

NAPEO First Friday Series – Dec. 3, 2021

**“Analyzing Business Health and
Risks for PEO Clients in a
Post COVID Economy”**

Presented By



Agenda

- 1. Client Impact of COVID for PEOs**
 - The good, the bad and the obvious
- 2. What is Financial Risk Management**
 - What is it and how is it currently performed by PEOs
- 3. Financial Risk Management Client Analysis**
 - What to analyze
 - What to score
- 4. Getting Back to Growth**
- 5. PEO's Role in Helping Clients Become Successful**

Major Reasons Why PEOs **Lost** Clients Due to COVID – **The Obvious**

- Clients' inability to Stay in Business
 - Major loss in demand for products / services
 - Loss forms of income - Simply ran out of cash
 - Couldn't make payroll or pay other major expenses
 - PPP was simply not enough to sustain business
 - Lack of resources that wanted to work or return to work
 - Could not deliver products / services
 - Could not adapt their business



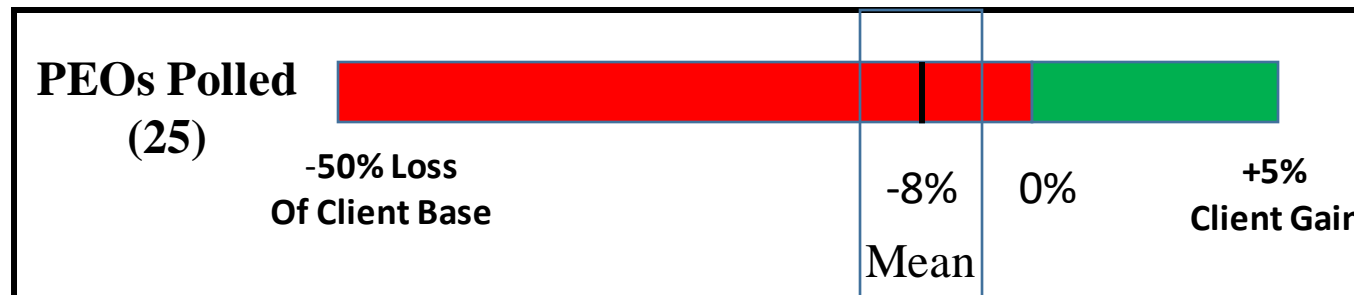
Did You Lose or Gain Clients in 2020?

- Industries / Vertical Markets affected – Where People Gathered...

- Hospitality: Lodging, resorts, tourism, spas, Airbnb, etc.
- Travel: Air, train/subway, bus, limo, etc.
- Entertainment: Theaters, live shows, concerts, athletic events
- Restaurant: Inability to evolve for takeout, lack of staff, no more seating inside
- Brick and Mortar Retail: Malls, shops, chains
- Franchises: Industry dependent

What was your client portfolio mix? Did you have significant loss of clients?

Did your client acquisition strategy change?



Which PEO Clients **Grew** During COVID – **The Obvious**

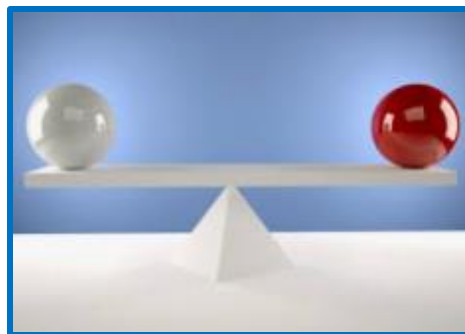
- Certain vertical markets, products and services that were in high demand
 - Construction/ Skilled trades
 - Healthcare
 - Food / grocery delivery
 - Grocery stores (because no one was eating out)
 - Sanitizing products (manufacturers and distributors)
 - Food delivery (Door Dash)
 - Online retailers
 - Remote access to information systems (i.e., Citrix)
 - Video conferencing (i.e., Zoom, MSFT)
 - On-demand Entertainment (i.e., Netflix, Amazon)



Major Reasons Why PEO Clients **Grew** or **Were Stable** During COVID

Survival of the fittest...

