

Take
Action
Series

Stress Testing Cash

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Overview

The objective of this manual is to provide you with a practical guide on how to stress test your most precious business resource; CASH. It will identify a typical business' critical cash determinants and illustrate how they can erode your cash position. By managing those same factors, we will examine how you can generate more cash in a business. From a financing perspective we will examine your critical cash determinants, and discover how much they can change before they erode the business' available cash to service debt.

CASH! It is the most important asset in any business! In fact, one could say ultimately, business survival is predicated on cash flow. For that reason you will often hear the statement, "Cash is King"! For all businesses cash is literally; "Top Dog", "King of Beasts", "Master of Kwan" or whatever accolade you want to bestow upon it.

To ensure your survival in any market condition it's imperative you understand how to manage your business to maximize its cash position. One of the best ways to accomplish this; is to stress test your business' nine critical cash determinants. As a business owner/manager you should become intimately involved in your company's cash determinants, and know how to manage them to maximize cash flow. During periods of tight credit it's imperative your business maintains its credit worthiness; by being in compliance with its debt servicing requirements, and maintaining levels of demonstrated cash flow. A company's nine critical cash determinants in no certain order are:

- Sales
- Gross Profit Margin%
- Net Income Margin%
- Accounts Receivable Collection Period
- Inventory Cycle/Sell Period
- Fixed Asset Purchases, CapEx
- Accounts Payable Pay Period
- Debt Structure
- Capital Infusions

Sensitivity Analysis Worksheets – [Cash Erosion]

STEP 1: RECORD COMPANY'S ANNUAL CASH FLOW \$ _____

STEP 2: RECORD COMPANY'S ANNUAL DEBT SERVICE (EXISTING & CONTEMPLATED) \$ _____
(CPLTD + INTEREST ON EXISTING & CONTEMPLATED DEBT)

SEPT 3: RECORD REQUIRED DEBT SERVICE COVERAGE RATIO (DSCR) _____

STEP 4: CALCULATE REQUIRED CASH REQUIREMENT (STEP 2 X 3) \$ _____

STEP 5: DETERMINE EXCESS CASH (STEP 1 – STEP 4) \$ _____

Cash flow can deteriorate \$ _____ and still be in compliance to service the existing and new debt load. Fill in the information requested below and do the mathematical calculations:

SALES DOLLARS:

$$\frac{\text{Present GP Dollars}}{\text{Present Sales}} = \frac{\%}{\%} \quad \frac{\text{Present GP Dollars } \textit{minus} \text{ Excess Cash}}{\text{Present Sales}} = \frac{\%}{\%}$$

GROSS PROFIT MARGIN:

$$\frac{\text{Present GP Dollars}}{\text{Present Sales}} = \frac{\%}{\%} \quad \frac{\text{Present GP Dollars } \textit{minus} \text{ Excess Cash}}{\text{Present Sales}} = \frac{\%}{\%}$$

PRETAX PROFIT MARGIN:

$$\frac{\text{Present Pretax Dollars}}{\text{Present Sales}} = \frac{\%}{\%} \quad \frac{\text{Present Pretax Dollars } \textit{minus} \text{ Excess Cash}}{\text{Present Sales}} = \frac{\%}{\%}$$

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