AGICAP

How to Do Multi-Entity Cash Management the Right Way

Introduction

96% of respondents to our question[1], what changes they anticipate in their company's financial management in 2023, said:

1. **Stronger need for cash flow control.**
2. **Increase in digitalisation.**
3. **More frequent need to react at a short notice.**

The abundance of macroeconomic crises since 2020 has caused a **high demand among finance managers to ensure liquidity**. But executives and financial officers who oversee the liquidity management of several companies face **challenges of a higher order**.

For any business, forecasting and monitoring cash flow can prove complex and time-consuming. And the majority of corporate entities in turn makes it **difficult to keep track of the liquidity situation**. Nevertheless, it is indispensable to be able to **make the right decisions at group level** and not lose the overview.

We talked to executives and CFOs of business groups, micro-enterprises and SMEs from all sectors: real estate, industry, hospitality, business services etc. ... and collected their testimonials and best practices to learn more about how to best navigate the cash management of multiple businesses.

Here, we offer you a set of concrete solutions to improve your liquidity management when managing multiple entities.

[1] Survey among all attendees of the Agicap webinar with the cfo centre and GrowCFO about a Future-proof Finance Function in January 2023.

Managing the liquidity of multiple companies: a challenge for many SMEs

Cash management is more crucial than ever for the CEOs, CFOs and finance managers of corporate groups.

Priority No. 1
is cash management for CFOs in 2023.

You don't have to be a multinational company to have to deal with cash flow consolidation. Small and medium-sized enterprises (SMEs) and even micro-enterprises can also deal with it.

In a multi-company or multi-entity environment, it is necessary to maintain a consolidated overview of liquidity, in particular to:

- Track the «group» liquidity position;
- Anticipate liquidity needs or surpluses of individual entities and adjust funding/investment strategies;
- Make group-level forecasts for common investments or expenditures;
- To negotiate with a financial partners in the context of a development project.

Managing the financial resources of several companies requires a lot of discipline and a methodical approach to avoid mistakes.

Why should you monitor the consolidated liquidity of your group of companies?

The consolidated view of your cash flow is indispensable to track your cash flow position at group level. Even though each entity has its own cash flow, the consolidated view at group level allows you to project global investments into the future. And a structural view allows you to manage internal cash flows and allocate cash flow.

Several factors make it difficult to access a comprehensive overview of cash management:

- Quick access to data originating from different tools and contacts
- Quick connection to different bank accounts
- Harmonised reporting and forecast based on date from different units
- Management of different currencies
- Neutralise intra-group financial flows

The ability to accurately manage the liquidity of the parent company and each of its subsidiaries is **extremely time-consuming** for the finance manager, **but essential** for the executive.

A consolidated view of a group's liquidity position has several advantages:

- You optimise your efforts to manage loans and investments in order to better channel the available cash to the entities that are waiting for important payments or are experiencing liquidity difficulties.
- You homogenise the banking conditions you impose.
- You can make the right decisions for the development of the whole group, e.g. by identifying more easily which units are performing particularly well and which need more targeted monitoring of your cash flow.

Anticipate and track cash flow from multiple units

To manage your multi-unit company well, it is essential to be able to control and measure the achievement of your objectives at different levels: **at the level of the individual units, at the level of the entire group or even at the level of the different geographical zones**. This view at different levels is an effective key to managing your company, making the right decisions and ensuring its smooth development.

The 6-step method to get a consolidated view of cash flow

01

Collect data

First, **start collecting the bank positions and bank transactions from each unit**. This work can be long and tedious, but it is essential to get a reliable overview of your liquidity.

02

Identify internal cashflows

Identify ALL internal cash flows: internal transfers, intra-group payments and incoming payments of invoices, dividend distributions, etc. To easily identify intra-group cash flows, it is advisable to **group them into categories** for receipts and payments that are distinct from other categories related to external transactions.

03

Categorise intra-group flows

For reconciliation purposes, intercompany cash flows must be properly categorised between:

- **Business transactions;**
- **Investments;**
- **Financing.**

04

Add up the intra-group flows

Make sure that the addition of the intra-group flows results in zero. If this is not the case, **they must be reconciled**.

05

Eliminate intra-group flows

To access your consolidated liquidity overview, you need to carefully **eliminate all intra-group flows** to get only the external flows.

06

Merge the categories

Finally, you can merge the categories of identical external inflows and outflows to **get your cash flow table**. When the group is consolidated, you know your cash flow position.

Get a consolidated overview of liquidity: the feedback from Valoptim

In the Valoptim Group, which operates in various areas of the real estate industry and comprises several companies, tracking and anticipating cash flows requires a large consolidation effort that is often time-consuming and stressful. Find out how Edouard Pellerin, President of the Valoptim-Group, and Amandine Houari, Head of Finance and Administration, have made their work easier.

The challenges of liquidity management at Valoptim are essential for the executive.

Valoptim is active in three main areas of the real estate business: Real estate development, land transactions and services, i.e. administration, maintenance and facility management of buildings. The **multitude of activities makes cash flow management particularly complex** and leads to limited transparency.

VALOPTIM

Founded in **2005**

15 employees

30 à 35 million euros
of turnover in promotions for 150 to 200 flats

3 professions:
development, land, services (rental management, maintenance & facility management)

Cash management is fundamental to the property development industry. If you don't have equity, you can't borrow money.

Edouard Pellerin,
President at Valoptim

Get a consolidated overview of liquidity: the feedback from Valoptim

My goal: to track disbursements without having to constantly connect to the various bank accounts, and to have a consolidated view of cash flows to manage returns of equity, fees and margins.

Thanks to Agicap, I was able to free up an enormous amount of time to devote to other issues.

Amandine Houari,
CFO at Valoptim

With Agicap, the creation of liquidity plans is much less time-consuming. The cash flows are automatically parameterised and categorised. «The practical thing about Agicap is that you can export the liquidity plan to present it to the bank when taking out a loan,» explains Amandine Houari. For the president of the Valoptim Group, the experience with Agicap can be summed up in one word: «serenity».

The need for cash management at Valoptim

To predict their cash flow, Amandine Houari, the CFO of the Valoptim Group, usually prepares a liquidity plan for each real estate deal by compiling the costs estimated by the technical director and the expected turnover from marketing.
The cash inflows and outflows are staggered over two years depending on the progress of the project. The liquidity of the parent company is dependent on the civil society for construction and sales (Société Civile de Construction Vente, SCCV): Depending on the progress of the projects and the liquidity needs of the holding company, the fees (which are paid in three instalments) may vary over time.
The margins are paid out after completion of the projects. The equity is to be reinvested in new programs as soon as it is released. It is **proving to be a mammoth task to closely track the cash inflows and outflows** of each SCCV as well as the parent company. It is **impossible for the group to have a consolidated overview of all financial flows**. «Before we switched to Agicap, we went by the principle of extrapolation,» explains Amandine Houari.

Choosing a software for automation and consolidation

To get a consolidated view of cash flows, Valoptim chose Agicap. The cash management solution connects directly to Valoptim's banks, **providing a consolidated real-time view of cash flows**. No more tedious input in Excel! «With Excel, having to enter, copy and paste information from a bank website is not only time-consuming but also error-prone,» Edouard Pellerin tells us. He continues: «**Today, things are automatic and immediate**».

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