

Modeling Out the Path to Recovery and Growth

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This is part of 'Supporting You Through Covid-19 Series'.

Since the outbreak of COVID-19 pandemic, many businesses have been severely disrupted and financially affected due to strict governmental measures such as restrictions in travel, social distancing and prolonged lockdown periods all around the world. Businesses are struggling to ride through the shock and find various means to sustain and stay afloat. Solutions are required to address the immediate problems and more so the long term concerns associated with the COVID-19 pandemic and its economic repercussions.

In the midst of such turbulence and uncertainties, businesses should focus on three key aspects: cash flow management, fund raising, and business revamp, with the objective of riding through the tides of the pandemic crisis and positioning to get ahead on the recovery path. Evaluating and monitoring the health of the business through a financial modelling exercise is crucial in an evolving and volatile environment brought about by the pandemic crisis. A financial modelling simulates different scenarios by stress testing certain variables and key financial indicators which may alter the course of the business and thus resulting in various financial outcomes and business value.

Cost & Cashflow Management

The most immediate concern currently would be cost management and cash preservation. It is important to understand the impact of different cost components (labour, materials, outsourcing, rental and utilities etc.) and decide wisely how to deal with each or collectively to reach a desired outcome. Companies should also reassess

capital spending priorities and focus on building capabilities and customers to improve revenue streams. A financial modelling exercise identifies the problematic areas and guides companies to reduce or eliminate the non-essentials, and optimise existing resources and capacity.

Fund Raising

Bankers and investors require a realistic picture of a company's health and performance. In an environment of uncertainties, businesses need to evaluate different recovery or growth trajectories subject to availability of financial support, industry and macro-economic conditions. A financial modelling simulates different COVID – 19 recovery scenarios and assess potential impacts on revenue, profits, capital and shareholder value.

Business Revamp and Transformation

A crisis can be the best opportunity for businesses to re-think, re-shape and revamp their operational model and value propositions. Many businesses have responded with innovative ideas such as entering into new markets, creating new solutions, leveraging on digital tools and technology platforms to stay alive and relevant. These should not be just quick fixes and temporary solutions to adapt but should be sustainable and designed for the company to thrive in the post crisis environment. A financial modelling exercise is key to understanding the costs and benefits of such new innovations and revamping strategies in both short and long run. Businesses can better chart out the recovery path and growth trajectory towards improved performance as the economy begins to recover.

For details of our financial modelling exercise and how we can assist in your recovery and growth strategies, please contact our specialists:

Grace Lui

Director

Valuation and Transaction Services

gracelui@nexiats.com.sg

+65 6597 7297

Foong Yu Wen

Assistant Manager

Valuation and Transaction Services

foongyuwen@nexiats.com.sg

+65 6534 5700 (ext. 803)

Cost & Cashflow Management

Actions:

- Evaluate and reduce cost components
- Evaluate and defer capital spending priorities
- Identify and monitor productivity indicators
- Monitor revenue streams and billing recovery

Target Outcomes:

- Realigned cost structure
- Improved cashflow position
- Optimization of existing resources
- Increased productivity

Fund Raising

Actions:

- Evaluate business viability and financial impact in light of market disruptions
- Assess financial support required for recovery of operations
- Establish growth plan and timeline

Target Outcomes:

- Ability to source for funds
- Achieve realistic valuation
- Strengthen returns to investors

Business Revamp & Transformation

Actions:

- Reassess needs and behaviors of target customers and markets
- Explore new modes of service deliveries and/or new product offerings
- Build new capabilities
- Evaluate costs and benefits of new innovations

Target Outcomes:

- Revenue and market growth
- Increased differentiation and competitive advantage
- Strengthen customer retention

Define the User Case

Understand the business requirements



Identify the Inputs

- Income components
- Cost components
- Pricing
- Headcount
- Volume



Build the financial structure

Baseline the profit & loss, balance sheet and cashflow statements



Process the Inputs

- Setting the assumptions
- Creating the scenarios



Test Scenarios

- Vary the growth opportunities and limitations
- Vary the key performance indicators



Derive Target Outcomes

- Operating metrics
- Working capital requirements
- Funding requirements