SMART CURRENCY BUSINESS:

MANAGING FINANCIAL RISK - CASHFLOW MASTERCLASS CHECKLIST



Business Leader

smart CURRENCY BUSINESS

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Introduction

This checklist has been developed by Charles Purdy, the CEO and Founder of The Smart Currency Group.

The Smart Currency Group focus on helping their clients manage risk effectively. By managing risk, you take control of the outcomes. Managing your cashflow is one of the most significant risks to be controlled.

Charles is a Chartered Accountant and was previously the Finance Director of a listed company, working on three continents. He founded The Smart Currency Group in 2004.

Just like any entrepreneur, he has lived through the ups and downs of business cycles, black swan events and is qualified by experience when it comes to managing cashflow.

This checklist allows you to take control. But with any process you have to be disciplined and apply the process consistently to get the best outcomes.

If you would like to discuss how The Smart Currency Group could help, please contact me by email on **cashflow@smartcurrencybusiness.com.**

"Cashflow is an essential, often overlooked topic for the senior leadership team. The cashflow masterclass switched me on to the importance of cashflow as a standing, board meeting agenda item and a topic for all to debate and own."

Senior Leader
UK-based business

Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

- **Highlights the importance of cash and cashflow forecasting for decision-making, financial planning, and risk mitigation.**
- **Provide insights and involve the entire senior management team in the cashflow management process.**
- **Explore techniques for identifying the key drivers of cashflow and understanding their impact on the overall financial health of the business.**

Note – this checklist is a starting point for any organisation. It can be developed to be bespoke so that you take control of your cash and your cash flow.

Review KPI for the Company's cash position:

☐ Do we have one Yes / No

☐ Who is accountable _____

☐ Who are responsible for different elements that deliver cash maximisation?

_____ _____ _____

_____ _____ _____

A. Cash and cashflow

What are the top ten factors that impact our **cash position** and our **cash flow**?

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

For a copy of the checklist and further material please visit: **smartcurrencybusiness.com/masterclass**

Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

Who is responsible for **reporting** on the **cash position** and how often is this done?

Reporting: _____ **Frequency:** _____

Who is responsible for **reviewing** the **cash position** and how often is this done?

Reviewing: _____ **Frequency:** _____

Who is responsible **for minuting the actions** from the review of the **cash position** and delivering them in the agreed time?

Minuting Actions: _____**Delivery:** _____

Who is responsible **for preparing** the latest **cash flow projections** and how often is this done?

Preparing projections: _____**Frequency:** _____

Who is responsible **for reviewing** the **cash flow projections** and how often is this done?

Reviewing: _____**Frequency:** _____

Who is responsible **for minuting the actions** from the review of the **cash flow projections** and delivering them in the agreed time?

Minuting Actions: _____**Delivery:** _____

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Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

B. Margins

What are the top ten factors that impact our **margins, net and gross?**

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

Who is reporting, reviewing, minuting the actions from the impact on our cashflow from changes in margins, gross and net?

_____

_____

_____

_____

Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

C. How do you manage currency risk? (or other similar commodity risk)

Stress test with a 10% movement (black swan events seem the norm nowadays!)

What **is the impact of currency movements** on our margins and cash flow?

Is your hedging policy for managing currency risk up to scratch? Yes / No

Comments:

Are we able to impact pricing to counter external effects? Yes / No

Comments:

How do you manage **existing hedging contracts**?

What **challenges** does the above process create? E.g. Time consuming, error prone etc.

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Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

What is the process for producing **mark-to-market valuations** at key reporting dates? Month End / Year End

What **challenges** do we face when retrieving our **market-to-market** valuations?

How do we make decisions about what / when / how much to hedge?

Do we carry out **stress testing of our current hedging approach**, given a moving exchange rate?

For a copy of the checklist and further material please visit: **smartcurrencybusiness.com/masterclass**

Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

If not, what **value** would the above provide?

Are we able to / would we like the ability to **analyse alternate approaches to hedging**, using different strategies / solutions?

Have we considered **third party solution** on how best to manage our currency exchange risk?

We have created an advanced, clear and easy to use treasury management platform offering automated solutions. SmartHedge has been developed and tested to address specific needs and issues faced by UK SMEs and corporates when managing currency exposures.

Keeping track of your foreign exchange exposure can be a challenge, but SmartHedge makes this easier. Your business will benefit from spending less time processing information and more time making key decisions.