- Financially Sustainable for the long haul (flush with cash)
- Delivered products and services in high demand
- Workforce worked outdoors or not in close proximity to others
- Remote resources kept/increased business productivity
- T & E expenses almost eliminated
- Ability to adapt business
- PPP helped but did not cure loss
- Ability to lower costs and sustain services
- Capitalized on new opportunities – Staffing Co. for high demand services



PEOs Know what clients they **lost** and which ones **grew**

Based on PEO Client Mix

- Correlation between up, down, and out clients?
 - A large PEO lost 50% of their clients do to too much hospitality / franchises
 - A small PEO grew 5% – lucky to have significant construction-based clients
 - PEOs with diverse vertical markets had smaller losses overall
 - Some PEOs lost clients quickly but recovered with new clients quickly

Luck of the draw

- Focused on certain verticals? Good News or Bad News?
- Diverse client base
- PEOs jettisoned many of their “higher risk” client base
 - Resilient clients remain – is risk lower?



Workers Comp Risk Management vs Financial Risk Management

What if you treated Financial Risk Management on par with WC Risk Management

Workers Comp Risk Management:

- **What:** Finding the most competitive rates for Workers' Compensation insurance to provide wage replacement and medical benefits to employees injured in the course of employment in exchange for relinquishment of the employee's right to sue.

Financial Risk Management:

- **What:** The ability to assess and predict a PEO clients past, current and future financial health relative to the products and services provided within their markets to measure and mitigate financial risk.



Financial Risk Management – The Risks of Not Doing It Well

1. Getting blindsided (bounces) for payroll
2. Terminating the client when you would rather not
3. Lack/loss of client relationship
4. Client Loss - If another PEO will help them obtain resources / financial needs / etc. they may jump to a PEO who does (perhaps through a broker)
5. You float them and float them and.....at some point they just can't pay you back quickly or you must terminate them

Financial Risk Management

What PEOs do Today (mostly not much)

25 PEOs Polled

	New	Existing Clients
• Review of client's financials	1	0
• Require Personal Guarantees	2	2
• Require they have a credit line in place	3	3
• Access credit score only	4	0
• Lower payroll risk by requiring wire	15	15
<ul style="list-style-type: none"> • Some PEOs require wires only • Some move back to wires from ACH if chronic bounce problems • Almost all ACH bounces occur without warning • Recurring bounces can result in client termination 		

Only clients with Payroll >\$30M

*** PEOs who use brokers many times rely on them for financial due diligence assistance – at some level**

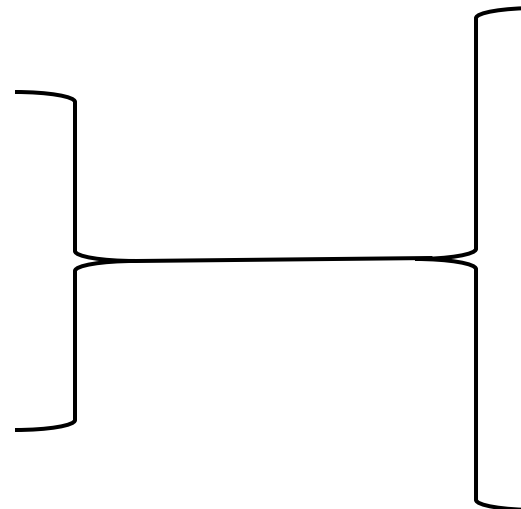
Financial Risk Management Analysis

Analyzing and Measuring the Financial Health of Clients

Is client financial disclosure contractually required? If not, will they still provide it?

Financial Data Collection and Analysis (i.e., via QuickBooks, etc.)

