

# Financial Management Post COVID-19 Disruption: Managing Cash and Liquidity During a Time of High Uncertainty



The BDO Center for Healthcare Excellence & Innovation

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# Evolution of Business Issues by Stage

	PROTECTING YOUR WORKFORCE (People)	MANAGING YOUR BUSINESS (Strategy & Operations)	MITIGATING RISK (Risk)	UNDERSTANDING THE ECONOMIC IMPACTS (Financials)	EVOLVING REGULATION, LEGISLATION & COMPLIANCE (Regulation)
Persevere	Protecting Your Workforce	Managing Your Business During a Crisis	Mitigating Risk During Disruption	Understanding the Economic Impacts of a Pandemic	Evolving Regulation, Legislation & Compliance
Maintain	Optimizing Your Workforce	Managing Your Business in a Recession	Managing Risk	Minimizing the Economic Impacts of a Downturn	Navigating Regulation, Legislation & Compliance
Recover	Scaling Your Workforce	Managing Your Business in a Recovery	Bolstering Resilience	Uncovering Economic Opportunities	Navigating Regulation, Legislation & Compliance
Thrive	Enabling Your Workforce	Managing Your Business to Growth	Conquering Uncertainty	Maximizing Economic Opportunities	Navigating Regulation, Legislation & Compliance

# Context

Organizations that are currently struggling for profitability—those with low cash reserves or unstable cash-flows—are particularly vulnerable.

As many organizations prudently shift their focus to cash, we see several common missteps. One is failing to adequately pressure test cash-flow projections under a variety of scenarios.

A few questions can serve as a litmus test of whether you have a clear view of your liquidity and cash position.

- ▶ Are we testing the organization's ability to respond to a range of challenging scenarios?
- ▶ With the current burn rate and cash position, how long could we continue to operate?
- ▶ Do we have additional sources of capital we can pursue, and what lead time do they require?
- ▶ Is our patient base stable, and will that allow for break-even or better?
- ▶ How are receivables trending compared with the budget, considering both revenues and payment terms?



**Executive teams should set up processes to answer these as quickly as possible.**

# Short Term Strategies

# Understand minimum cash and liquidity requirements

Shifting focus from the income statement to the balance sheet



## Cash is King

Understand your cash and working capital needs. In a volatile and slowing economy, getting an immediate handle on your daily cash needs is essential.



## Take a Critical View of Operations

Review existing cash-flow forecasting processes and understand how potential disruptions to operations may affect liquidity.



## Run Scenario Analyses on your Financial and Cash Forecast

Understand how these scenarios interact with short-term liquidity needs. This exercise may also highlight any borrowing base or covenant breaches that you could be facing and can help shape any short-term management decisions.

# Protect and improve your position

Awareness of cash reserves or shortages, along with the liquidity position, will be a starting point for identifying opportunities.

Identify how much cash you have. Assess if it is restricted or readily available for use.

Look for opportunities to build a war chest of cash and investigate whether drawing down on credit facilities is prudent for safeguarding your organization.

Control all cash outflows by initiating spending review sessions to challenge all purchase requests and instill a cash-preservation mindset across the organization.

## Questions to ask:

- ▶ Which outlays are not vital to operations and not yet committed?
- ▶ Where do we have flexibility in timing or credit terms for required spending?
- ▶ Is the business case for investment justified to enable continued operations?



# Create a 13-week cash-flow forecast

- ▶ The 13-week cash-flow forecast diagnoses the severity of your current position.
- ▶ It also enables meticulous monitoring, planning and forecasting of cash inflows and outflows.
- ▶ Update the forecast weekly and compare it with real-time data.