Find out more by visiting:
https://www.smartcurrencybusiness.com/smart-hedge/cashflow-forecasting/

Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

D. Net current assets/(liabilities)

	Start of previous year	Start of this year	Current month end
Stock levels			
Trade debtors			
Trade Creditors			
Other items:			
A			
B			
C			

Who is reporting, reviewing, minuting the actions from the impact on our cashflow from changes in net current assets?

Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

How to manage cash: key actions

Actions	Description
Cash conversion cycle awareness	• Understand the concept of the "cash conversion cycle." • Efficiently manage the time to convert resources into cash.
Forecasting and budgeting	• Create accurate financial forecasts and budgets. • Regularly review and adjust based on actual performance.
Improving cash flow	• Optimise payment terms with suppliers and customers. • Efficiently manage receivables. • Control expenses.
Financial levers	Use the **7 key financial levers** to generate cash internally: • Profit Margin: Manage costs and pricing. • Asset Turnover: Optimise asset utilisation. • Accounts Receivable Days: Reduce collection time. • Accounts Payable Days: Extend payment terms. • Inventory Days: Minimise excess inventory. • Operating Expense Ratio: Control expenses. • Tax Efficiency: Minimise tax liabilities.

For a copy of the checklist and further material please visit: **smartcurrencybusiness.com/masterclass**

Mastering Cashflow – The Checklist

CEO/CFO/Senior Management Checklist

E. Facilities

Why do we need them?

_____

_____

_____

What is our interest rate on cash balances and is it being maximised?

_____ %

What interest rate are we paying on overdrafts and loans?

_____ %

Are we minimising the interest rate and the cost? Yes / No

Comments:

_____

"SmartHedge clarifies the complex hedging arrangements our company has in place. With regular reporting, instant valuations and access to key insights, SmartHedge facilitates and strengthens our strategic approach to currency risk."

Finance Director
FTSE 250 company

For a copy of the checklist and further material please visit: **smartcurrencybusiness.com/masterclass**

Mastering Cashflow – Notes

Learnings, notes, actions:

Mastering Cashflow – Notes

Learnings, notes, actions:

Mastering Cashflow – Notes

Learnings, notes, actions:

Taking control of your currency risk

Controlling your exposure to currency risk is a process. It is straight forward if you understand those risks and are methodical in managing them effectively.

This is what Smart Currency does for both companies and individuals:

- Logical approach
- Preventive rather than reactive
- Uncertainties in cash flow need to be catered for
- Range of products to help mitigate currency risk: spot, forwards and options

THIS ALLOWS YOU TO MANAGE YOUR GROSS AND NET MARGINS AND YOUR CASHFLOW

Tracking is vital – SmartHedge Pro will help you with:

- Decision making
- Stress testing
- Cash flow management
- Mark to market valuations
- Reporting

"SmartHedge clarifies the complex hedging arrangements our company has in place. With regular reporting, instant valuations and access to key insights, SmartHedge facilitates and strengthens our strategic approach to currency risk."

Financial Director
FTSE 250 company

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Definition of VaR

What is Value at Risk?

- Value at Risk (VaR) is a way to measure the potential loss a client could experience over a certain period, given a specified confidence level.

What it intends to do?

