



MID-STATES ADVISORS
A Private Placement and Business Brokerage Firm
Newsletter

Mid-States Advisors, Inc. Monthly Article & Updates

Good Morning,

As we inch closer to the election and a potential new round of government financial aid due to Covid-19 we thought it an opportune time to address cash management. While many businesses have recovered from the effects of Covid-19 many others are still struggling. This week we've chosen to address how effective cash management can help achieve business goals, in both good times and bad. There are many tools to be used when managing cash but the best tool is the one management can use effectively. We discuss the tools and how they can be utilized in various situations.

As always, if you are interested in learning more about this week's content or if we can help you or a client in any way please feel free to reach out to one of our team members.

Best Regards,
The Mid-States Team

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Visit our Website

CASH IS KING! MANAGE IT FOR SUCCESS

Cash is only King if one can manage it. All of our clients have their own, back of the envelope, understanding of how their business is doing – cash and receivables less line of credit and payables; change in cash from the start of the year; weekly payroll compared with weekly sales, etc. Almost every one of these benchmarks has cash in the equation.

There are many tools for effective cash management, from the daily cash forecast, to a thirteen week detailed cash flow, to monthly operating projections for the next several years. The most common and widely accepted cash management tool is the thirteen-week cash forecast. The issue with the one-

week forecast is that it is too micro and doesn't reflect expected large expenditures due in the next month, or the customer that will be paying slower than expected, or the impact of paying for a significant expenditure today because there's available cash on hand. The three-month cash flow generally covers a complete operating cycle – billing through collections, purchases through payments. At first glance, creating the forecast can seem like an onerous undertaking. But, as with many administrative tasks that management often abhors, once a few hours are set aside and the efforts started, the forecast simply involves reviewing receivables, collection trends, payables, payroll and other weekly/monthly expenditures and historical payment trends. Depending on the number of customers, the forecast can list each and every customer and estimated collections, or just the major customers and possibly two or three categories encompassing the rest of the customers. Similar process with disbursements, listing payroll, payroll taxes, loan payments, utilities, vendor payments, health and general insurances and other obligations. Again, be as detailed as needed.

Looking out a month or two will show the impact of many scenarios. For example, maybe business has been slow but is going to pick up – how much payroll and other cost of sales items have to be funded before the related receivable(s) is collected. Or, similarly, the seasonal impacts of a business can be forecasted.

Once the basic projection template has been created, updating the spreadsheet is relatively simple – what actually happened last week, what changes are expected in the next few weeks, what needs to be added to the thirteenth week going forward. Once comfortable with this process, it can get more sophisticated by adding a billing component to the model that will automatically generate future collections and costs in future weeks. And if a borrowing base calculation is involved for a line of credit, the information is available to compute the expected availability for the next thirteen weeks.

Cash forecasting should be a standard tool every operating company utilizes. But it is especially critical when the company is experiencing operating cash flow issues. Predicting potential cash shortages weeks ahead of the actual event allows management to work with its lenders and/or creditors to develop an acceptable cash management strategy rather than having the proverbial call that “there is no money for tomorrow's payroll”. If operating results continue to worsen and the company's lender passes the account off to the workout group (Special Assets or similar euphemisms), cash is the workout officer's number one concern and they will be more likely to continue to work with the company knowing there is a proactive plan in place.

Having cash forecasts to share with the workout officer (which they will inevitably demand) shows that management knows what they are doing, that they are working in the company's and the lender's best interest, and will drive confidence that the loan will be able to be returned to the lending floor. The cash forecast, with reasonable accuracy, will show the workout department that the company has a plan and is able to predict results. Once the company has demonstrated that they can perform in accordance with those predictions, half the battle has been won! With the plan laid out, the next step in the process is to evaluate and manage costs, develop a plan to improve profitability and locate replacement financing.

The thirteen-week forecast is not the only tool management should use. Ratios

such as cash ratio (cash divided by current liabilities), debt service coverage (operating cash flow divided by principal and interest payments), days receivables outstanding (receivables divided by previous month's sales), days payables outstanding (payables divided by last month's costs), etc., are all useful tools to monitor trends and results.

Mid-States has vast experience assisting clients in managing cash and working with workout groups to create the best outcome for the company and the lender. We help create the cash forecast template and assist with keeping the file up to date. We pride ourselves on responding quickly and cost effectively, assisting our clients in achieving their desired goal, from cash management during growth to cash management for companies dealing with unexpected struggles. We have decades of experience in providing creative funding solutions for lower-middle market companies in a variety of industries. Additionally, we assist owners in preparing and packaging their business for sale, or for passing along to the next generation. We create innovative structures for transactions, package the opportunity for market and locate the appropriate buyer, lender or investor.

Remember, when cash is no problem, no problem is insurmountable. We can help you get there!

If you would like to discuss our services in more detail, please contact us to learn more about how we can assist your company or client. Below are the direct phone numbers and emails for a Mid-States team member who can answer your questions (yes, we answer our own phones):

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[See our team at Midstates Advisors' website](#)