Tool typically utilized in most restructuring and crisis situations

# Cash-Flow Forecast Scenario 1 - Normal Conditions

	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Week	0	1	2	3	4	5	6	7	8	9	10	11	12	13
Week Ending Friday	8-May	15-May	22-May	29-May	5-Jun	12-Jun	19-Jun	26-Jun	3-Jul	10-Jul	17-Jul	24-Jul	31-Jul	7-Aug
<b>Beginning Balance</b>	<b>750,000</b>	<b>970,065</b>	<b>512,815</b>	<b>882,815</b>	<b>500,565</b>	<b>685,565</b>	<b>905,565</b>	<b>598,315</b>	<b>878,315</b>	<b>446,065</b>	<b>666,065</b>	<b>208,815</b>	<b>578,815</b>	<b>136,565</b>
<b><u>Operating Cash Receipts</u></b>														
Medicare	21,865	20,000	20,000	80,000	20,000	20,000	20,000	80,000	20,000	20,000	20,000	20,000	80,000	20,000
Medicaid	101,852	100,000	250,000	100,000	100,000	100,000	250,000	100,000	100,000	100,000	100,000	250,000	100,000	100,000
Private	101,548	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Insurance	74,800	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
<b>Total Operating Cash Receipts</b>	<b>300,065</b>	<b>295,000</b>	<b>445,000</b>	<b>355,000</b>	<b>295,000</b>	<b>295,000</b>	<b>445,000</b>	<b>355,000</b>	<b>295,000</b>	<b>295,000</b>	<b>295,000</b>	<b>445,000</b>	<b>355,000</b>	<b>295,000</b>
<b><u>Operating Cash Disbursements</u></b>														
Payroll & Taxes		515,000		515,000			515,000		515,000		515,000		515,000	
Health, Dental, W/comp.		77,250		77,250			77,250		77,250		77,250		77,250	
Rent					45,000								45,000	
Utilities				70,000					70,000				70,000	
Operating Expenses (AP)	80,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Insurance Premiums (GL/PL, D&O)		100,000					100,000				100,000			
<b>Total Disbursements</b>	<b>80,000</b>	<b>767,250</b>	<b>75,000</b>	<b>737,250</b>	<b>120,000</b>	<b>75,000</b>	<b>767,250</b>	<b>75,000</b>	<b>737,250</b>	<b>75,000</b>	<b>767,250</b>	<b>75,000</b>	<b>782,250</b>	<b>75,000</b>
<b>Net Operating Cash Flow</b>	<b>220,065</b>	<b>(472,250)</b>	<b>370,000</b>	<b>(382,250)</b>	<b>175,000</b>	<b>220,000</b>	<b>(322,250)</b>	<b>280,000</b>	<b>(442,250)</b>	<b>220,000</b>	<b>(472,250)</b>	<b>370,000</b>	<b>(427,250)</b>	<b>220,000</b>
<b><u>Non-Operating Cash (Receipts) / Disbursements</u></b>														
Investment Income					(25,000)				(25,000)					(25,000)
Donations		(15,000)					(15,000)			(15,000)				
Revolver Interest Payments					15,000				15,000				15,000	
Principal Payment / (Borrowing)														
Other Disbursements / (Receipts)														
<b>Total Non-Operating Cash Disbursements</b>	<b>-</b>	<b>(15,000)</b>	<b>-</b>	<b>-</b>	<b>(10,000)</b>	<b>-</b>	<b>(15,000)</b>	<b>-</b>	<b>(10,000)</b>	<b>-</b>	<b>(15,000)</b>	<b>-</b>	<b>15,000</b>	<b>(25,000)</b>
<b>Net Cash Flow</b>	<b>220,065</b>	<b>(457,250)</b>	<b>370,000</b>	<b>(382,250)</b>	<b>185,000</b>	<b>220,000</b>	<b>(307,250)</b>	<b>280,000</b>	<b>(432,250)</b>	<b>220,000</b>	<b>(457,250)</b>	<b>370,000</b>	<b>(442,250)</b>	<b>245,000</b>
<b>Ending Balance</b>	<b>970,065</b>	<b>512,815</b>	<b>882,815</b>	<b>500,565</b>	<b>685,565</b>	<b>905,565</b>	<b>598,315</b>	<b>878,315</b>	<b>446,065</b>	<b>666,065</b>	<b>208,815</b>	<b>578,815</b>	<b>136,565</b>	<b>381,565</b>

