

## Covid-19 (Corona Virus) Financial Health Check



Financial risk should be one of the areas that all businesses check regularly, and especially during times of business shocks. Please refer to the Covid-19 Risk framework.

### Financial risk identification for all businesses

Financial risk can be assessed using Jazoodle's platform (<https://portal.jazoodle.com>) The key business components to be considered are:

- Cashflows
- Liquidity
- Debtor and creditor collection efficiency
- How efficient your assets are working for you long term
- Solvency and underlying business health

Jazoodle would like to support the small and medium business community to prepare for and weather any impacts from the Coronavirus COVID-19.

Jazoodle will give all Xero connected businesses free access to the system for 14 days, and extend this a further 3 months for all SME businesses.

When confirming your subscription, please enter the code: **Lucrature3** in order to receive 3 months free on the monthly plan.

Once you have connected Jazoodle you should speak with your trusted business advisor in order for them to interpret the data, matching recommended strategies for your particular business.

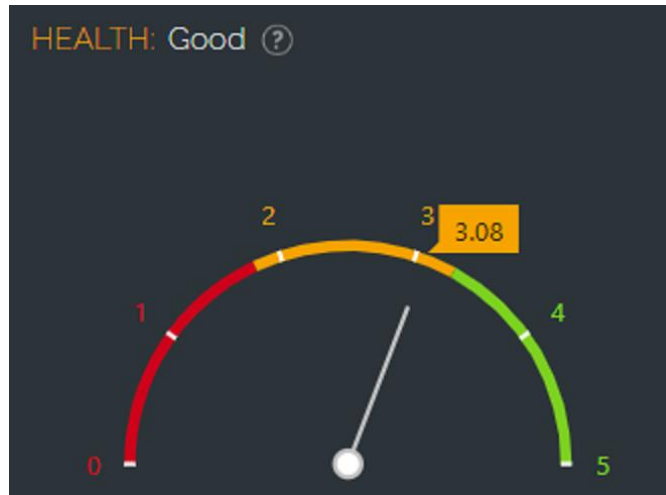
In our financial health check, businesses should ask the following questions. (We advise that you regularly stress test your finances and plan accordingly). This guide will give you some practical checks and tips in improving the various areas of your business that need to be resilient during these times.

The first place for you to start is to assess your current business health and your forecast health.

### Business health

Your overall business health score is vitally important and will tell you immediately of underlying changes within your business. Once a downturn or shocks occur - check this daily or at least weekly. You may not spot underlying changes to your business health, but the health barometer will.

The Jazoodle business health score can be found in your dashboard as well as the forecasting screen.



Your aim is for your business to be **above** 1.8 or the **red area**. In the early days of a business, such as for startups, it is unlikely you'll be in the orange or green zone regularly. Look for changes to this score weekly as the effects of the Corona Virus take hold.

Your health score is affected by a number of underlying areas of your business, namely your revenues, revenue growth, your costs, your liabilities, and levels of equity, debt and assets.


We've produced a handy checklist below to give you some pointers should the score change.

## JAZZOODLE

### HEALTH CHECKLIST


#### BUSINESS HEALTH SCORE

**If Health Score ↓**



Jazoodle's business health barometer instantly tells you how a business is performing can highlight **financial risk** up to **2 years in advance**.

The barometer measures several areas of your business and combines these measures into a single health score. This score has been tested academically over very many years and is seen as a good indicator of deep down business health!





Less than 1.8


Between 1.8 & 3.0


Above 3.0

**✓ Check Revenues**  
Sales downturn or discounting?


**View**  in dashboard

**View**  in P & L report

**View**  in dashboard


**View**  in P & L report

**✓ Check Solvency**  
Capital / asset base / EBITDA  
Falling?

**View**  in dashboard

**✓ Check Liquidity**  
Are current assets being overtaken by current liabilities

**Check:** stock levels, short term debt levels, bank balances, debtor changes, creditor changes

**View**  in dashboard

**View** in reports

You can also assess the affect of changes within your business by modelling changes in the forecasting screen.

Try to model your business health by adjusting revenues, direct costs. Overheads (General Expenses), Debtor collection times, and creditor payable times.

Use the health score to stress test you business. This will give you early warning of cracks within the financial structure of your business. (You can see your health score within the forecasting area, so that you can simply model changes to your business see the effects immediately.

