

## COVID 19 Guide

# Cash Management

### Introduction

This paper is part of a series of briefings from ScaleUp Group™ “SUG” and its members regarding the COVID-19 crisis covering pragmatic insights and actions for ScaleUp Clients to consider for their business to ‘survive and thrive’, structured into 3 phases - Sustain, Opportunities to Transform, Return to Growth. Cash management is always one of the key responsibilities of management in a fast-growing organisation but, with the dramatic and immediate impact of the temporary shutdown of much of the Global economy due to COVID-19, it has become a matter of survival for many SME businesses.

Speed is vital and the assumption made is that CEOs/CFOs/Leadership Team have gone through or are urgently going through scenario planning processes on the business's net cash position covering worst case, best case and most realistic base case so that CEO/Leadership teams understand the challenges and levers they have to pull and when.

This paper is mainly geared to B2B technology companies and in particular companies of a Software-as-a-Service (SaaS) nature, but many of the proposals and recommendations can be applied to SME companies in any sector of the economy. And, given that the Global economy will take some time to recover, these principles can be applied even after the virus itself has abated.

Many of the companies with which SUG works are managed by experienced and seasoned professionals and there are probably not going to be many new concepts or practices highlighted in this Guide. The purpose of this paper is, however, to encourage companies to implement a systematic and **consistent** approach to cash management to help ensure the ongoing health (and even survival) of the company.

**This paper recommends focusing on seven key aspects of cash management, which are:**

1. **Consistent cash management practice**
2. **Payroll**
3. **Billings and Receivables management**
4. **Payables management**
5. **Expense management**
6. **Taking advantage of evolving Government assistance programs**
7. **Short- and medium-term financing**

## 1. Consistent management practice

### A major focus on cash management should include:

- A.** A daily cash management report and short-term cash forecast
- B.** A weekly, monthly and quarterly cash forecast
  - A cash management and cash forecast model can be quite easily built on Excel. This should be integrated with the company's accounting software to avoid the risk of out-of-date figures being populated by the spreadsheet – a common problem.
  - Actual cash receipts and payments from the previous day should be reviewed daily, alongside forecasted cash receipts and payments for the next day and next thirty days (at a minimum) included in the short-term cash forecast.
  - A three-month cash forecast, integrated with the short-term cash forecast model, should be produced and reviewed by management at least on a weekly basis.

## 2. Payroll

As this will represent the single largest cost in SaaS companies, where employees/contractors represent 70% or higher of the cost base it cannot be ignored despite the risk of damaging morale. The latter is mitigated by the fact that from CEOs downwards salary reductions/deferral etc. are now commonplace alongside furloughs – see later – with government assistance designed to minimise layoffs, if at all possible.

Being creative by exploring converting fixed salaries etc. to either revenue related milestones and/or into equity, is worth considering as these can reposition the conversation into thinking about the future potential of the business, post COVID-19.

## 3. Billings and Receivables management

Although company activity may be reduced or even at a standstill, a review should be carried out to ensure that all past and current billable activity has been invoiced.

In a SaaS company, most of the revenue will come from the service fees, which may be monthly, annually or even longer (the better) for the use of the software, but there may be one-off consulting, implementation, support or even custom work that is billable.

A daily review of the Receivables account should be carried out, including the production of an Aged Receivables analysis - which your accounting software should be able to do as a routine - to ensure that all customer payments are up to date. Particular attention should be paid to overdue Receivables, with explanations obtained for each overdue sales invoice. For example, payment of a large sales invoice may be being held by a customer because of a relatively small issue, in which case effort should be applied to addressing that issue or asking for part of the invoice to be paid pending full resolution of the customer's problem.

Putting customers on Direct Debit/Standing Order payments can be a useful way of getting settlement more automatically. Consider if you might want to offer them an incentive or not to change to this method of payment.

#### **4. Payables Management**

Deferring payments to suppliers is only recommended if that is absolutely necessary and agreeing with them in advance may avoid jeopardising the supply of goods and services to the company going forward.

Whilst in practice, supplier costs are relatively less impactful on cash than Payroll, nevertheless the timing of such payments could make the difference between managing through one month or otherwise, so a comprehensive review should be done including ensuring that no suppliers are being paid ahead of their agreed payment terms.