# Cash-Flow Forecast Scenario 2 - 20% Reduction in Volume

	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Week	0	1	2	3	4	5	6	7	8	9	10	11	12	13
Week Ending Friday	8-May	15-May	22-May	29-May	5-Jun	12-Jun	19-Jun	26-Jun	3-Jul	10-Jul	17-Jul	24-Jul	31-Jul	7-Aug
<b>Beginning Balance</b>	<b>750,000</b>	<b>970,065</b>	<b>453,815</b>	<b>734,815</b>	<b>281,565</b>	<b>407,565</b>	<b>568,565</b>	<b>172,315</b>	<b>381,315</b>	<b>(109,935)</b>	<b>51,065</b>	<b>(465,185)</b>	<b>(184,185)</b>	<b>(697,435)</b>
<b>Operating Cash Receipts</b>														
Medicare	21,865	16,000	16,000	64,000	16,000	16,000	16,000	64,000	16,000	16,000	16,000	16,000	64,000	16,000
Medicaid	101,852	80,000	200,000	80,000	80,000	80,000	200,000	80,000	80,000	80,000	80,000	200,000	80,000	80,000
Private	101,548	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Insurance	74,800	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
<b>Total Operating Cash Receipts</b>	<b>300,065</b>	<b>236,000</b>	<b>356,000</b>	<b>284,000</b>	<b>236,000</b>	<b>236,000</b>	<b>356,000</b>	<b>284,000</b>	<b>236,000</b>	<b>236,000</b>	<b>236,000</b>	<b>356,000</b>	<b>284,000</b>	<b>236,000</b>
<b>Operating Cash Disbursements</b>														
Payroll & Taxes		515,000		515,000			515,000		515,000		515,000		515,000	
Health, Dental, W/comp.		77,250		77,250			77,250		77,250		77,250		77,250	
Rent					45,000								45,000	
Utilities				70,000					70,000				70,000	
Operating Expenses (AP)	80,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Insurance Premiums (GL/PL, D&O)		100,000					100,000				100,000			
<b>Total Disbursements</b>	<b>80,000</b>	<b>767,250</b>	<b>75,000</b>	<b>737,250</b>	<b>120,000</b>	<b>75,000</b>	<b>767,250</b>	<b>75,000</b>	<b>737,250</b>	<b>75,000</b>	<b>767,250</b>	<b>75,000</b>	<b>782,250</b>	<b>75,000</b>
<b>Net Operating Cash Flow</b>	<b>220,065</b>	<b>(531,250)</b>	<b>281,000</b>	<b>(453,250)</b>	<b>116,000</b>	<b>161,000</b>	<b>(411,250)</b>	<b>209,000</b>	<b>(501,250)</b>	<b>161,000</b>	<b>(531,250)</b>	<b>281,000</b>	<b>(498,250)</b>	<b>161,000</b>
<b>Non-Operating Cash (Receipts) / Disbursements</b>														
Investment Income					(25,000)				(25,000)					(25,000)
Donations		(15,000)					(15,000)				(15,000)			
Revolver Interest Payments					15,000				15,000				15,000	
Principal Payment / (Borrowing)														
Other Disbursements / (Receipts)														
<b>Total Non-Operating Cash Disbursements</b>	<b>-</b>	<b>(15,000)</b>	<b>-</b>	<b>-</b>	<b>(10,000)</b>	<b>-</b>	<b>(15,000)</b>	<b>-</b>	<b>(10,000)</b>	<b>-</b>	<b>(15,000)</b>	<b>-</b>	<b>15,000</b>	<b>(25,000)</b>
<b>Net Cash Flow</b>	<b>220,065</b>	<b>(516,250)</b>	<b>281,000</b>	<b>(453,250)</b>	<b>126,000</b>	<b>161,000</b>	<b>(396,250)</b>	<b>209,000</b>	<b>(491,250)</b>	<b>161,000</b>	<b>(516,250)</b>	<b>281,000</b>	<b>(513,250)</b>	<b>186,000</b>
<b>Ending Balance</b>	<b>970,065</b>	<b>453,815</b>	<b>734,815</b>	<b>281,565</b>	<b>407,565</b>	<b>568,565</b>	<b>172,315</b>	<b>381,315</b>	<b>(109,935)</b>	<b>51,065</b>	<b>(465,185)</b>	<b>(184,185)</b>	<b>(697,435)</b>	<b>(511,435)</b>

