Con.. Chapter 6

Liquidity as a basis for financial failure Risk in financial institutions

Fourth: The various cycles of corporate activities..

Cash flow problems arise from the deterioration of one or more of the basic variables, whether in the internal or external environment, or cases of management failure to respond to internal and external changes together through its mismanagement of a set of cycles. **The basic variables are closely linked to the cycles on which the company's work is based, which are:**

Fourth: The various cycles of corporate activities..

1-The operating or working cycle: The operating cycle is called the asset conversion cycle, which means the working capital cycle and the management of investment in current assets. This cycle begins with cash and eventually ends with cash again.

Fourth: The various cycles of corporate activities..

- **Stages of the asset conversion cycle:** The stages of the asset conversion cycle are the responsibility of the company's management, which by their nature differ from one company to another and from one activity to another.

✓ Stage one: The purchasing stage.

Fourth: The various cycles of corporate activities..

- ✓ **Stage two: The manufacturing or production stage.**
- ✓ **Stage three: Storage.**
- ✓ **Stage four: The sales and marketing stage.**
- ✓ **Stage five: The collection and payment stage.**

Fourth: The various cycles of corporate activities..

- **Successful asset conversion cycle:** The cycle that can successfully complete all of its various stages and face the risks it has been exposed to, and is ultimately able to obtain cash and fulfill its due obligations as well as achieve an appropriate profit margin.

Fourth: The various cycles of corporate activities..

- **Unsuccessful asset conversion cycle:** The cycle that cannot complete all its stages successfully and cannot fully overcome the risks it faced and therefore cannot obtain cash, whether partially or completely, sufficient to meet its due obligations.

Fourth: The various cycles of corporate activities..

2-Fixed assets cycle: The fixed or long-term assets cycle in the company shows the extent of its use of these assets. The cost of these assets is fixed by definition, but the more fixed assets there are compared to sales, the greater the degree of operating leverage. Operating leverage determines the relationship between fixed costs and variable costs.

Fourth: The various cycles of corporate activities..

3-Profit cycle: Shows the flow of revenues and expenses on the basis of accrual accounting, and therefore there are differences between profit and cash. Fast-growing companies may be profitable and yet face pressures in the form of a severe cash deficit. In the absence of continuous sources of financing, these establishments may falter..

Fourth: The various cycles of corporate activities..

4-Company life cycle: Companies, products, markets, activities and sectors go through a life cycle that varies according to many factors, including: the rate of technological development, ease or difficulty of entering markets, the degree of availability of alternative products and the degree of market acceptance of the new product...

Fourth: The various cycles of corporate activities..

Despite this, there is agreement on the basic stages of the project and/or product life cycle in general as follows:

- ❑ Introduction stage
- ❑ Growth stage
- ❑ Maturity, stability, or peak stage
- ❑ Decline, pyramid, deterioration, or aging stage

Fourth: The various cycles of corporate activities..

5-Cash Cycle: The synchronization of the operating cycle, the fixed assets cycle, the profit cycle, and the company's life cycle contribute to supporting the vital role played by the basic variables, and each of them affects the cash flow..

Fourth: The various cycles of corporate activities..

in addition to the fact that the main sources that affect the generation of internal cash flow are: sales, gross profit margin, selling, administrative and general expenses, and credit balances. While the most important areas of cash use are debit balances, inventory, fixed assets, and distributed profits.

Fifth: Alternatives to confront financial failure.

1-Financial restructuring: Refers to developing an appropriate strategy to achieve balance in the financial structure, which enables the adjustment of the path of troubled companies in a way that ensures the company's survival and continuity in the market.

