

# FUTALEUFU PARTNERS

## “GIVE ME LIQUIDITY OR GIVE ME DEATH”

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There's a lot we don't know, but a few things we do know:

- It will end;
- It will get worse before it gets better;
- Those that survive will be well positioned economically;
- Liquidity is the key to survival.

Our belief is that your most important corporate priority is to have a plan in place to make it to Independence Day (4<sup>th</sup> of July). Most believe by then we will either be down the infection curve, or policy makers will need to make the tough decision that America must re-open for business and accept the implications. The most important word on the lips of your management team should be: LIQUIDITY. If you have a “contingency plan,” you're making a big mistake. There is no contingency—it's already happened.

In the spirit of saying that there may not be a single way to find \$500,000 of cash, but there might be ten ways to find \$50,000 in cash:

1. Draw down all lines of credit, today. Do not wait until you might need it, because if things get worse you may not have the option. Put away your calculator and don't worry about the cost of capital.
2. Get covenant waivers, today. Most banks are saying they will “work with you,” but that may mean nothing in a few weeks, and even if they don't take action, you don't want to wake up on July 5<sup>th</sup> with cash in your account and a banker that is insisting on new terms because you are out of compliance.
3. Ask for lender concessions, today. See if you can get a payment holiday on principal, and maybe interest as well for the next quarter's payment. Whatever you think you might be able to eventually achieve, it will only get harder as more borrowers ask from more banks for more concessions. If there is a run on the banks, you don't want to be in the crowd. There is only so much to go around. At some point banks may not be able to accommodate everyone—first to the window wins. Don't wait, and don't worry what the bank thinks.
4. Accelerate your receivables, today. They will only get harder to collect as your customers face more difficult economic headwinds. There will come a time when some of your customers will simply stop paying their bills. They won't care what you say, because their own survival will be at stake.
5. Extend your payables, today. Yes, I fully see the “zero sum game” of being ruthless with your own receivables, while playing the other side with your own payables. Of course, don't recklessly put a vendor out of business, but you have to focus on your own company's survival.

6. Make cost cuts, today. If you have identified \$100,000 in monthly cost cuts, but you decide to wait a month to see what happens, you'll have flushed away \$100,000 of cash you may need to survive. I have experienced the pain of layoffs as a CEO, they hurt. But it is the government's job to take care of furloughed workers, and your job to have a company on July 4<sup>th</sup> than can re-hire those team members. To be clear, I have seen the tears on the faces of people laid off—it's horrible. But you have to survive. As for the rest of your expenses, time to re-use the paper towels and empty your own trash cans. Don't wait.
7. Stop buying things, today. Software, trucks, chairs, workstations...don't buy them. If you are under contract, let your vendors know you plan to fulfill your obligations, but not right now.
8. Do not make tax distributions to shareholders. Of course, the ultimate decision is made by you and your board, but we think it is insane to use any liquidity for a tax distribution. The government has already made provisions in the tax code to defer taxes, and if you are alive on July 4<sup>th</sup> you can send a check to investors on July 5<sup>th</sup>.
9. Eliminate board fees. It can be in the form of a deferral or just waiving them for two quarters, but it will not only preserve cash but also avoid sending a bad signal to your company when word gets out that a week after a furlough, accounts payable cut checks to your millionaire investors.
10. Cut your salary, today. It does not have to be large, 5% or 10%, but it shows a willingness to lead by example. It can be deferred such that you recover it in a few months, but in an environment where people are losing their jobs, for the CEO to take an early and symbolic step will make the rest of your work easier.

If this blows over in a month, and you took all these measures, then there is little harm and you can call me Chicken Little—and as you do so, then go out and buy that truck, re-hire those employee along with a bonus as thanks, and pay down your bank balance.

But I might be right, and when it comes to liquidity crises, you must be ahead of the herd, not following them. There is only so much cash to go around, make sure you grab as much as you can.

Meanwhile, you'll be able to look your team in the face and say that the company will survive. They'll appreciate the tough choices, if they know it means they will have a paycheck on July 5<sup>th</sup> because you took care of the company.

Having been a CEO in two difficult situations, I can promise you that the #1 mistake leaders make when staring down a crisis is to defer and put off the hard decisions, especially when it comes to cash.

**LIQUIDTY, LIQIDITY, LIQUIDITY.**