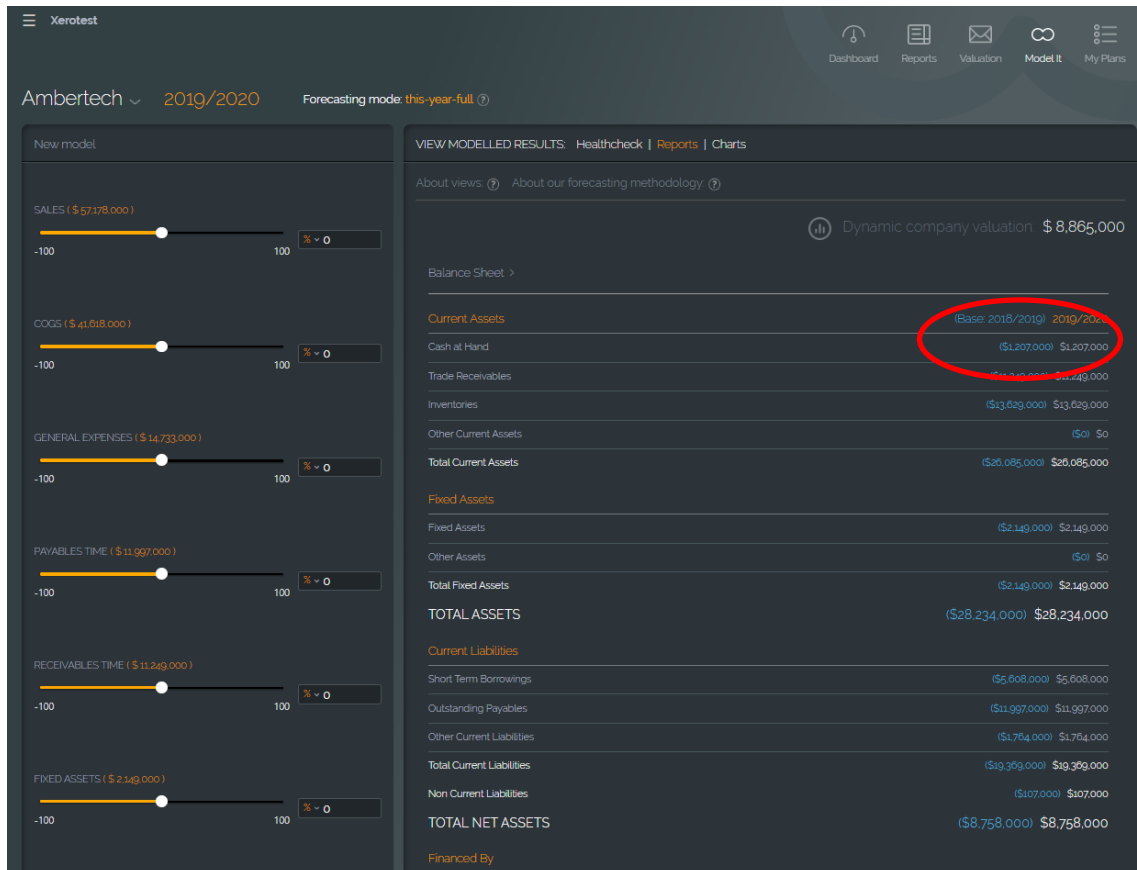
### **Positive Cashflows**

Cash is king as they say, and at times of economic shock, it is King, President, and Authoritarian dictator! We advise that all businesses should aim to preserve **3-6 months working capital**.

Easier said than done maybe, especially if you're a startup or new business, or if the business shock has come at the wrong time for your business (but let's face it, when is there ever a right time?)

How can you generate cash in times of poor demand? We've a few tips here for you and a few checks you can make.

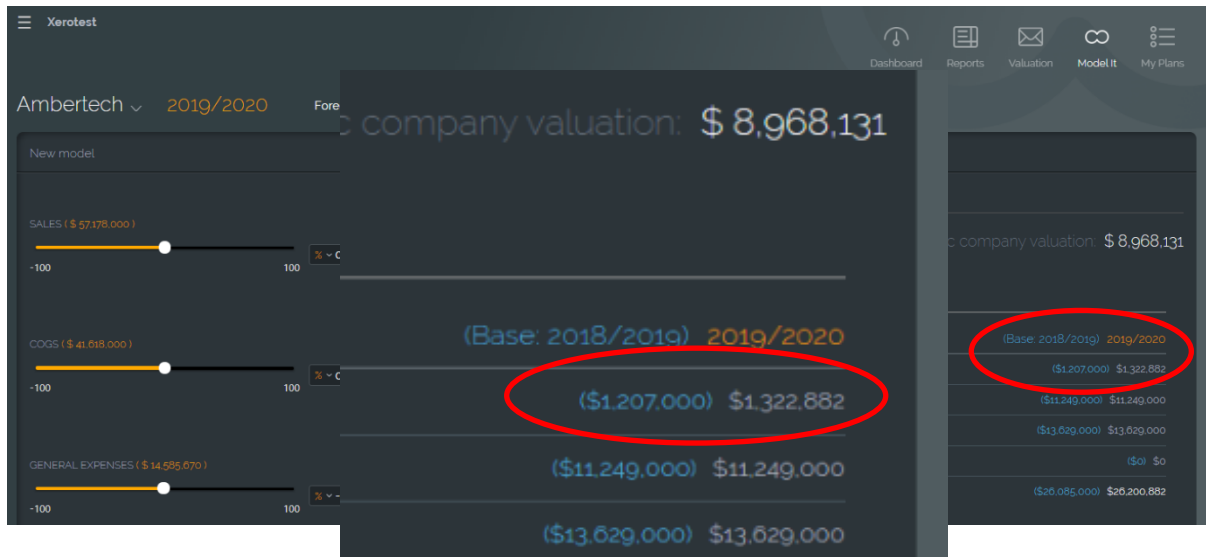
**Check forecast Cash Balances in the forecast Balance Sheet:**



