduction

Eoin Connaughton
*Associate Partner
Restructuring
KPMG London*

Leads Distressed Cash Team
within our Total Cash and Working Capital Team

Provide All Cash Management Services

'Distressed' companies



'Non-distressed'
companies

Including forecasting,
controls and
cash generation

*Responsible for developing
worldwide methodology and
delivering **training** to over 600
KPMG professionals worldwide*

*Led over **100 stressed** and
distressed engagements for
management or stakeholders
in Europe, North America,
Asia and Africa*

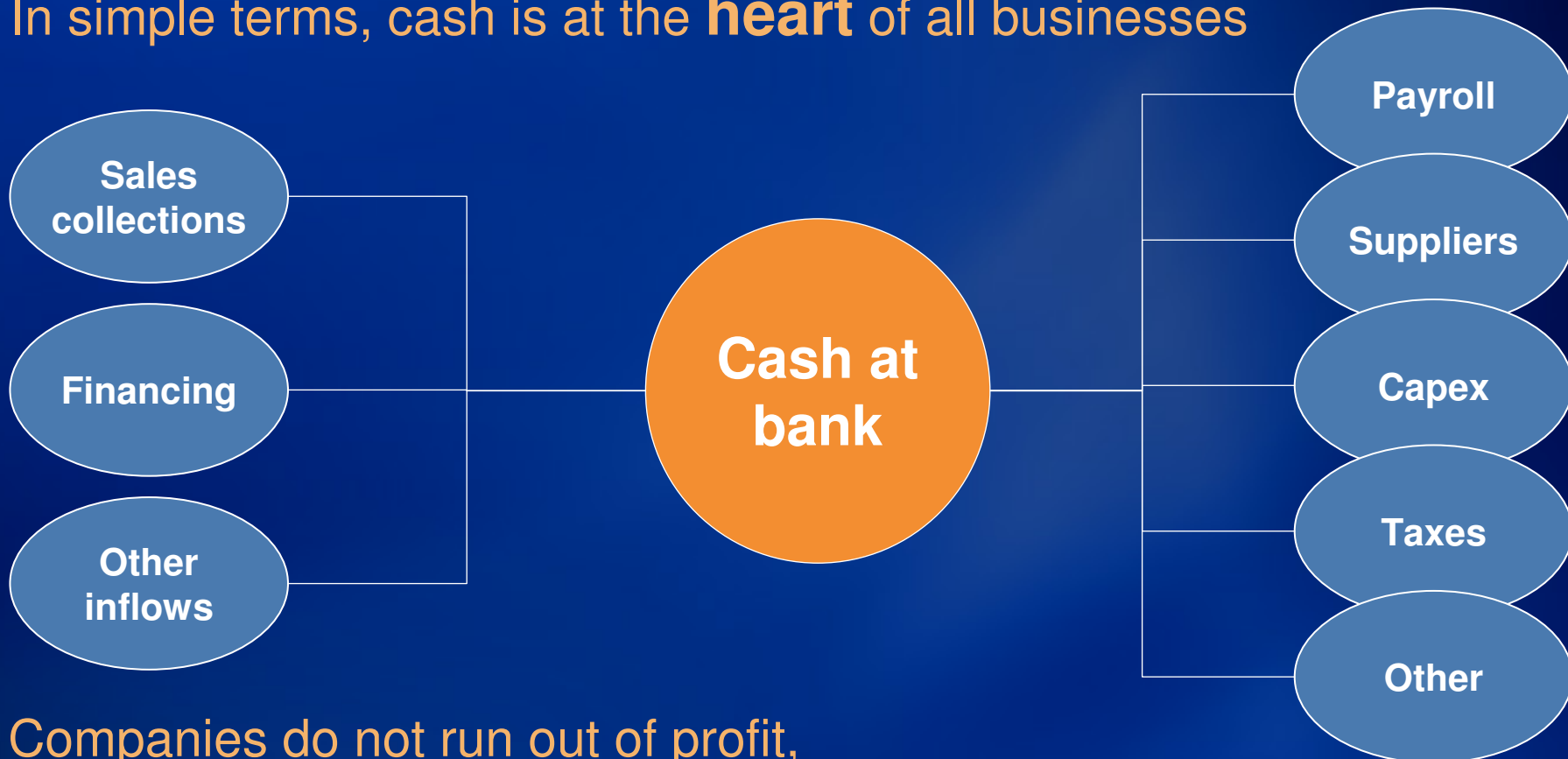
*Wide **industry experience**
including retail, automotive, airlines,
energy, telecommunications, IT,
construction, media and
manufacturing*

Background



Importance of cash

In simple terms, cash is at the **heart** of all businesses



Companies do not run out of profit,
they run out of **CASH!**

How should companies be managing cash?

Clear Visibility and Control of cash and cash drivers

including

Clear understanding of the cash drivers and the **sources of cash** within a business

Good controls over cash and cash commitments

Timely and regular reporting of cash and working capital performance

Clear cash targets for the business which are **properly cascaded**

Regular short and long term cash forecasting and target resetting

Management incentives linked to cash performance

So what happens in practice?

