



CANADIAN
MANUFACTURERS
& EXPORTERS

Managing financials and cash flow through to recovery

May 14, 2020

Prepared by KPMG in Canada



WITH YOU TODAY



Katherine Forbes

Partner, Deal Advisory,
Restructuring and Turnaround
KPMG in Canada

katherineforbes@kpmg.ca



Anamika Gadia

Partner & National Practice Leader,
Restructuring and Turnaround
KPMG in Canada

agadia@kpmg.ca

Agenda

- Background
- Immediate opportunities to stabilize business
- Working capital and fostering a cash culture
- Cash flow forecasting in periods of tight liquidity
- Managing profitability
- Key government funding programs (at a high level)
- Stakeholder management
- Looking beyond short-term performance
- Key takeaways
- How KPMG can help

Current Canadian economic background

- Unprecedented economic contraction in terms of scale and speed
- Rapid changes in demand
- Significant reductions in production capacity
- Complete uncertainty over how long the economy will be “confined” and the speed of recovery thereafter
- The manufacturing industry will be fundamentally altered
- The M&A market has slowed significantly and multiples have declined. Opportunistic and value buyers are starting to surface in the marketplace
- It is not clear how “supportive” lending institutions are going to be, outside of government sponsored programs, of financially stressed businesses

Stabilizing your business

Cash is king. Identify immediate opportunities to stabilize business through reduced disbursements and increasing internal sources of cash flow.

Select immediate cash initiatives (in no particular order)

- Elimination of discretionary spending
- Consider where payment of trade and non-trade payables can be delayed
- Rent deferral
- Deferral of capital expenditures
- Look for internal sources of cash

Understanding working capital

Understand and manage the business' working capital. Always consider the company's covenants and borrowing availability.

Cash culture

- Form a **cash team**, to meet weekly, with participation by all function heads and have aligned KPIs. Cash flow management should not just be the responsibility of the finance function.
- Make cash management a **company priority**.
- In reviewing and developing your cash management strategy, **develop clear metrics** for cash and working capital.
- Consider **preparation of short-term cash flow forecasts** to identify liquidity constraints and improve near and mid-term decision making.

Working capital cycle

- Consider working capital needs in the context of overall business requirements for the weeks and months ahead. Most businesses are able to unlock cash from at least one, if not two areas of the working capital cycle.
- For **trade receivables**, ensure appropriate processes are in place to ensure clients are invoiced in a timely manner, in accordance with contract terms, and there are robust credit controls in place, particularly for international customers.
- **Address slow-moving, obsolete stock**. Critically examine forecast production requirements, the need for buffer stocks and SKU assortment, and avoid tying up cash in unproductive inventory.
- Ensure that **trade payables** are paid only in accordance with contract terms.
- Review trapped and illiquid cash within the group structure. Make use of treasury pooling structures, to make more effective use of available cash that may be lying idly within the group structure.

Cash flow forecasting

Short-term cash flow forecasts are essential to providing visibility into near-term operations from a cash and liquidity perspective.

- Improved management decision making, identification of liquidity constraints and improved lender discussions
- The details:
 - Not the status quo, re-evaluate for the current environment
 - Consider collection risk of domestic and international customers
 - Incorporate implemented and intended initiatives, including:
 - Market changes to cash collections
 - Changes in spending
 - Capex deferrals
 - Government support programs
 - On a periodic basis compare your actual and projected results and if necessary change your assumptions
 - Ensure that these documents are robust and will allow for updates and changes in assumptions
 - Plan for the restart – working capital requirements will be strained in many sectors as the economy reopens, make sure this is incorporated into your projections.

Managing profitability: Fixed costs & overhead review

Identify cost reduction opportunities in direct costs, overheads and corporate costs. Reduced costs can alleviate cash burn, minimizing losses and maximizing operating runway in a downturn.

Select examples of cost reductions (in no particular order)

- Direct labour – Maintaining only essential staff
- Revisiting head office headcount

Managing profitability: Sales & gross margin

Focusing on core business and the most profitable sales in period

Select examples of improving sales profitability (in no particular order)

- Rationalization of product offering
- Identifying unprofitable customers
- Target scrap rates in production

Government of Canada support in response to COVID-19 pandemic

Select Corporate Economic Response Programs

Tax deferrals

CRA will allow all businesses to defer, until after August 31, 2020, the payment of any taxes that become owing after March 18 and before Sept 2020.