# Working capital strategies and considerations



## Strategically Manage Working Capital:

- Take a critical look at working capital Key Performance Indicators (KPIs), such as days payable outstanding and days sales outstanding.
- Understand the impact of stretching these days in either direction.



## Review Budgets:

- Assess capital expenditure requirements.
- Defer non-essential spending, if possible.



## Accounts Receivable and Collections:

- Continuously monitor accounts.
- Failing to collect receivables timely (or even on an accelerated basis) may result in a cash-flow shortfall that could have an immediate impact on all areas of your business.
- Evaluate revenue sources that are at risk of not paying.



## Vendors and Suppliers:

- Negotiate for the most favorable credit terms with suppliers and critically evaluate your supplier base to determine whether your current agreements are still the most favorable for your business.

# Operational Adjustments and Considerations



- Clinical services with low to moderate case volume, operating with financial losses should be restructured, partnered or eliminated.
  - Explore partnerships for clinical services to create regional solutions that share cost and risk.
  - Develop new partnerships that allow for continued services with shared or reduced costs within structures aligned with clinical integration models.
- Align professional fees with clinical demand, modifying or eliminating support for services without a positive growth trajectory.
- Integrate telehealth services as an efficient low-cost mechanism to expand access to services that are often inefficient or inconvenient in regions with highly vulnerable patient populations.
- Train your providers on properly documenting and coding telehealth visits and claims

# Cost Optimization - Be Relentless



**Implement immediate mandates to reduce spending.**

- Clear communication, training and support for line managers



**Review fixed and variable costs carefully and determine what costs you actually need to run the business.**

- Review what you are spending on by category.
- Go beyond the P&L and run vendor spend report
- Review SG&A costs and compare against projected revenues



**Understand break-even units and dollars of each program**

- Conduct break-even analysis based on budget
- Run break-even analysis based on updated volume projections



**Act quickly, understanding that speed is essential and initiatives can be temporary. Examples: hiring freeze, review of external spending (e.g., marketing).**

***Do not execute cost-cutting initiatives at the risk of compromising revenue.***

# Cost Optimization - Ideas

Make efforts to reach out to your vendors and renegotiate all material contracts.

- **Reduce Non-employee Staffing** - consider reducing the use of self-employed and agency contractors and consultants
- **Review Printer/Copier Leases** - leases can be a substantial expense - sometimes costing thousands of dollars per month
  - If your staff are physically not in the office using these machines, we recommend looking at your contracts to determine what options may be available
- **Recurring Office Supply Orders** - could be put on hold or cancelled
  - Easy savings are snacks, drinks, paper supplies, toner, general office supplies, etc.
- **Services and Subscriptions** - cable, internet, or telephone services
- **Real estate leases** - consider how much space is needed going forward and whether you can reduce your space by either subleasing or other strategy; renegotiate your leases

# Key Considerations

- **Revisit capital investment plans**
  - With cash-flow forecasts in mind, consider what's really necessary for the near term.
  - What capital investments can be postponed until the situation improves?
  - What capital investments should be reconsidered?
  - What capital investments are required to position for the rebound and for creating competitive advantage?
- **Manage and expedite receivables**
  - Companies tend to get lax about receivables when cash-flow is not a concern.
  - Take a hard look at how your receivables are being managed. It's important to improve the rigor of your collection processes. Focus on customer-specific payment performance and identify companies that may be changing their payment practices.
  - Get the basics right, such as timely and accurate invoicing. Any errors in your billing process can lead to costly delays in receiving payment.