Without touching any changes to the forecast (ie don't move any slider), you will be given a forecast end of year cash position. Check this regularly as changes in revenues will affect this forecast over time.

If your cash position is showing downward pressure, then here's what you can do to shore it up. You can model this within Jazoodle

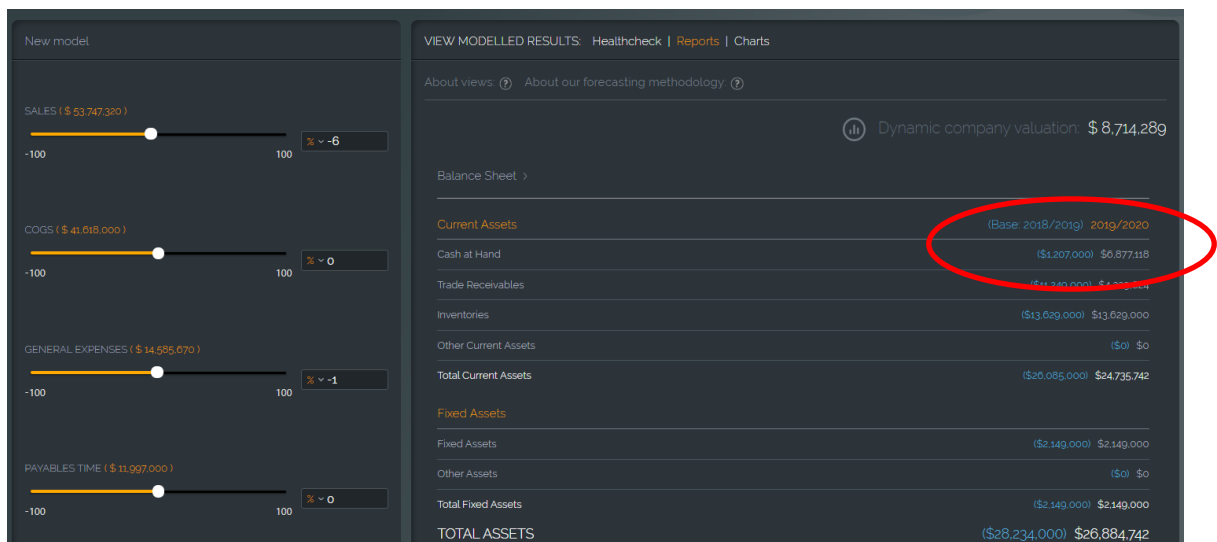
- Keep Overheads in check
  - Is there an opportunity for reducing general expenses within the business. What difference would even a 1% reduction in overhead expense mean for your business?
    - Try modelling this by moving the Expense slider left to the -1% position.



In this case, you'll see cash increases by about \$120,000. You will see that even small changes in your business may mean that your business' resilience is increased.

- Model using the following changes:
- If revenues are falling - you can also reduce the sales slider by x% and assess the effect on cash balances
- Assess your client receivables times - in Jazoodle, you can see this in your dashboard or forecast dashboard in the health sections
- Assess Payables days to pay
- Assess Inventory turnover
- 

After making each adjust go back to the Balance sheet within the reports area check your cash balance



As you can see - small changes can make a huge difference to cash levels, despite the drop in revenues.