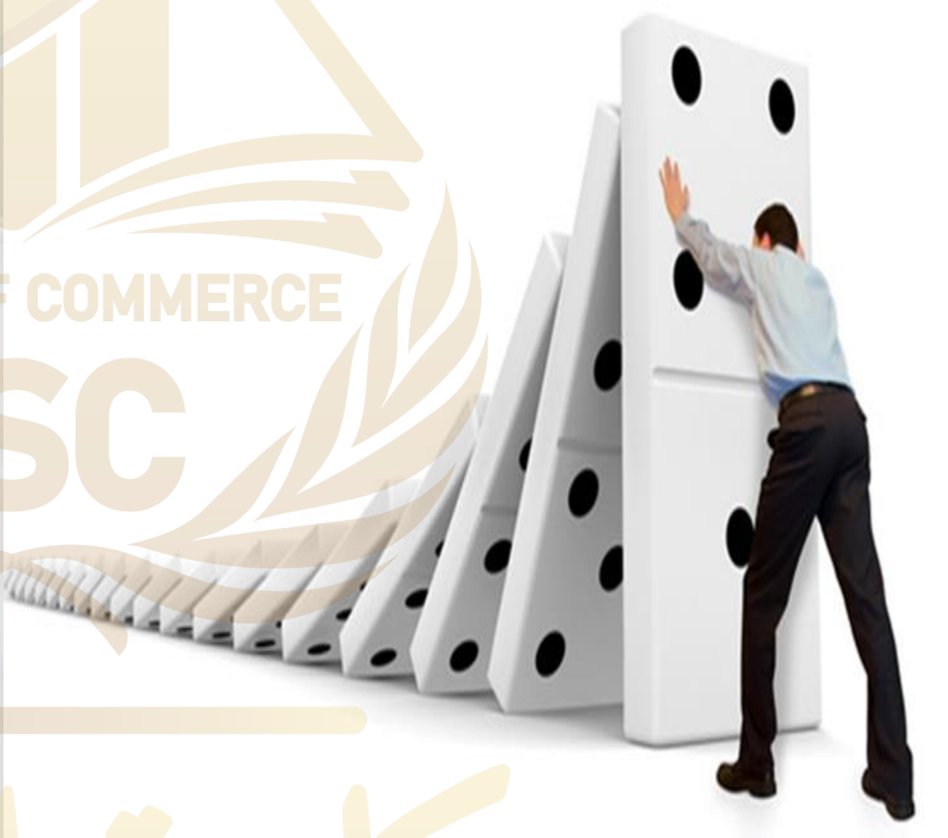
Fifth: Alternatives to confront financial failure.

Restructuring the financing structure of the troubled company is based on reducing the level of debt to a level that can be managed well. Several policies are used to correct the financing structures, the most important of which are:

- ❑ Debt capitalization

Fifth: Alternatives to confront financial failure.

- ❑ Debt rescheduling
- ❑ Debt settlement
- ❑ Supporting self-financing
- ❑ Re-evaluation of assets
- ❑ Debt securitization



Fifth: Alternatives to confront financial failure.

2-Financial Recovery: where the distressed company is transformed into a non-distressed company operating at full capacity by granting it new loans on easy terms, but in light of a study of the company's position, guarantees, and actual activity, and on condition that the return on investment in the activity is greater than the interest that the bank will apply to the loans granted to the company

Fifth: Alternatives to confront financial failure.

3-Merger: Refers to the merger of a certain company with another company, where the personality of the merged company dissolves into the personality of the merging company, where the first company is linked to a strong position and good financial status reflected in a large value of profits and high prices for its common shares traded in the capital markets

Fifth: Alternatives to confront financial failure.

4-Liquidation: **Liquidation in its simplest concepts means converting the book values of the company's assets into cash values and using them to pay its obligations listed alongside the obligations and equity from its last balance sheet, thus ending the company's existence in the business sector. There are two types of liquidation cases:**

Fifth: Alternatives to confront financial failure.

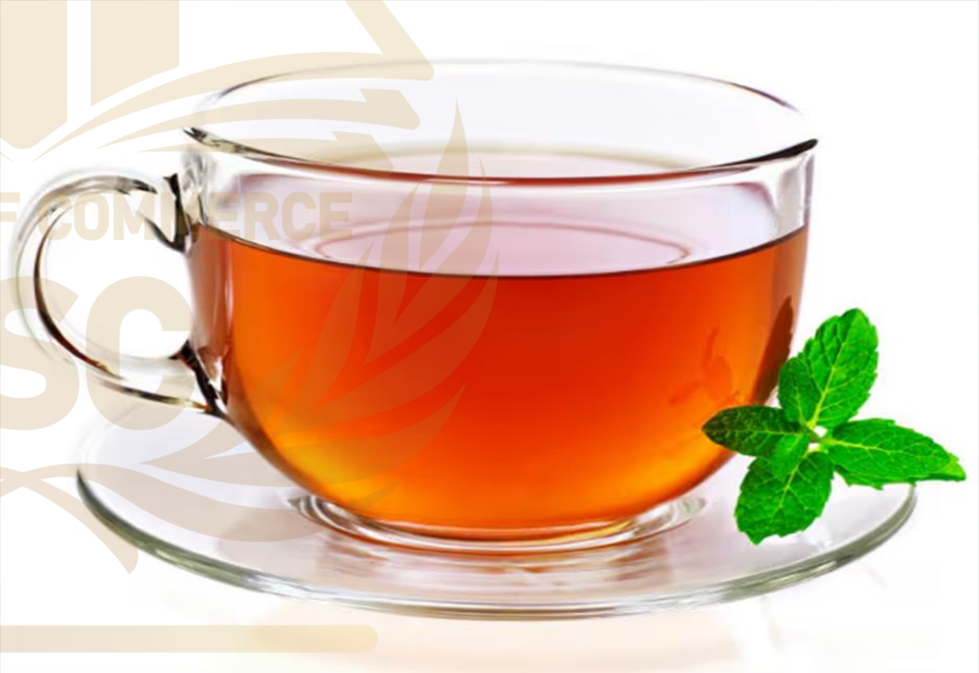
- **Optional:** This type refers to the company arranging the necessary liquidity by liquidating part of the assets in excess of the actual and economic needs to reduce burdens and increase cash resources or by liquidating its assets and paying its obligations for reasons beyond its confrontation with a state of complete financial failure due to its not facing financial problems with creditors.

