

Key Outputs

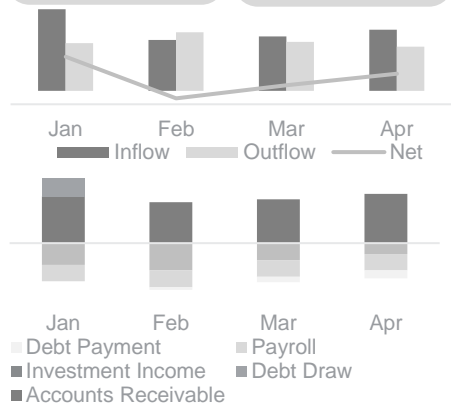
Cash Forecasts

13-week forecast:

A short-term cash flow projection focusing on granular cash inflows and outflows

Monthly forecast:

A long-term projection focusing on the effective allocation of cash to the company



Cash Conversion Analysis

Cash Conversion:

A measure on the amount of time it takes to convert cash it spends back into cash sales

Inputs:

Accounts Receivable
Accounts Payable
Inventory
Revenue
Cost of Revenue

$$\text{Cash Conversion Cycle} = \text{DSO} + \text{DIO} - \text{DPO}$$

$$\text{DSO} = \left(\frac{\text{Average AR}}{\text{Revenue}} \right) \times \text{Days in Period}$$

$$\text{DIO} = \left(\frac{\text{Average Inventory}}{\text{Cost of Revenue}} \right) \times \text{Days in Period}$$

$$\text{DPO} = \left(\frac{\text{Average AP}}{\text{Cost of Revenue}} \right) \times \text{Days in Period}$$



Cash Management

Treasury

Management of the company's liquidity to meet their obligations and achieve strategic goals

Key Objectives

Cash flow forecast: Planning for cash inflows and outflows

Liquidity: Evaluate liquidity options to fund operations

Capital: Develop the strategy for debt / equity funding

Risk: Identify and manage cash and credit risks

Compliance: Ensure compliance with laws and regulations

Technology Solution Involvement

Enterprise Resource Planning Software
Banking Portal or Applications
Electronic Payment Solution
Budgeting and Forecasting Software
Corporate Performance Management Solution

Internal Leaders

Chief Financial Officer
Treasurer / Finance Director
Controller / Finance Manager
Financial Analyst
Accountants / Bookkeepers
Business Managers

Other Insights

Frequent Reporting

Reporting and analysis to help companies better monitor cash:

- Statement of cash flow
- Cash reconciliation
- Cash flow forecast (update)
- Working capital analysis
- Debt analysis
- Cash flow analysis (inflows / outflows)
- Investment performance analysis
- Foreign exchange rate analysis
- Interest rate risk analysis
- Counter party risk analysis
- Liquidity stress test analysis
- Compliance and regulatory reporting

📅 Daily 📅 Weekly 📅 Monthly 📅 Quarterly

Construction Impacts

Billing

Billing Process

- Establish a billing process to capture all allowable amounts to be billed
- Automate process for more efficient and effective billings

Billings in Excess of Cost and Earnings

- Liability account representing amounts billed beyond revenues earned by the Company
- BIE should be viewed positively as it means avoidance of 3rd party financing which comes with additional interest cost on company

Contract

Retainage Receivable

- Higher retainage withholdings on monthly billings results in a longer wait time for cash receipts on work completed

Billing Terms

- Negotiate faster payment terms with customers
- Evaluate contracts for pay-when-paid terms as this infers additional credit risk

Estimating

Debt Financing Projects

- Ensure all estimates include a financing component for any projects in which the company is using debt financing

Cash Flow Forecasting

How to:

Steps to start cash forecasting:

- Gather relevant historical financial data from all relevant sources within company
- Identify cash inflows, including sales, receivables, investments and other assets
- Identify cash outflows including operating expenses, inventory, loan payments, taxes and other recurring expenses
- Predict the timing of the inflows and outflows based on historical averages and contractual terms of agreements
- Calculate the ending cash balance
- Continually monitor and update forecast for changes in the business or contract terms

Value Add



Visibility

Establish visibility into sources and uses of cash



Risk ID / Scenario Analysis

Develop contingency plans to mitigate potential risks



Improved Decision Making

Anticipate future cash needs and plan accordingly



Communication

Improved communication with partners and stakeholders

Liquidity Analysis

Develop strategic initiatives to help improve working capital positions by identifying areas of concern and establishing new systems to improve performance:

Concerns

- Slow customer payment receipt
- Untimely invoice creation
- Increase in write-offs
- Errors in invoices sent
- Out of date credit assessments

Key Objectives

- Improve contractual terms with customers
- Increase billing timeliness
- Improve billing accuracy
- De-risk aged receivables

Accounts Receivable

- Aging of vendor invoices
- Physical check payments
- Inadequate discount capture
- Untimely 3-way match
- No purchase order visibility

Accounts Payable

- Excess inventory levels
- Stockouts and lost sales
- Obsolete / slow inventory
- Rising holding costs
- Improperly costed inventory

Inventory

- Larger discount capture
- Improved payment security
- Stronger vendor relations
- Improved visibility into commitments outstanding

- Faster identification of aged or obsolete inventory
- Reduction in warehousing costs
- Properly recognized gross margins

Risk Management

Common Cash Risks

- Segregation of duties
- Improper cash controls
- Fraudulent payment processing
- Inadequate cash reserves or contingency plans
- Concentration or other cash risk

Process Best Practices



Positive Pay

Implement positive pay



Cash Restrictions

Limit access to cash



Daily Cash Reconciliation

Reconcile cash accounts daily



Regular Training

Train employees to find fraud

Segregations of Duties

Cash Handling

- Cash handler should be separate from preparer of cash reconciliation
- A separate person should reconcile cash received with recorded deposits
- Cash disbursement approver should be separate from person executing payment
- Regular cash counts and / or reviews should be conducted by someone independent of cash handler

Reconciliation

- A separate person should be responsible for review and approval of reconciliation

Record Keeping

- Review and oversight of record keeping should be separate from record-keeping function

Capital Structure - Financing

Debt

Cost

- Tax deductible interest with reduced capital costs

Fees

- Closing / ongoing fees by type

Time

- During application process
- Work with relationship lead or syndicate lead banker

Control

- Limited control if payments are current and covenants met

Return

- Favored position for repayment

Equity

- Dividends paid out after-tax
- Dilution of ownership

- Placement fees by equity type

- Extensive senior leadership meetings to secure funding
- Regular ongoing meetings

- Investor board participation
- Challenge to seek more control

- Subordinate in return of capital

Changing Capital Structure

Equity Buyback

Debt Refinancing

Debt Issuance

Debt Repayments