Here are some ways to consider injecting more cash into your business during times of shock:

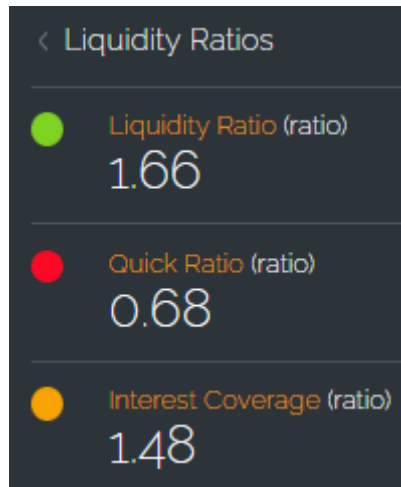
- **Assess factoring out your client invoices**
  - Can you make greater efficiencies in cash collection by outsourcing your invoice collection to factoring companies?
    - This will mean a reduction in overall incomings, however, may mean the difference between resilience and insolvency.
- **Discuss payment terms with your suppliers**
  - Another option is to discuss payment terms with your suppliers. Are you able to negotiate a temporary credit facility, or a lengthening of your payment terms?
    - You can also model this in Jazoodle by changing assessing your current payables time and adjusting the payables time slider
- **Can you arrange additional lending facilities with your lenders?**
  - Check with your bank or other non bank B2B lenders such as Lumi or Prospa
- **Do you have excess inventories sitting on site?**
  - Assess the potential of liquidating some of these excess stocks to clients, collaborators, other interested suppliers
- **Talk with your employees.** Your goal is to protect your most valuable asset, your employees, but if all other modelling doesn't work out for you, consider assessing a change to employee working week or taking of leave
  - We implore you strongly not to use this measure unless the alternative is not an alternative, and ensure that you understand your obligations as an employer and your staff awards and contracts.
    - If you have satisfied yourself of the above, then assess the effect of reducing the working week to a 4 day week or 3 day week temporarily
    - Assess voluntary unpaid leave
    - Ensure that staff take annual leave entitlements (this will protect cash should an employee leave)
    - Ensure that all long service leave liabilities are reduced
  - Make this an collaborative discussion, you may be surprised how supportive your employees are when you are open and honest about the situation.
    - You may want to consider some type of future bonus based on returning to normal in future.

## Liquidity

Liquidity is a measure identifying how much immediate risk there is in the business. It simply measures your immediately accessible assets relative to your immediate liabilities. Look for a score above 1.5.

## Quick Ratio

For a better measure, use the quick ratio. This assesses current assets relative to current liabilities but ignores stock (as these are not easily liquidated). Look for a score above 1.0 here



## Profit analysis

During times of shock Cash Flow should be your number one focus. Be ready to take a haircut on profit if necessary in the short-term.

However, please do not forget that at some stage, your business and the wider economy will start to recover from the current issues in the economy and your margins will sustain you in both the short and longer term.

These should be checked monthly to ensure progress. Check Gross margins (profit on sales) and net margins (profit on running your business):

### JAZZCODE PROFIT CHECKLIST

#### ABSOLUTE GROSS MARGIN

**If Gross margins ↓**

Analysing gross margins will tell you if you have a problem with either rising input costs, or falling revenues from:

- a) a sales downturn **or**
- b) relying too heavily on discounting **or**
- c) input cost increases

**✓ Check Revenues**  
Sales downturn or discounting?

View in P & L report

PROFIT & LOSS	
Operating Revenues	2015/2016
Sales	\$54,051,000
Cost Of Goods Sold	\$38,337,000
<b>GROSS PROFIT</b>	<b>\$16,344,000</b>

**✓ Check cost of goods sold (COGS)**  
Input costs rising?

View in P & L report

PROFIT & LOSS - LATEST YEARS 2015/2016	
Operating Revenues	2015/2016 2014/2015
Sales	\$54,051,000 \$50,527,000
Cost Of Goods Sold	\$38,337,000 \$34,950,000

### JAZZCODE PROFIT CHECKLIST

#### NET MARGINS

**If Net margins ↓ but gross margins =**

**✓ Check Expenses**  
Use the EBITDA method of assessing net profit margin  
Overheads increasing?

View in dashboard

View in P & L report

If net margins are falling, but gross margins are steady, this will indicate either an increase in expenses (overheads), or could simply be an increase in depreciation. Assessing expenses in relation to EBITDA will give you the answer

In all likelihood falling margins will be due to the sales downturn, but do not assume this. Continue to watch input costs, and underlying expenses and general spend within your business.

Ensure that if you have to discount to keep cash being generated, then ensure that discount levels are within acceptable levels within the business.

### **Returns on Investment**

Earning returns on investment is the lifeblood of businesses. Measure this monthly. Look for returns on assets and returns on equity. Jazoodle uses the return on EBITDA measure - as this ignores the effect of accounting choices such as depreciation.

### **The efficiency of your asset base and investment decisions**

One area often overlooked in difficult times is the effect of your asset base on the ability to generate revenues or create cost efficiencies or scale. During these times, it is worth assessing the counter intuitive effect of an investment in capital equipment. This may be counter intuitive but if you can achieve greater efficiencies or scale through investment despite difficult trading conditions, this should be assessed.

For more information contact us at [seethefuture@jazoodle.com](mailto:seethefuture@jazoodle.com)