Fifth: Alternatives to confront financial failure.

- **Compulsory:** Banks or creditors do not resort to this type except as a last resort, as studies have proven that there is no benefit in financing the company to get out of its stumbling block because its stumbling block is permanent and not temporary……

5 minute break.....

Tea Break



Sixth: Axes of the financial reform plan.

1-Cash balance: One of the first tests of management's ability and commitment to correcting the situation is its determination to take quick or automatic steps to reach cash balance within ninety days, as management must review all types of cash flows. And take decisive or radical measures to accelerate the collection of slow debit balances, and dispose of slow-moving or unprofitable inventory.

Sixth: Axes of the financial reform plan.

2-Correction strategies: This strategy aims to generate and manage cash in order to facilitate the gradual reduction of the company's debt, or to increase the level of profitability.

Sixth: Axes of the financial reform plan.

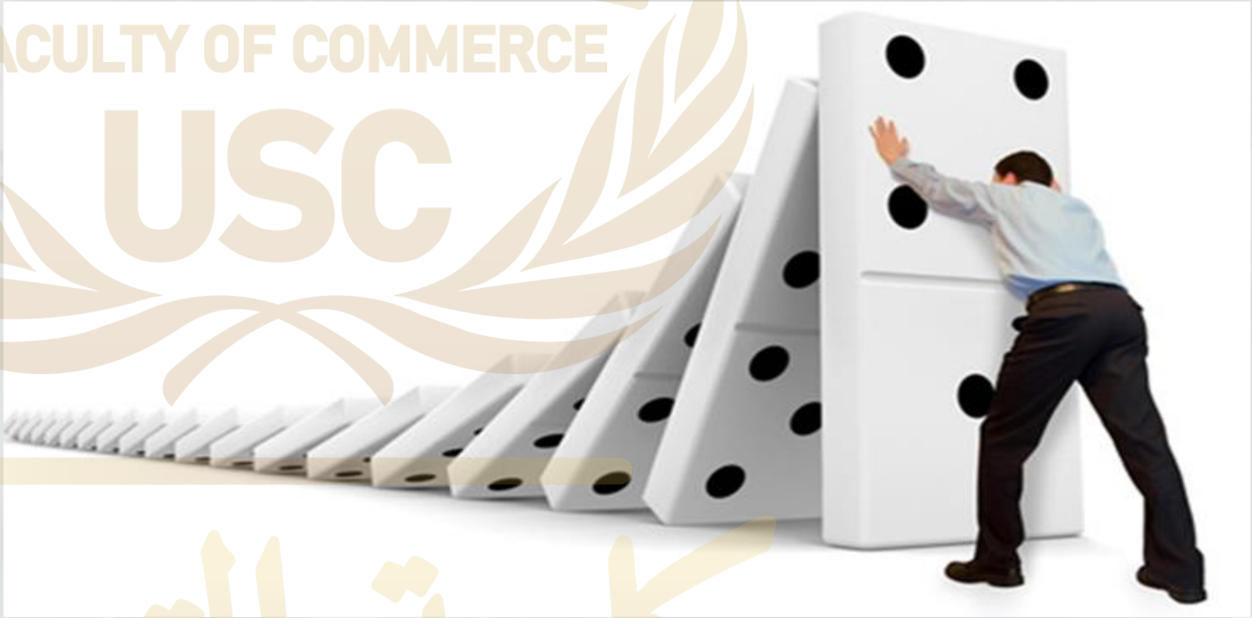
3-Improving the gross profit margin: The gross profit margin can be improved by increasing the volume of sales, if there is a high operating leverage, and the profit margin can also be improved by increasing prices, or reducing the cost of sales, and when the company succeeds in convincing the market that its products are better than competitors' products

Sixth: Axes of the financial reform plan.