#### **5. Expense Management inc. Marketing Costs.**

Even though this might not be a major cost item, expenses represent one of the few discretionary spends in a SaaS business and with reduced income coming in, it is important to ensure that there is a robust internal process for pre-approving all expense commitment to only absolutely essential expenditure.

Travel and entertainment costs should be minimised/avoided all together (probably the case anyway with current government COVID-19 travel and meeting restrictions) but also other discretionary expenses should be scrutinised for their necessity.

Even if it has been committed to, especially marketing expenditure, which can be both expensive and lumpy, consider delaying the activity or event until more businesses are more receptive than they are currently.

## 6. Government assistance programs

There are several government assistance programs for business impacted by COVID-19 and this area is constantly evolving. At the time of writing these include:

- Business Rates relief
- VAT payment deferment
- Corporation tax deferment
- Coronavirus Job Retention Scheme
- Small business grants

The Government's Coronavirus Job Retention Scheme merits special attention for employee-oriented SaaS companies, as it permits employers who furlough their staff (meaning that staff are asked not to work for a period of time but there is a commitment to take them back at the end of the period) to claim up to 80% of their salary and social security costs during the furlough period up to £2,500 per month per employee. This can have a very significant impact on cash conservation. It may also be much more acceptable to your staff as many organisations are doing this currently.

Up to date information on the Coronavirus Job Retention Scheme, and the other programs mentioned above, can be found at <https://www.gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19>

## 7. Short- and Medium-term financing

If a financing gap is forecasted, it may be possible to negotiate short and medium financing arrangements. The company's own bank should be contacted in the first instance to assess whether the Coronavirus Business Interruption Loan scheme (see below) is appropriate or more simply if an extension to overdraft provisions (if that exists) could be arranged.

The UK Government has implemented the Coronavirus Business Interruption Loan (CIBL) scheme. This scheme supports small and medium-sized businesses, with an annual turnover of up to £45 million, to access loans, overdrafts, invoice finance and asset finance of up to £5 million for up to 6 years.

Further information can be obtained [here](#).

Just remember that commercial and government-backed loans do need to be repaid.

Otherwise, the number of finance organisations signing up for the CIBL scheme is increasing all the time – although their quality and responsiveness in practice has yet to be assessed.

ScaleUp Group hosts a 'CEO Forum' at which our clients share their current experiences in this area, which can avoid considerable wasted effort and/or getting saddled with unacceptable terms such as high interest rates, personal guarantees still being asked by some institutions.

There is a government scheme announced in April and formally launched on May 20th, 2020 called The Future Fund. The Government has initially made £250 million available for the Future Fund and will keep this amount under review.

The Future Fund provides government loans to UK-based companies ranging from £125,000 to £5 million, subject to at least equal match funding from private investors.

These convertible loans may be an option for businesses that rely on equity investment and are unable to access other government business support programmes because they are either pre-revenue or pre-profit. The scheme is open for applications until the end of September 2020.

**The scheme will be delivered in partnership with the British Business Bank and a company is eligible if:**

- It is UK-incorporated - if the business is part of a corporate group, only the parent company is eligible
- It has raised at least £250,000 in equity investment from third-party investors in the last 5 years
- None of its shares are traded on a regulated market, multilateral trading facility or other listing venue
- It was incorporated on or before 31 December 2019
- At least one of the following is true:
  - half or more employees are UK-based
  - half or more revenues are from UK sales

ScaleUp Group is associated to the "Save our Start-ups Campaign" that was a key driver in negotiating this new funding source with the UK Treasury. Full eligibility criteria and details of the scheme are published at <https://www.gov.uk/guidance/future-fund> and <https://www.uk-futurefund.co.uk/s>

At the time of writing it is our understanding that third-party investments through the Future Fund will not be eligible for tax relief under the Enterprise Investment Scheme (EIS), which provides tax relief to investors in high growth firms. The government has, however, announced that it will amend the rules of the EIS to protect Future Fund investors from losing relief on their previous investments made prior to any investment through the Future Fund.

ScaleUp Group has prepared a spreadsheet to allow modelling of different scenarios under the Future Fund. This spreadsheet has been distributed to current ScaleUp Group customers.

If the company is already partly debt-funded (often the situation for SaaS companies) it may be possible to negotiate a deferment of any loan repayments with the Debt Provider, without breaching covenants etc.