KPMG Cash and Working Capital Survey 2009

Respondents:
*350 Senior Finance Executives
in Europe, Canada and
the United States*

86% say cash management within Top 5 strategic priorities (28% say it is No. 1)

97% say they do cash flow forecasting

Yet of these, **72%** say cash flow forecasting is inaccurate by 10% or more

84% say working capital is a high priority (21% say highest)

Yet **47%** say they have not run a working capital program in last five years

Only **36%** say management incentives linked to cash performance

So even today, two years into an economic downturn, most companies are not managing their cash well!

Crisis Cash Management – purpose and common symptoms

Purpose

- To assist companies manage successfully through short-term liquidity difficulties in order to enable the company to put in place a long-term restructuring solution

Common symptoms

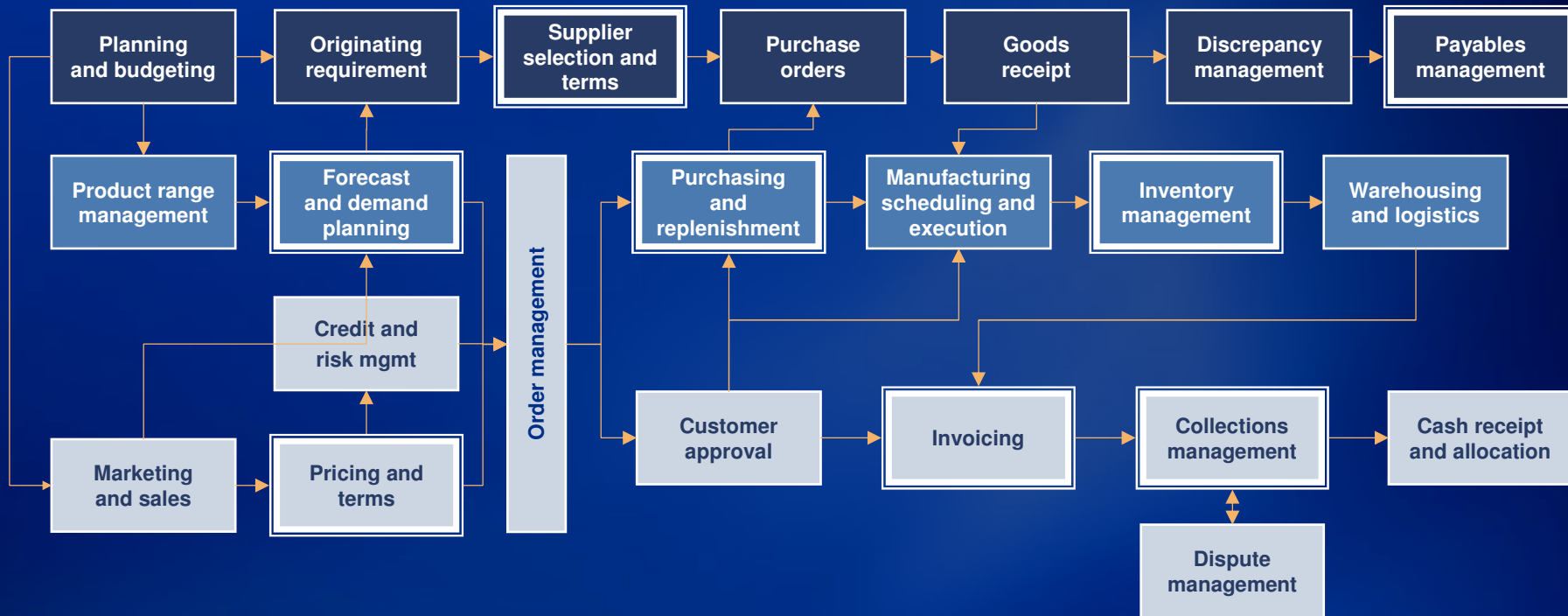
- In breach or about to breach banking facilities and/or covenants
- Struggling to meet short-term funding requirements and making unexpected requests for additional funding
- Under pressure from creditors
- Suffering withdrawal of credit lines and/or trade insurance
- Being forced to micro-manage cash/defer payments

In a Cash Crisis what challenges does the Company face?

- Time is of the essence as headroom tightens or is forecast to disappear quickly
- Typically, starting from a poor platform with:
 - Poor understanding of the cash drivers in the business
 - Inaccurate cash flow forecasting
 - Lack of focus on working capital management
 - Unaware of the opportunities, including non-working capital assets and liabilities
 - Denial of the problem and little experience of this type of situation
- Need to rapidly implement 'good and effective cash management'