# Longer Term Strategies

# Prepare enterprise models based on different scenarios

- Modeling helps the leadership team assess the company's level of exposure.
- This COVID-19 disruption requires updated assumptions and scrutinizing budget forecasts.
  - Stress-test the P&L and develop contingency plans.
  - At a minimum, develop the best-case, base-case and worst-case scenarios.
  - We recommend playing with some downside scenarios.
- For most businesses, the best-case COVID-19 scenario will still involve missed financial targets.
- The worst-case scenario should envision a disastrous sequence of events.
  - Budget cuts beyond Care Management and Health Home reimbursement cuts.
- As conditions continue to evolve, leadership teams should pressure test their scenarios regularly.
- In some cases, it may be beneficial to add probability ranges to scenarios rather than creating a single estimate.



# Prepare enterprise models based on different scenarios

## Modeling processes include:

- **Stress-testing** by assessing major changes in one or two specific variables whose effects would be major and immediate, although the exact timing is not forecastable, for example, how reimbursement would affect service line margins.
- **Scenario planning** for longer range analysis by focusing on drivers that have the biggest impact, for example NYS budget deficits.
- Measure the risk against **established key performance indicators (KPIs) to measure variability in potential results.**
- **Establish key risk indicators (KRIs) and tolerance levels for any critical risks identified.**
  - KRIs are forward-looking leading indicators intended to anticipate potential roadblocks.

# Stay focused on medium and long-term goals

1

Continue to pursue organizational transformation, boost accountability and meet targets.

2

Start preparing a revised business plan for stabilization after the crisis, considering improvements implemented during the crisis, ongoing opportunities and results from strategic investments.

3

Carve out time to project what the future will look like, and take the opportunity to put new practices in place that will deliver sustained cost and liquidity leadership.

*While it is hard to take a longer-term view in the midst of crisis, leadership teams that have prepared for recovery and beyond will have a stronger starting point once the health threat and the economic landscape stabilize.*

# What can we learn from for profit companies

## Build up liquidity and cash reserves

- Build cash balances and develop a liquidity plan by reaching out to lenders to determine financing options and potentially take advantage of lower rates.

## Identify Growth Opportunities

- If the agency is financially strong, consider pursuing alternative growth strategies such as identifying potential merger or acquisition targets or strategic investments.
- If your scenario planning is showing pressure on your continued revenue streams:
  - Consider ways you could temporarily or maybe even permanently replace that revenue to a potentially more diversified revenue mix in the longer term.
  - If you have clinical staff you use to generate revenue, how could you think differently about how those employees are used to generate alternate revenue sources?

# Tool: KPI List

## Cash-Flow KPIs

- Working Capital
- Operating Cash-Flow
- Days Sales Outstanding (DSO)
- Days Cash on Hand
- Accounts Receivable Aging
- Accounts Payable Aging
- Collections
- Denials and Bad Debt
- Number/Percentage of Invoices
- Past Due

## Cost KPIs

- Cost Per Visit
- Cost Per Hire

## Debt KPIs

- Quick Ratio (“Acid Test”)
- Debt Level
- Current Ratio

## Profitability KPIs

- Program Profitability
- Operating Profit Margin
- Net Profit Margin
- Gross Profit Margin
- ROA (Return on Assets)

## Revenue KPIs

- Revenue per Full-Time Employee (FTE)
- Revenue Growth Rate
- Earnings Before Interest and Taxes (EBIT)

**Thank You!**

**Questions?**