4-Reducing working cash expenses: Special attention should be paid to reducing working or operating cash expenses by the company. This alternative includes dispensing with some employees and reducing the level of management and owners' expenses that reflect their administrative lifestyle in the company.

Sixth: Axes of the financial reform plan.

5-Reducing interest expenses: Gradually paying off bank loans (and other loans) reduces the interest cost borne by the company.



Sixth: Axes of the financial reform plan.

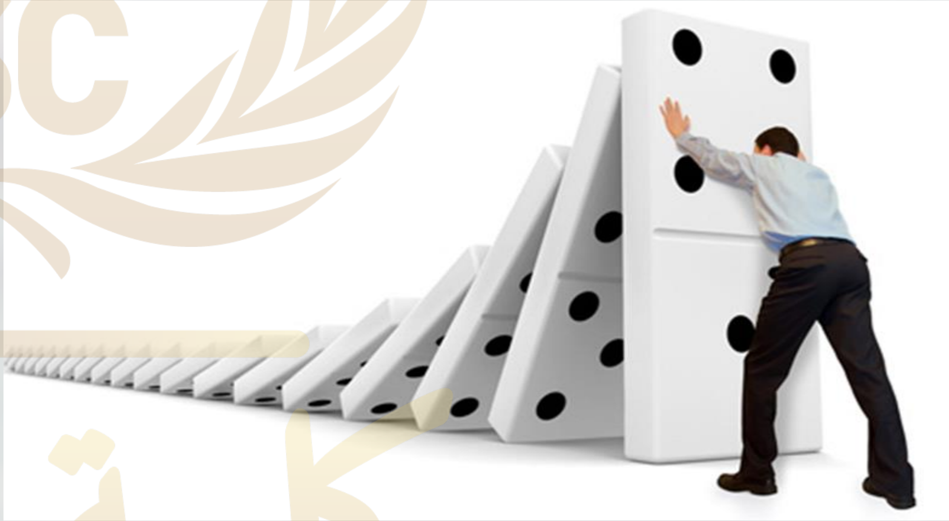
6-Reducing investment in working assets: **Among the basic trends in the flotation strategy is monitoring or controlling debit balances, inventory, and fixed assets, as it is required to make every effort to improve the technical treatments of production processes, sell inventory, and accelerate the collection of debit balances….**

Sixth: Axes of the financial reform plan.

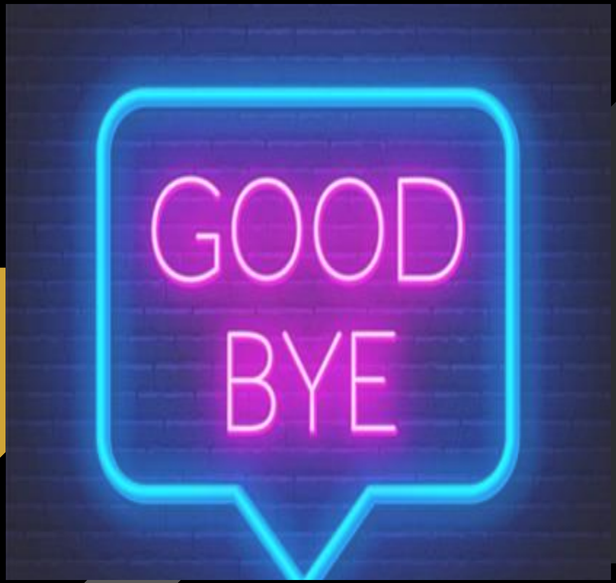
7-Reducing personal withdrawals and reducing or postponing the distribution of profits: To maintain the level of cash, personal withdrawals by owners (in sole proprietorships or partnerships) must be reduced and any distribution of profits to shareholders in joint-stock companies must be postponed or deleted.

Sixth: Axes of the financial reform plan.

8-Debt restructuring: Restructuring existing debt is considered an essential part of the flotation strategy, which may include restructuring the debt owed by the company as presented in the previous axes.



The End



GOOD LUCK