- A less common approach is to explore whether you have management/employees who would be interested and capable of converting salaries/bonuses/commissions into equity. Clearly both parties have to believe such equity has value for this to be a positive dialogue.
- Alternatively, if you have an equity investor, Angel or otherwise, such entities would normally prioritise supporting their existing investee companies, so exploring this source to get longer term more stable working capital is recommended – notwithstanding valuations being under pressure at this time. (An investor would normally not want a ‘down round’ even in such current circumstances.)
- ScaleUp Group has access to over 100+ Funds including Debt Providers in the event this source is not currently available to yourselves.

**A Summary 10-point Checklist and Cashflow examples follows.**

## 10-point Checklist

1. Implement daily cash management reporting and forecasting
2. Grasp the nettle of reducing Payroll costs but try to be creative
3. Perform daily review of Aged Receivable
4. Explore if supplier payments can be delayed, professionally, and at least are paid only when due
5. Minimise and/or delay discretionary expenses especially Travel and Marketing events.
6. Keep up to date on COVID-19 Government assistance programs, in particular
  - Business Rates relief
  - VAT payment deferment
  - Corporation tax deferment
  - Coronavirus Job Retention Scheme
  - Small business grants
7. Consider whether the Coronavirus Business Interruption Loan scheme would be appropriate
8. Review short financing options
9. Explore obtaining more stable, longer term financing, to boost working capital.
10. Have an integrated accounting system feeding into your Cash Management process.

**The above may be a daunting task for a SME which has an under resourced Finance function. If this is the case then ScaleUp Group may well be able to supply a head of Finance to help manage through the CV crisis, on an interim/ part -time basis.**

## Appendix - Cash Flow Forecast Examples

Daily Cash Flow Forecast*						^
	Actual 13-Apr	Actual 14-Apr	Actual 15-Apr	Actual 16-Apr	Forecast 17-Apr	
Opening Bank Balance	50000.00	50000.00	50000.00	63500.00	63375.00	+ Daily forecast for the next 30 days (30 day rolling) V
Receipts						
Receivable A - Invoice XXX			17500.00			
Receivable B - Invoice XXX					12500.00	
Receivable C - Invoice XXX						
Etc.						
Other Receipts (Explain)						
Total Receipts	0.00	0.00	17500.00	0.00	12500.00	
Payments						
Payroll						
Tax / NI						
Pension						
VAT						
T&E						
Rent						
Rates						
Heating and Light			1500.00			
Telephone						
Insurance			2500.00			
Bank Charges				125.00		
Professional Fees Invoice XXX						
Invoice XXX						
Contractors Invoice XXX						
Invoice XXX						
Marketing Invoice XXX						
Invoice XXX						
Capital Expenditure						
Other						
Etc.						
Total Payments	0.00	0.00	4000.00	125.00	0.00	
Closing Bank Balance	50000.00	50000.00	63500.00	63375.00	75875.00	

Weekly / Monthly / Quarterly Cash Flow Forecast*						^
	Actual Week 15	Forecast Week 16	Forecast Week 17	Forecast Week 18	Forecast April 2020	
Opening Bank Balance	35000.00	50000.00	75875.00	21175.00	35000.00	+ Weekly forecast for the next two months (3 month rolling) V
Receipts						
Receivables	15000.00	30000.00	7500.00		52500.00	
Other					0.00	
Total Receipts	15000.00	30000.00	7500.00	0.00	52500.00	
Payments						
Payroll			41500.00		41500.00	
Tax / NI				11000.00	11000.00	
Pension				5000.00	5000.00	
VAT					0.00	
T&E			2700.00		2700.00	
Rent					0.00	
Rates					0.00	
Heating and Light		1500.00			1500.00	
Telephone					0.00	
Insurance		2500.00			2500.00	
Bank Charges		125.00			125.00	
Professional Fees			6000.00		6000.00	
Contractors			4500.00		4500.00	
Marketing			7500.00		7500.00	
Capital Expenditure					0.00	
Other					0.00	
Etc.					0.00	
Total Payments	0.00	4125.00	62200.00	16000.00	82325.00	
Closing Bank Balance	50000.00	75875.00	21175.00	5175.00	5175.00	

\* Illustrative only - Receipt and Payment lines would be tailored to match each Company's business