

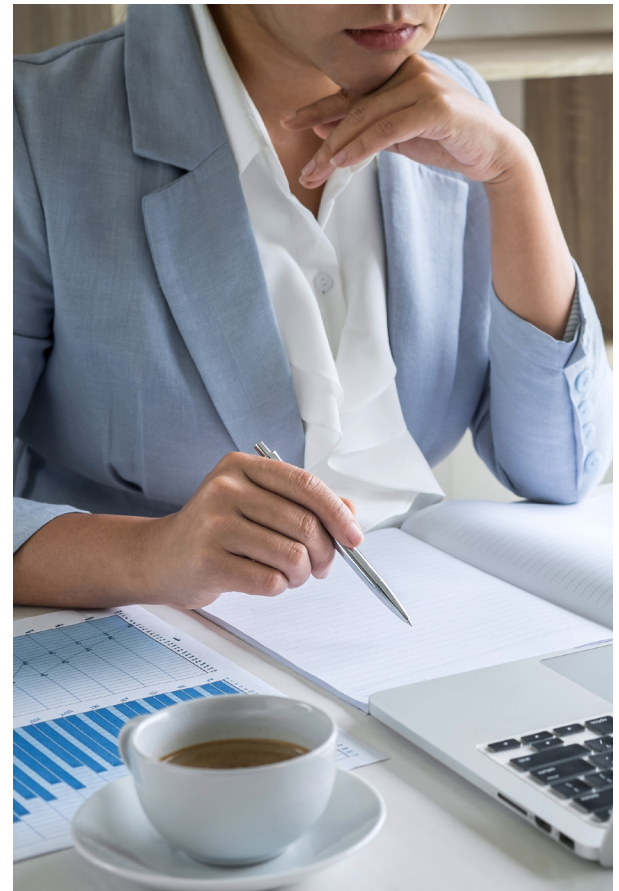
Crisis Management - Balance Sheet and FX Management

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Insights to managing balance sheet components in volatile non-U.S.\$ currencies.

SynFiny Advisors has developed a series of Crisis Management Insights to help you strengthen and grow your business after having faced a major business interruption. Our objective is to provide a framework that allows any business (*no matter how big or small*) to maintain focus while dealing with the multitude of distractions that take you away from your core business. Our advisors' share their seasoned experiences and "been there, done that" practical advice to not only survive but thrive in a crisis situation.

This insight will address the key actions to take during major economic and political crises that impact market sizes, availability of funds and that create a flight to safety (\$), thus impacting soft currency countries resulting in high inflation and volatile consumer markets.



Discussion

As a result of the Coronavirus pandemic, there has been a flight to safety, where investors move to strong currencies, i.e. U.S. dollars, thus resulting in the weakening of developing market currencies of 20-40% as it happened to Mexico, Colombia, Peru, and other markets even before these countries were impacted by the virus. Next, we are exposed to closed businesses, low sales, lack of liquidity and reduced consumption. The perfect economic storm.

When faced with a perfect economic storm it results in lower sales, higher local production and operational cost and a devalued currency. Surviving these challenges requires cash - CASH IS KING - and the optimization of the balance sheet to avoid currency risks and to better utilize assets like inventory.

Did you have enough cash to weather the crisis? Do you have line of credits available? If outside of U.S., could you borrow in local currency?

If borrowing is available, that is great move in soft currencies impacted by devaluation and inflation.

Where are your profit margins after you have been impacted by devaluation?

If your business has a margin of 20%, with a 20% devaluation (Mexico) and a 50/50 local to imported cost structure, you are starting the crisis with a 10% margin, if devaluation is 40%, you are at breakeven.

So, questions to consider when you are facing these cash challenges:

- *Do you have a good system to forecast scenarios for margin and cashflow?*
- *Once you know what your margins are, do you need pricing?*
- *How well are you utilizing working capital?*
- *Receivables - could you collect sooner? If not, create an incentive for prompt payment, offering a larger discount.*
- *Accounts payable - is it possible to extend payment terms?*
- *Are you eliminating low moving and unprofitable sku's?*
- *Could you avoid hard currency payables?*
- *Local sourcing - could you avoid importing finished goods, is it possible to locally manufacture?*
- *Cost savings - is it possible to reformulate? Cheaper products, trade down as there is less acquisition power?*

Key Takeaways

Cash is king in times of crisis. Careful analysis and management of the balance sheet is of utmost importance. Avoid debt in hard currency. Incentives for prompt payment of receivables is a must. Localization in local currency of manufacturing inputs is critical. Careful attention is required to profit margins and cost reductions and or pricing are key in maintaining dollar-based profit margins.

Conclusion

SynFiny Advisors brings talented “been there, done that” experienced managers to solving client challenges. Each engagement brings measurable, pragmatic, and actionable recommendations. We assist in developing Business Process Transformation scenarios to survive changing economic conditions and minimize disruption to your business. Our approach is very simple, we Define, Design and Transform. And in doing so, transform your business from ‘existing’ to ‘exceeding’.

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