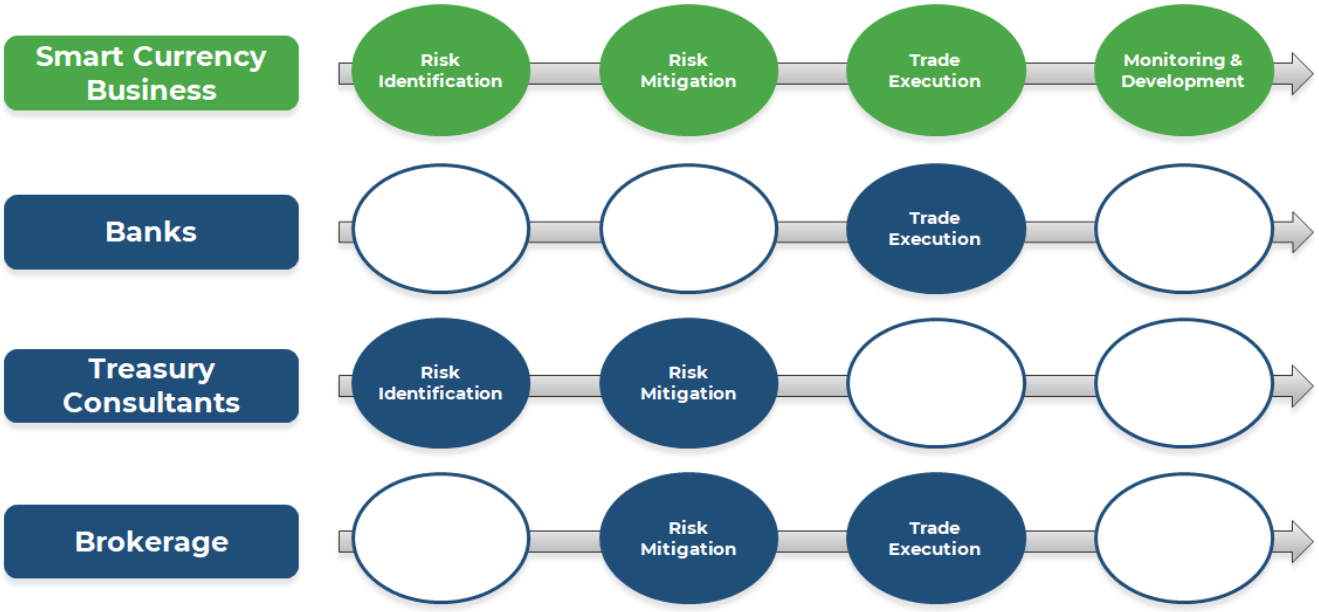
- Measures the maximum amount of money the client could lose under 'normal' market conditions, based on historical data and statistical analysis.

- Raises awareness and educates clients on the risk they could be facing on their unhedged exposure, with a more data driven and realistic application.

Why it differs from other forms of risk quantification?

- VaR looks at the full range of potential losses using historical data, whilst giving flexibility to factor in (or exclude) extreme events that other methods might miss / exaggerate.

Our approach



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Case Study

This is a client of The Smart Currency Group. It has been anonomised.

It is an extreme example of what can be done, and it was achieved by the owner of the business having total clarity of what he wanted to achieve which was:

- Pay for a new warehouse out of cashflow
- Eliminate any borrowings,
- Still pay a dividend

And he did this. No mean feat. So, although an extreme example it indicates what can be done when you take control.

Consolidated
Income Statement
for the Year Ended 30 September 2022

	Notes	30.9.22 £	30.9.21 as restated £
TURNOVER	3	64,557,238	61,379,699
Cost of sales		43,482,897	47,224,712
GROSS PROFIT		21,074,341	14,154,987
Administrative expenses		7,504,256	6,909,930
OPERATING PROFIT	5	13,570,085	7,245,057
Interest receivable and similar income	7	21,376	27,649
		13,591,461	7,272,706
Interest payable and similar expenses	8	4,092,074	2,176,757
PROFIT BEFORE TAXATION		9,499,387	5,095,949
Tax on profit	9	1,090,200	811,204
PROFIT FOR THE FINANCIAL YEAR		8,409,187	4,284,745
Profit attributable to: Owners of the parent		8,409,187	4,284,745

The notes form part of these financial statements

Case Study

	2022 £'m	2021 £'m	Inc.	Inc.
TURNOVER	£64.50	£61.40	£3.10	5.0%
GROSS PROFIT	£21.10	£14.20	£6.90	48.6%
GROSS MARGIN	32.7%	23.1%		41.4%
OPERATING PROFIT	£13.60	£7.20	£6.40	88.9%
NET MARGIN	21.1%	11.7%		79.8%

Wow! How did the company manage to nearly double its operating profit?

- What were the key parameters in increasing gross margin by 41%? Can you do it?
- How did they control operating costs so that gains flowed through to the bottom line?

The notes form part of these financial statements

Case Study

Consolidated Cash Flow Statement for the Year Ended 30 September 2022

	Notes	30.9.22 £	30.9.21 as restated £
Cash flows from operating activities			
Cash generated from operations	1	29,308,978	4,228,888
Interest paid		(23,030)	(96,630)
Finance costs paid		(4,069,044)	(2,080,127)
Tax paid		(805,786)	(1,711,284)
Net cash from operating activities		24,411,118	340,847
Cash flows from investing activities			
Purchase of tangible fixed assets		(17,782,809)	(2,300,980)
Sale of tangible fixed assets		55	-
Interest received		21,376	27,649
Net cash from investing activities		(17,761,378)	(2,273,331)
Cash flows from financing activities			
Loan repayments in year		(3,480,880)	(161,885)
Amount introduced by directors		370,441	671,453
Amount withdrawn by directors		(366,187)	(665,843)
Equity dividends paid		(1,560,000)	(1,474,000)
Net cash from financing activities		(5,036,626)	(1,630,275)
Increase/(decrease) in cash and cash equivalents		1,613,114	(3,562,759)
Cash and cash equivalents at beginning of year	2	1,243,702	4,806,461
Cash and cash equivalents at end of year	2	2,856,816	1,243,702

- Paid for a new warehouse out of cashflow - base to double turnover.
- They paid back debt.
- They also paid a dividend.