Emergency Wage Subsidy

CEWS would cover 75% of salaries for up to 3 months, retroactive to March 15, 2020 - designed to help employers retain staff.

Government funding programs

- \$40 billion SME and mid-market co-lending and guarantee programs (BCAP)
- Large Employer Emergency Financing Facility (LEEFF)
- EDC expansion of support under various existing programs
- \$25 billion Canada Emergency Business Account (CEBA)
- Emergency Commercial Rent Assistance (CECRA)

Stakeholder management

Identifying your 'asks' of key stakeholders, such as key suppliers, lenders, and customers, and key risks for each party.

Select examples of negotiations with stakeholders

Suppliers

- Temporary relief in payment terms and/or implementation of a payment plan
- Changes in terms to remove minimum purchase requirements and/or renegotiation of pricing

Customers

- Acceleration of payment terms
- Renegotiation of pricing

Lenders

- Covenant relief and/or extension of debt maturity
- Temporary reduction of interest rate and/or principal amortization on operating and/or term loans

Landlords

- Rent deferral or forgiveness

Strategies for success with lenders

1



React swiftly

- Approach stakeholders early.
- Delays in financing requests and approvals can put further pressure on operations.
- High volumes of credit applications at banks can slow-down application processes.

2



Be prepared

- Know the financing request: additional funding vs waiver.
- Ensure you have necessary documentation, forecasts and financials.
- Pinpoint areas of vulnerability in the near-term.

3



Open & honest
communication

- Crucial to have open and honest dialogue with all stakeholders.
- Do not underplay the current economic climate.
- Maintaining strong relationships now will ensure business continuity in the future.

Looking beyond short-term performance

Re-evaluating the status quo, implementing performance improvement initiatives, and forecasting mid- and long-term performance

Select mid- to long-term initiatives (in no particular order):

- Redesign of business processes to lower costs, reduce waste and/or shorten production cycles
- Restructuring of rental and/or other contractual arrangements
- Changing focus on certain business segments and/or geographies
- Repositioning product offerings
- Reduction of physical footprint or attempt to lease unoccupied space
- Review procurement policies, main vendors and any anticipated supply interruptions
- Outsourcing components of your business
- Sale and leaseback of assets
- Divestiture of surplus assets

Longer term financial projections are also essential, and should be robust – allowing for various scenarios

Key takeaways

- Cash is king.
- Implement short-term initiatives to preserve and unlock cash.
- Prepare short-term cash flow forecasts to identify liquidity constraints and improve near and mid-term decision making.
- Communicate with key stakeholders.
- Consider eligible government programs in all jurisdictions.
- Your business has changed, make a plan. Prepare multi-year financial projections that are robust and dynamic.

How KPMG can help

If you've exhausted your 'self help' options and/or want professional advice, KPMG is ready to assist. KPMG has audit, tax and advisory resources available nationwide and internationally

Liquidity management

- Identify **immediate opportunities to stabilize business** through reduced disbursements and increasing internal sources of cash flow.
- Understand and **manage** the business' **working capital**.
- Consider the Company's covenants and borrowing availability.

Cash flow forecasting

- Develop a **detailed liquidity forecast model**.
- Identify upcoming liquidity constraints to optimize decision making.

Fixed costs & overhead review

- Identify **cost reduction opportunities** in direct costs, overheads and corporate costs.
- Reduced costs can alleviate cash burn, minimizing losses and maximizing operating runway in a downturn.

Scenario modelling

- **Re-evaluate the status quo** and identify business and economic risks.
- Quantify the various sets of macro- and micro-economic assumptions against the company's business plan under a range of scenarios.

Stakeholder analysis

- Identify key stakeholders and associated risks for each party.
- Provide **ongoing communication** and messaging to **ensure business continuity and minimize risks**.

KPMG in Canada resources

- [The business implications of COVID-19: Reaction. Resilience. Recovery. New Reality.](#)
- [Canada Emergency Wage Subsidy](#)
- [COVID-19 and Global Supply Chains](#)
- [Return to the workplace: A guide for employers](#)





THANK YOU FOR ATTENDING

Katherine Forbes

Partner, Deal Advisory,
Restructuring and Turnaround
KPMG in Canada

katherineforbes@kpmg.ca

Anamika Gadia

Partner & National Practice Leader,
Restructuring and Turnaround
KPMG in Canada

agadia@kpmg.ca

INDUSTRY PARTNER



SUPPORTING PARTNERS



THANK YOU TO
OUR PARTNERS