SQUIRE PATTON BOGGS

Managing the Financial Health of Your Business

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Managing the financial health of a business to ensure it continues to be viable and successful can be challenging, particularly in today's economic environment.

Not only are businesses facing a barrage of external pressures, such as raw material and energy price inflation and other supply chain issues, but internal stresses, such as wage inflation and skill shortages, make it even more important to focus on managing the financial health of a business.

This quick guide sets out some of the key factors for all businesses to consider that could help alleviate those pressures.

Pressure Points

- High inflation
- Raw materials costs
- Transport/Logistic difficulties
- Energy price hikes
- Supply chain issues
- Wage inflation
- Interest rates rises
- Credit insurance challenges
- Brexit/COVID fallout
- Market uncertainty
- Exchange rate inflation

Cash Flow Support

Existing Facilities, Borrowings and Security

- Will lenders agree to extend current facilities?
- Can you draw down additional funding if there is sufficient headroom?
- Can/Should you refinance?
- Have you considered private equity funding?
- Can shareholders/director provide additional funds?
- Can you get better rates/terms?
- Should you restructure your security arrangements?
- Will your existing lender agree a period of forbearance?
- Will the government's Recovery Loan Scheme provide better terms?
- Are there any other government grants/ subsidies?

Working Capital Solutions

- Have you considered using alternative funders?
- Will invoice discounting/factoring provide additional working capital?
- What about asset-based lenders (ABL)?
- ABLs and debt financers can help unlock capital without increasing debt.

There may be scope to obtain additional finance to improve cash flow. Whether you do this by borrowing more from your existing lender or taking out new or additional finance will depend on the financial circumstances of the business. However, you should take care when deciding on the best option to ensure that you comply with your director duties.

Manage Key Stakeholders

Landlords

- Is your rent above market rate?
- Will your landlord agree to reduce rent?
- Can you pay monthly instead of quarterly?
- Do you need the premises?
- Can you negotiate a surrender or exit your lease?
- Are there alternative/cheaper solutions?
- Will your landlord "pain share" to secure your ongoing occupation?

There are a number of ways that a business can restructure lease costs, ideally, by agreeing upon something directly with landlords, but where that is not possible, there are other solutions. See our quick guide.

Suppliers

- Review your supplier contracts.
- Do these contracts allow suppliers to pass on increased costs?
- Are they at a fixed price that is no longer competitive?
- Can you renegotiate the contract to improve price or contractual protections?
- Can you find an alternative supplier if your current supplier(s) are overpriced?
- If the contract is competitive, consider whether you can extend payment terms or agree upon a payment plan.

In addition to making sure your supplier contracts work for your business, have you mapped your supply chain to identify any risks that your supplier may pose to your business? If not, see our quick guide for hints and tips.

Lenders – See above.

HMRC

- Engage early with HMRC.
- Asking for time to pay accrued tax liabilities can be complex, so consider involving your advisors to ensure your business gets the best support.

Creditors

- Can you improve your credit control processes or shorten payment terms?
- If your creditors are placing pressure on the business, can you
- Agree to a repayment plan?
- Offer security or guarantees for payment?

Debtors

- Review contracts: Are payment/other terms being observed?
- Consider credit insurance.
- Consider offering prompt payment discounts.
- Maintain tight credit control to avoid bad debts.

Support With Tax

Time to pay (TTP)

- HM Revenues and Customs (HMRC) can agree to TTP accrued tax debts in instalments, typically over a three-to12-month period.
- There is a dedicated support line (0800 0159 559).

HMRC will support viable businesses. For further details about how to manage that conversation, see our quick guide.

Review Key Contracts

- Review existing contracts.
- Identify where costs can be reduced or where the business would benefit from additional protections.
- Can contracts be renegotiated?
- Can payment terms be improved?
- Can you pass on increased costs to your customers?

Operational Costs

- Consider where you can reduce costs in the business.
- Identify high-cost areas: Are there alternative sources?
- Can employee numbers be reduced?
  - If so, ensure appropriate redundancy processes are followed.
- Manage key contracts and stakeholders (see above).
- Can unviable/loss making parts of the business be sold or closed?

Planning and Protection

- Prepare regular cash flow forecasts and review them.
- Prepare for the worst, plan for the best.
- Avoid staying static, be flexible and look for opportunity.
- Have an appetite for change.
- Minute key decisions and the reasons for those.
- Put in place a good support network

Key Takeaways

Whether a business needs to address external and/or internal pressures, acting early, reviewing key contracts and relationships, and ensuring a good team of advisors is on board will help alleviate pressure and enable directors to get back to running the business.

To discuss any of the points in this quick guide in further detail, please contact one of our experts listed.

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