In the current market environment, we believe PE firms would benefit from a more aggressive look at their portfolio companies to identify exposure to potential economic risks and proactively identify opportunities for rapid cost structure realignment, cash flow optimization and capex prioritization. Preparing a structured coordinated response will allow early movers to be successful in these turbulent times. Developing this response requires an analytics led approach into the portfolio company’s financial and operational performance.

KPMG LLP offers a rapid 2-week assessment across the cash-cost-customer-capital dimension to find solutions to help companies manage through demand volatility.

**Market environment**

The current environment has created uncertainties in customer demand, supply shortages across industries and has rapidly exposed risks to the overall supply chain that has put certain portfolio companies in need of rapid turn-around or restructuring because of several concurring events:

**Demand shocks:** The current environment has adversely impacted customer demand for several goods and services—e.g. aviation, hospitality, consumer products, etc. This has impacted small to mid-size companies more acutely.

**Supply shocks:** Border closings and travel bans are causing significant disruptions to supply chains. The biggest uncertainty to supply chain is customer demand. This has increased pressures on suppliers that have historically experienced margin pressures prior to the down-turn.

**Reduced cash flow:** In this environment customers may delay purchases or payments for longer than usual, often because they are waiting for their own customers to pay. This causes a chain reaction of delayed payments from one vendor to another, which typically slows down all aspects of business.

**Capex collapse:** Federal Reserve and the European Central Bank (ECB) primed the economic pumps by cutting interest rates and adopting other stimulus measures as yet another indication that recession fears are growing, prompting the potential for business spending to take a breather for the next few quarters.

**Structured organizational response elements**

- **Active expense management** - Assess all expense categories and right-size to projected revenue
- **Revenue and cash forecasting** - Actively manage spend going forward
- **Customer centricity** - Improve CCC (DIO, DPO and DSO)
- **Stabilize supply chain** - Initiate analytics to identify liquidity concerns and improve forecast accuracy
- **Scenario planning & management** - Measure and report key cash metrics
- **Stabilize supply chain** - Understand change to potential demand patterns based on segment outlook
- **Stabilize supply chain** - Realign go-to market and customer support organization to respond to changes
- **Stabilize supply chain** - Determine exposures and risks from potential demand changes
- **Stabilize supply chain** - Prepare responses - cost efficiencies, inventory, alternate suppliers, capex etc.
- **Scenario planning & management** - Conduct impact assessment and quantify demand and supply shocks on the business
- **Scenario planning & management** - Build varying financial scenarios based on severity and duration
- **Scenario planning & management** - Model actions across demand generation, working capital and cost containment
At the heart of a turn-around is stabilization and value recovery. Our range of capabilities allows us to provide a comprehensive solution.

KPMG’s framework for stabilization and value creation

<table>
<thead>
<tr>
<th>Business as usual</th>
<th>Stress</th>
<th>Distress</th>
<th>Stress</th>
<th>New normal</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Company behind plan</td>
<td>- Customer management</td>
<td>- Aggressive program management</td>
<td>- Transition to operations leadership</td>
<td>- Organic growth</td>
</tr>
<tr>
<td>- Finance/Liquidity concerns</td>
<td>- Scenario planning</td>
<td>- Turnaround planning and execution</td>
<td>- Strategic planning</td>
<td>- M&amp;A</td>
</tr>
<tr>
<td>- Business model disruption</td>
<td>- Supply chain stabilization</td>
<td>- Quick hit realization</td>
<td>- Transformation planning</td>
<td>- Failed M&amp;A transaction</td>
</tr>
<tr>
<td>- Fraud</td>
<td>- Solution design</td>
<td>-</td>
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<tr>
<td>- Loss of management</td>
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<tr>
<td>- Reputational damage</td>
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<tr>
<td>- Regulatory change</td>
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<tr>
<td>- Failed M&amp;A transaction</td>
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<tr>
<td>- Failed integration</td>
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<td>-</td>
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<tr>
<td>- Customer/supply chain stress</td>
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</tbody>
</table>

KPMG rapid stress test

- Rapid assessment of liquidity impacts and visibility (cash forecasting)
- Identify cash, cost and capital enhancements across back office, supply chain, procurement, core operations and the front office
- Initiate visibility and controls to drive quick win delivery and generate/ maintain momentum
- Leverage subject matter experts in Finance, HR, IT, Supply Chain, etc. where required
- Work at pace and stand by results, rapidly moving the dial on cost base and cash flow
- Provide a range of high-speed performance improvement interventions
Stress test analytics toolkit—speed to insight

We have a proven approach to improving performance for our clients. Our 2 week rapid approach leverages our data & analytics and our dedicated team to look at the 4 stress areas to facilitate value driven activities.

Rapid stress test—data & analytics driven approach

Cash
Analysis to determine the level of liquidity and crisis cash needs, as well as tactical working capital actions (AR, AP, inventory) that will quickly optimize cash flow for the business

Customer
Diagnostic to understand how demand patterns will be impacted by customer and end market
Revenue analytics supported by primary research for go-to market and operational changes

Cost
Categorization and triage of discretionary expenses for cost control/delay actions
Leverage revenue forecast scenarios to develop organizational cost models to support level of activity (fixed, variable)

Capital
Review Capex plan to test for alignment with medium & long term growth scenarios
Identify Capex reduction opportunities to redirect based on revised demand forecast

KPMG’s framework to assess business impact and drive cash and contain cost

Internal customer, financial and organizational transaction level data pulled from multiple systems across the business regardless of data structure.

Proprietary D&A tools and preconfigured analysis

Dedicated data engineers and scientists

Single source of truth

External consumer and economic data to augment internal company data

External data from thousands of PI projects

Cash/liquidity
— Cash forecasting
— AR / AP Triaging

Expense alignment
— Discretionary expense controls
— Org rightsizing scenarios

Customer demand risk
— End market trends
— Customer demand re-forecast

Capital allocation
— Growth Capex alignment with new demand forecast
— Flexibility in deploying maintenance Capex
Contact us for more information on how KPMG can help accelerate rapid organizational and financial assessments and develop cost containment plans

Daniel DenBoer
Principal – Deal Advisory & Strategy
ddenboer@kpmg.com

Sanjay Sehgal
Principal – Deal Advisory & Strategy
sanjaysehgal1@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.