The notes form part of these financial statements

Case Study

Notes to the Consolidated Cash Flow Statement
for the Year Ended 30 September 2022

1. **RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	30.9.22	30.9.21 as restated
	£	£
Profit before taxation	9,499,387	5,095,949
Depreciation charges	263,990	188,788
Loss on disposal of fixed assets	984	-
Finance costs	4,092,074	2,176,757
Finance income	(21,376)	(27,649)
	13,835,059	7,433,845
Decrease/(increase) in stocks	488,650	(1,306,043)
Decrease/(increase) in trade and other debtors	6,048,563	(7,981,420)
Increase in trade and other creditors	8,936,706	6,082,506
Cash generated from operations	29,308,978	4,228,888

2. **CASH AND CASH EQUIVALENTS**

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 30 September 2022

	30.9.22	1.10.21
	£	£
Cash and cash equivalents	2,856,816	1,249,225
Bank overdrafts	-	(5,523)
	2,856,816	1,243,702

Year ended 30 September 2021

	30.9.21	1.10.20 as restated
	£	£
Cash and cash equivalents	1,249,225	4,806,461
Bank overdrafts	(5,523)	-
	1,243,702	4,806,461

- Working capital = stock + debtors - current liabilities.
- As it increases it sucks money out of the business.
- By squeezing working capital, the cash flow generated released cash.

The notes form part of these financial statements

Case Study

Notes to the Consolidated Financial Statements - continued
for the Year Ended 30 September 2022

14. **TANGIBLE FIXED ASSETS - continued**

Group

	Fixtures and fittings £	Motor vehicles £	Computer equipment £	Totals £
COST OR VALUATION				
At 1 October 2021	381,395	28,235	136,723	21,659,262
Additions	602,322	-	2,720	17,782,809
Disposals	-	-	-	(1,403)
Revaluations	-	-	-	8,155,504
At 30 September 2022	983,717	28,235	139,443	47,596,172
DEPRECIATION				
At 1 October 2021	243,453	10,381	103,007	1,020,108
Charge for year	185,065	4,464	9,108	262,490
Eliminated on disposal	-	-	-	(364)
At 30 September 2022	428,518	14,845	112,115	1,282,234
NET BOOK VALUE				
At 30 September 2022	555,199	13,390	27,328	46,313,938
At 30 September 2021	137,942	17,854	33,716	20,639,154

Freehold property is pledged as security against bank loans within a connected company.

Cost or valuation at 30 September 2022 is represented by:

	Freehold property £	Improvements to property £	Plant and machinery £
Valuation in 2022	20,002,966	-	-
Cost	25,534,261	237,657	669,893
	45,537,227	237,657	669,893

	Fixtures and fittings £	Motor vehicles £	Computer equipment £	Totals £
Valuation in 2022	-	-	-	20,002,966
Cost	983,717	28,235	139,443	27,593,206
	983,717	28,235	139,443	47,596,172

- Deprecation is NOT a cashflow item

The notes form part of these financial statements

About The Smart Currency Group

History

Our Founder and CEO, Charles Purdy, began his career in engineering, helping to develop the Typhoon fighter jet for BAE Systems. He moved into the currency exchange business almost 30 years ago and is proud to have brought the highest levels of attention to detail and customer service to this ever-developing industry. Charles is still the first into the office every day and often the last to leave.

Over the years we have helped our clients with all their treasury management needs. We've protected businesses from countless "black swan" events. We've streamlined operations and managed currency exposures for thousands of businesses. We provide comprehensive support to help our clients meet and often exceed their objectives. We cater to all businesses, big or small, and understand why careful risk management is of vital strategic importance to any thriving business.

Why our clients trust us...

- A strong credit rating:

  Refinitiv credit risk rating of 89 (of 100), implied rating of A+ and a probability of default of 0.09%. Creditsafe rating 59 (Low Risk).

- Over £12 billion transferred on behalf of our customers.

- Rated five-stars for customer service on Trustpilot

Contact details

We are always here to help. Contact us on:

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