Managing Cash Flow During COVID-19

April 1, 2020

As COVID-19 is rapidly creating disruption in the economy, businesses of all sizes across the globe are facing severe economic challenges. Making smart strategic decisions now will better prepare you for the uncertainty and unpredictability of the future. Anchin has some helpful hints to minimize spending and maximize your cash flow.

When experiencing disruption in your business, the first step is to review your cash flow model for the rest of 2020, with a focus on the next 90 days. Determine what is essential to running your business and what is not. This includes managing processes, limiting software subscriptions, evaluating marketing campaigns and minimizing your non-essential variable costs. Work with your current essential and non-essential vendors on payment terms. Consider slowing or deferring certain payments of non-essential services bills, and be sure to communicate this with those vendors. Also, review your Research and Development function and processes and determine which are essential for the operation of the business, and which are for future projects that can be delayed for the short-term.

Once you have assessed your cash needs, it will be helpful to review your terms and payment conditions with your current lenders.. Communicate with your lending partner about expanding your credit facility and offering revised payment terms such as extended or deferred principal and interest payments. Consider drawing from any available lines of credit currently in place to assist with future cash flow requirements. Also, don’t rule out corporate credit cards as another form of credit. In fact, some credit card companies are currently offering extended payment terms to help with cash flow.

After you have considered your financing needs, it is time to communicate with your investors. You need to know now if they will support a short-term need caused by this disruption. Now is the time to strategize about your alternatives together with your investors. You may need to consider a bridge round of financing or accelerate future planned rounds of financing. Depending on the sector that you are in, you may have to come to terms with the fact that valuations will be lower than they were just a few weeks ago.

The fundamental costs for most technology and service businesses are rent and payroll. We recommend that you are transparent with your landlords and do not shy away from asking for relief. This includes rent abatements, deferrals, application of security deposits against rent payments, and the potential extension of leases. We also recommend reviewing your lease agreements with your real estate broker to fully understand your options and specifics such as guarantees, force majeure claims, etc.

We understand business owners and management teams are faced with difficult decisions regarding staffing. It is important to provide flexibility to your staff; this may include offering flex-time or a part-time working schedule. Solutions include salary reductions, equity partner reduction in draws, elimination of internship programs and mandated personal time off as alternatives to layoffs and furloughs. You should consult with your labor attorney on any of these decisions. Furthermore, you should consult with your accountant and attorney as to how these critical decisions interplay with the current and future stimulus packages being offered by government agencies.

We encourage you to monitor the various Federal, State and Local government programs currently available. Most recently, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was approved by Congress and the President. This legislation will assist American workers by providing employers facing hardships with the funds they need to pay their employees and other costs during this challenging time. The relief package is the largest in history. It includes relief for individuals, businesses, state and local governments, and non-profits.

For the latest developments and best practices during the COVID-19 outbreak, please check out Anchin's COVID-19 Update Center.

Stay focused and keep your business strong for the recovery. Work closely with professionals that have a deep understanding of the Technology and Services Industries, and, together with your team, develop a plan to guide you through these challenging times. For more information, contact Chris Noble, Leader of the Technology and Services Group, or your Anchin Relationship Partner with any questions or concerns.

Disclaimer: Please note this is based on the information that is currently available and is subject to change.