Key Questions

- **Survival**: What do I do to make it through the crisis?
  - At this point: Is what I am currently doing optimal?

- **Positioning**: What do I do to prepare for after the crisis and the new normal?
This talk

• **Focus**: How do I assess my options?
  • Which strategies, operational changes, financial decisions are “best”? 

• **Messages**:
  1. Simplify your decision making 
  2. Shore-up cash flow 
  3. Opportunity 

• **Acknowledgements and caveats**

Simplify Decision Making
Simplify

Financial value = 

\[ \text{Short-term cash flow} + \text{Long-term cash flow} \]

• Good decision-making
  1. Identifies cash flow implications
  2. Recognizes uncertainty and plans for contingencies

Simplify

Financial value = 

\[ \text{in crisis} \]

\[ \text{Short-term cash flow} + \text{Long-term cash flow} \]

• Good decision-making in a crisis
  1. Identifies cash flow implications \textbf{right now}
  2. Recognizes uncertainty and plans for contingencies
Changing Value Drivers

<table>
<thead>
<tr>
<th></th>
<th>Pre-Crisis</th>
<th>Crisis</th>
<th>Post-Crisis</th>
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<tbody>
<tr>
<td>Small Firms ($60mil Sales)</td>
<td>Revenue growth</td>
<td>Investment</td>
<td>Financial leverage</td>
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<tr>
<td>Large Firms ($1.7bil Sales)</td>
<td>Revenue growth</td>
<td>Earnings</td>
<td>Cash balance</td>
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<td></td>
<td>Revenue growth</td>
<td>Cash balance</td>
<td>Working capital</td>
</tr>
</tbody>
</table>

*Saas companies from 2004 to 2013
**Significantly positive and negative determinants of enterprise value-to-sales multiples

Shore-up Near Term Cash Flow
Monitoring

• Circumstances are changing fast

• Cash flow monitoring needs to be:
  • More frequent: daily
  • More granular: Information is lost in aggregation

How long is your liquidity runway?

Stock return* = 33%
△ EV / Sale = 0.3
△ EV / Ebitda = 0.1

1.5 months

Stock return* = 53%
△ EV / Sale = 1.3
△ EV / Ebitda = 5.4

4.6 months

Stock return* = 30%
△ EV / Sale = 0.9
△ EV / Ebitda = 2.0

11 months

SaaS companies from 2004 to 2013
Duration = (Cash / TTM expense) as of end of crisis (June 2009) times 12
Performance measures are over the two years following the end of the crisis (June 2009). Stock returns measures on annual compounded basis.
De-Levering Operations

- Fixed overhead akin to financial debt
  - Increases cash flow volatility and risk

<table>
<thead>
<tr>
<th>2-yr Performance</th>
<th>Reduction</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Δ EV / Sale</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Δ EV / Ebitda</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Stock Return*</td>
<td>40%</td>
<td>28%</td>
</tr>
<tr>
<td>Sales growth*</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>EBITDA growth*</td>
<td>21%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Saas companies from 2004 to 2013
Reduction/increase in operating leverage measured over the crisis period, December 2007 to June 2009.
Performance measures are over the two years following the end of the crisis (June 2009).
*Indicates measures on an annual compounded basis.

Opportunities
Discipline Decision Making

*Discipline = efficient spend (≠ less (no) spend)

Efficiency Transition

- Time to implement efficiency initiatives
  - Growth and earnings expectations have decreased
  - Less growth-oriented, more bang for the buck
- Example: Financial automation
  - Multinational manufacturing firm
  - Large legacy accounting and audit dept.
    - Significant fixed cost
  - Transition to scalable cloud-based services
    - Reduction in cost and increase in flexibility
Opportunity Cost and Externalities

• One size does not fit all…automation
• Example: Financial services company
  • Expand digital channels
    • Low-cost
    • Diversify customer (revenue) base
  • Question: At what cost?
    • Afford to pull resources from expensive but profitable segment?
      • Customer loss, brand dilution affects new customer segment
  • Question: Real diversification?
    • New customers are much more sensitive to economic cycles
Questions to be Answered

• Cash flow
  • How much money is coming and going over the next 6, 12, 24 months?
  • From where is it coming?
  • With what certainty?
  • What are your backup plans in case of shortfalls?

• Decision-making
  • Can you convey cash flow implications of decisions?
  • Do you have contingency plans when expectations don’t pan out?
  • What is your risk exposure in light of current cash flow forecasts?
  • Sometimes helpful to ask: What if we don’t do X?
    • Think through implications…often insightful.

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• Manage near term cash flow and liquidity
• Start preparing for after the crisis and the new normal

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