- P&L
- Balance sheets
- Bank statements
- Statement of cash flows

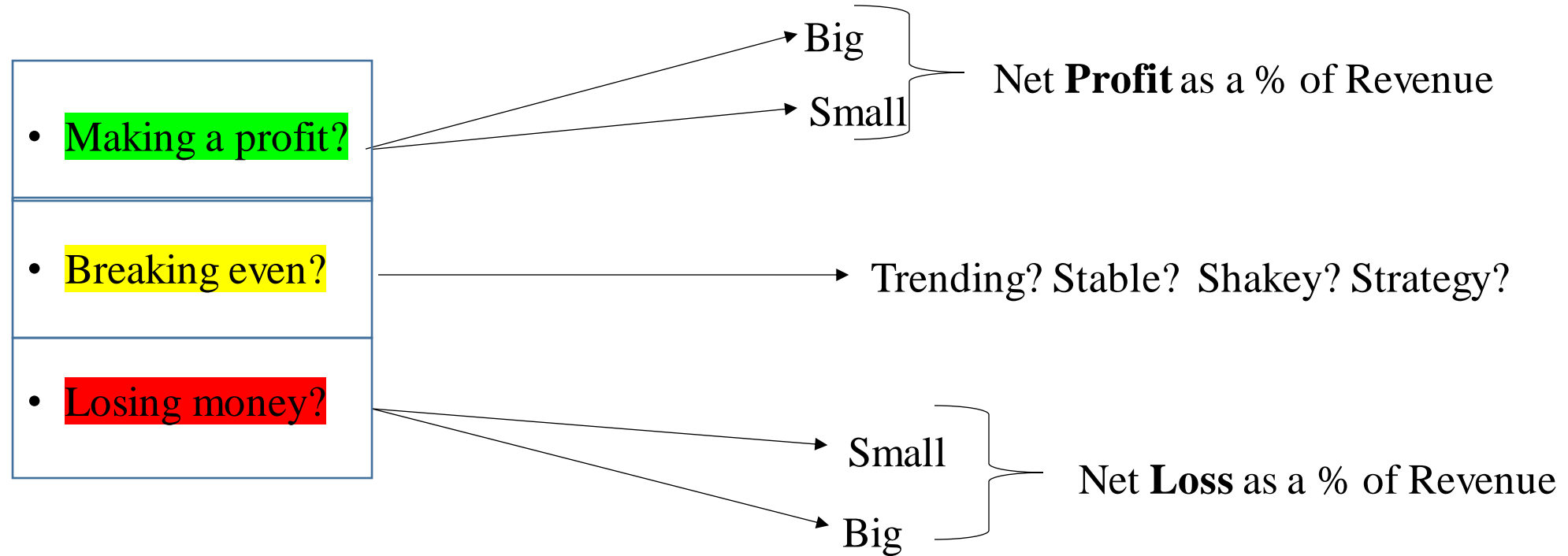


- Profitability
- Cashflow
- Debt
- Cash position
- Where is their money going
- Payroll % of revenues
- AR aging
- Fixed / Variable costs
- Assets / Liabilities

Broken down by quarterly or annually

Financial Risk Management

P&L Analysis - Primary indicator of client financial health



Should be compared to pre-COVID and post.

Financial Risk Management

P&L Analysis - Primary indicator of client financial health

If they are **Breaking Even** or **Losing Money**, what is their 3 or 6-month strategy to become profitable?

“Help me understand what the strategy is to turnaround / grow your company”

- New or existing contracts/clients in place (expected revenue gain)
 - Future or unsigned contracts should be taken with a grain of salt
- Solid management team with knowledge/experience to become profitable
 - Been there, done that
 - Solid growth strategy and execution
- Obtaining capital to meet a growing demand can be difficult
- Overcoming a major obstacles
- Does it make sense? How real does it appear? Stay close to the progress

Financial Risk Management

Balance Sheet statement of Cashflows

A supporting financial document that provides a financial snapshot in time that can change frequently

- **Debt Position** – is it a huge burden? Is it draining the company cash faster than revenues?
Loans, MCAs, Leases, LoCs,
- **Assets:** Ownership of things with monetary value.

Cash	Inventory
Property	Equipment
Investments	Prepaid expenses
AR from clients	
- **Liabilities** are settled over time through the transfer of economic benefits

Loans	Accounts Payable
Mortgages	Bonds
Warranties	Accrued expenses

Financial Risk Management

Bank Statements

A supporting financial document that provides a snapshot in time that changes frequently

Bank Statements show the cumulative balance of cash in the account, net of all the preceding transactions, as of the end of each day in a reporting period.

A summary table generally shows the time period, opening balance, deposits, withdrawals, and closing balance. Where the money went.

Why it's important

- Suspicious Activity (what cash is being used for)
- Track spending and their trends
- Checks and balances against financial reports

Financial Risk Management

Statement of Cashflow

A supporting financial document that provides Checks and balances against financial reports

- The statement of cash flows provides information about:
 - Cash receipts
 - Cash payments
- Net change in cash resulting from the
 - operating,
 - Investing
 - Financing activities of a company.