The complexity of cash in a business

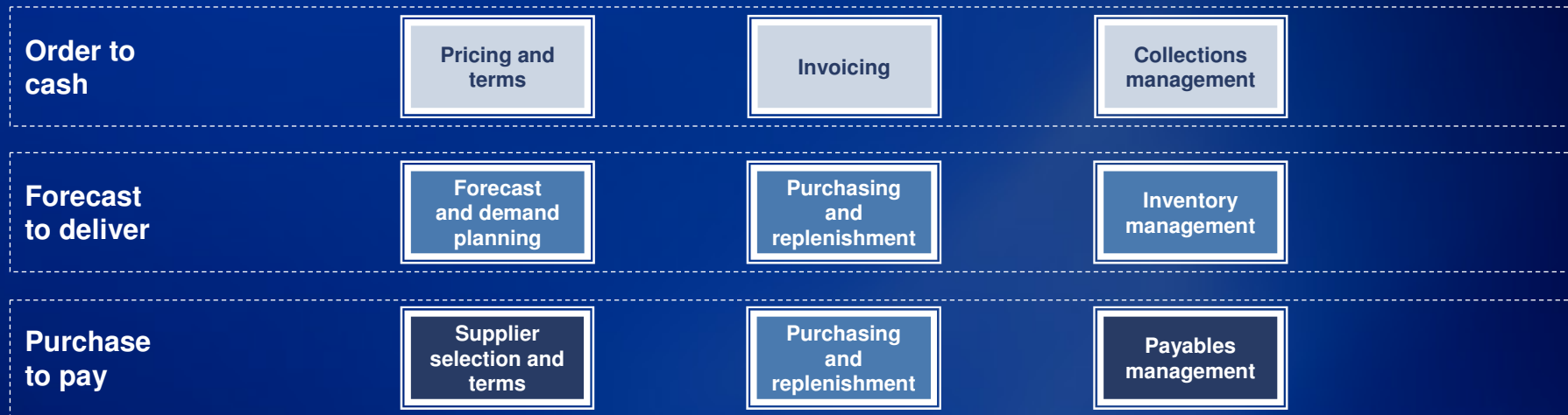
Example manufacturing company



Cash touches all parts of the business!

The complexity of cash in a business

Main areas



Need to improve quickly!

What should a company in a Cash Crisis do?

Implement Cash Crisis Management

- Get immediate control over cash inflows and outflows and related activities
- Understand the timing and quantum of any funding requirements. This will require accurate cash flow forecasts of near term, short term and medium term requirements
- Identify and implement initiatives to generate and preserve cash e.g. accelerate receipts and reduce outflows
 - These initiatives should be immediate and short term
 - Instigate and implement a reporting and governance system to support these activities
- Manage stakeholders and develop internal and external reporting

How can a Company successfully implement Crisis Cash Management?

Tighten existing controls over inflows, outflows and related activities

Develop and implement detailed R&P short term cash flow forecasting at daily and weekly rests with cross-functional inputs

Task managers to identify and implement cash generation and preservation initiatives, both immediate and short term

Develop new internal and external reporting

Ensure proper governance through a cross-functional Cash Committee with senior leadership and sponsorship which will:

- Quickly mobilise senior executives within the business and re-align their priorities
- Review cash flow forecasts
- Management of cash generation and preservation initiatives

This will help make Cash the No. 1 priority for all the Senior Executives within the business

Case Study One

Background

- KPMG assisted Client A, a pan-European company in travel business with a turnover of €1.1 billion
- Company were forecasting a breach on one of their cash-based covenants

Actions

- Seven weeks before forecast breach, Company:
 - Mobilised all senior finance executives in various countries
 - Weekly individual and collective calls
 - Simultaneously rolled out forecasting and development of initiatives
 - Ranked and prioritised initiatives for implementation

Result

- Cash improvements of €100 million realised
- No covenant breach

Case Study Two

Background

- KPMG assisted a £3 billion turnover Plc with retail and distribution activities
- Over £250 million of credit insurance cancelled – immediate change in supplier terms at peak of their working capital requirement and facilities

Actions

- Minimal headroom available, immediate focus and actions on the following:
 - Understand new cash dynamics in the business and tighten cash controls
 - Implement near term daily cash flow forecasting
 - Develop and implement cash initiatives
- Set up a cash committee which met daily to review new forecasts and agree actions

Outcome

- Stabilised the cash position and bought sufficient time for Company to develop and present a new restructuring plan to lenders

Case Study Three

Background

- KPMG were requested by lenders to review the cash position at a worldwide services company
- Company and their advisers presented KPMG information for review

Findings

- Minimal headroom and no reliable cash flow forecasts
- Re-forecasting undertaken which showed a large funding requirement in near term
- No indication of what funding would be required longer-term and when/how repaid
- No improvement in cash controls or generation initiatives identified

Outcome

- Bank withdrew support and Company entered an insolvency process

Benefits of Cash Crisis Management

- Get it right and:
 - Company can manage successfully through short-term liquidity difficulties to develop and effect a restructuring solution
- Thereafter:
 - Management now have a proper understanding of the cash drivers within their business
 - A cash culture should be embedded in the business which ensures cash management is a key priority and focus going forward
 - Skills and processes are developed and implemented which enable the company to continue to manage cash efficiently in the long term

Conclusion

- Even today many companies are not managing cash well
- Only start to focus on cash once headroom tightens or disappears
- Need to radically overhaul how cash is managed and implement 'Crisis Cash Management'
- If successful will:
 - Buy sufficient time for a restructuring solution to be implemented
 - Leave management more 'cash' focused with appropriate tools and processes

Questions?