Cash flows from (used in) operating activities		
Cash receipts from customers	9,500	
Cash paid to suppliers and employees	(2,000)	
Cash generated from operations (sum)	7,500	
Interest paid	(2,000)	
Income taxes paid	(3,000)	
Net cash flows from operating activities		2,500
Cash flows from (used in) investing activities		
Proceeds from the sale of equipment	7,500	
Dividends received	3,000	
Net cash flows from investing activities		10,500
Cash flows from (used in) financing activities		
Dividends paid	(2,500)	
Net cash flows used in financing activities		(2,500)
.		
Net increase in cash and cash equivalents		10,500
Cash and cash equivalents, beginning of year		1,000
Cash and cash equivalents, end of year		\$11,500



Financial Risk Management

Ask about the ways they obtain and manage CASH:

- Do they monitor it closely (probably)
- Do they need to (or have) cashed in on their assets
- Do they stay on top of invoicing / collections
- Do they ask for upfront money for services, large orders or long-term contracts (% of total)
- Do they delay payments to your vendors while waiting to get paid
- Have they cut costs adequately but can still deliver
- Have they gotten a business line of credit - is it tapped out?
- Do they lease equipment/space or have or own
- Are they getting paid faster (i.e., Venmo, wire, etc.)

Financial Risk Management

Establish a Client Risk Profile



	Financial Risk Profile	Result
1	More than 3 years in Business	
2	Contracts in place and generating revenue	
3	Existing bank Line of Credit (not loan)	
4	Executives with substantial prior experience	
5	Payroll higher at present than last year	
6	Growing (fast, somewhat, stable, no)	
7	Capital needed in place (if needed)	
8	Net profit / loss as % of Revenue	
9	Prior bankruptcy	
10	Cash on hand = or > 3-weeks payroll	
11	Payroll = 50% of sales (monthly)	
12	Solid client base or sole client	
13	AR aging (15,30,45,60, 90 days)	
14	Debt greater that 15% of payroll (monthly)	
15	Quality of Client's customers	
16	Back Taxes Owed	
17	Survived recession / COVID	
18	Products/services in high demand	
19	Background checks clean	
20	Credit Check results	
21	Liens	

Score the Client Based on Business Related Risk Factors

Significant Indicator of how well a company is capitalized

Surviving Clients Condition/Post COVID - Have they begun to thrive?

Are COVID affected Client Vertical Markets bouncing back? (100%, 80%, 50% capacity)?

What do they need? Have they gotten it? Are they growing

- Have they acquired necessary resources, goods and supplies
 - Have resources returned to work?
 - Are there resources with appropriate experience on board? (Gig, remote, subs, etc.)
 - Supply chain issues remain? (have orders, cannot deliver)
- Influx of capital achieved?
 - Life after PPP has resulted in PEO clients needing additional capital to address renewed growth
 - Capital may not be easy to obtain given state of business
 - Have they gotten access to capital they need right now (window of opportunity)
 - Have they gotten enough capital to meet growing demand

Challenges/Impediments to PEO Growth

- Vertical Market Recovery in the Client Base – Growing, shrunk, stable?
- Resources
 - Returning to work
 - Not returning to work not quickly - workplace FUD from COVID
- Supply Chain
 - Necessary for business?
 - Expectations of receiving goods to hold/grow business
- Demand for products / services
- **Making Payroll Is not always an indicator of Client Financial Health** **Cashflow problems can still exist**
 - Is debt payments increasing to outpace payroll soon?
 - Do they make payroll by not paying other expenses?
 - Do they ask for a few days of float while they collect AR?
 - Running breakeven with no room to grow (money is very tight)
 - Cash draining at a concerned pace



Tracking Client Health Progress (Bi-Annual? Annual? On Demand?)

Client Financial Reviews - can easily be done over the phone and email

- P&L / Balance Sheets / Bank Statements / Statement of Cashflows
- Supply chain addressed
- Shape of current and pipeline of business (existing and prospective)
- Is adequate company growth sustainable?
- Are they on target to meet / exceed financial strategy (or close to them)?
- Improving or improved business from capital influx
- Etc.



What can you do to make your clients succeed as a PEO Practice: Become Their **Partner!**

Not Just Payroll and HR - Can you help make your clients succeed / grow?

Broaden your offerings

- Help them obtain resources
 - Recruiting platforms (some PEOs provide this)
 - Provide cross client synergies (i.e. staffing co. can provide nursing staff for a medical practice)
- Recommend business and financial services
 - CPAs / Accounting Services (you'd be surprised how many clients don't use them)
 - Cash Management Consultants
 - Business Consultants
- Recommend sources of capital
- Check on them often – can you help?
- What can YOU do to help them?



Help Keep Them “Sticky”. They will love the help!

Q & A

Steve Ott
VP of Business Development
Payroll Funding
609-516-5100
www.payrollfundings.com