Forecasting Checklist

Detailed below are some prompts to assist businesses in meeting Bank needs when preparing a Forecast. A good forecast will present a conservative and yet exciting view into the future for a bank, and also demonstrating the strength of management. Always provide detailed assumptions.

Structure

☐ Banks will prefer the forecast to be 3 way - ie Profit and Loss, Balance Sheet and Cash Flow forecast.

☐ Banks want 3 forecasts

- Best case scenario shows how the business will fund high revenue growth
- Actual case is the performance that you will be measured against so this needs to be conservative
- Worst case demonstrates to the bank that even if the unexpected occurs the business will cope

☐ Provide a summary page which details for the bank the difference between last year and this year

(refer Appendix A for an outline of this summary)

Revenue

When banks review revenue they are looking to be convinced that the business is expecting a level of sales that relates to their historical performance. They will always discount your expectations to stress test the assumptions so your worst case scenario should consider performance with approx 10% less sales than your likely scenario.

☐ Is the business expecting revenue growth in the next 12 months?
- If yes, ensure that the growth rate is realistic - banks are suspicious of aggressive growth targets
- If no, then explanation needs to convince a bank not to worry and show the strategic intent

☐ How are environmental impacts accounted for - ie commodity market fluctuations, global supply and demand, regulatory changes?

☐ In light of FX risk exposure (ie hedging strategies) what is the worst case scenario?

☐ Are there any Competitor or Substitute threats that may impact on price?

☐ If revenue growth is simply last year plus a percentage, what are you doing to achieve this?
Eg 5% increase = 2 sales per day per staff member, backed by new sales training initiative

COGS

Banks want to see continuous improvement in Gross Profit (ie COGs Reduction) as a percentage of Sales income however strategies to achieve this must be detailed to be believable (ie remove sales agent and purchase directly from manufacturer or purchase packaging machine to reduce outsourcing costs)

☐ How will external factors influence costs?

☐ How are FX impacts on purchasing being controlled

☐ What strategies are in place to maintain or improve Gross Margin?

☐ Present COGs / Gross margin as a percentage of sales to identify movements

Operating Expenses

Variation from previous year actuals needs to be detailed in the assumptions as the past year is seen as achievable.

☐ What percentage of Operating Expenses are fixed vs Variable

☐ How will fixed costs be impacted by increased sales volumes

☐ Separate Depreciation and Interest costs to allow the bank to identify EBIT and EBITDA

☐ Interest costs take into account expected rate increases and any increase in loan facilities

Working Capital

Banks use working capital management as a key indicator of management ability, as well as being an imperative for establishing debt servicing capacity. Negative trends for Debtors, Inventory and Payables, measured in Days, will indicate to the bank that management are not skilled financial managers.

☐ Does the forecast demonstrate positive cash flow (ie management of cash, inventory, debtors and payables to reduce debt)?

☐ Does Working Capital % exceed Gross margin % - if not then is this harming availability of cash?

Capital Expenditure

The business needs to demonstrate how it will fund capital investment without adversely impacting the business' ability to service its principal and interest commitments.

☐ What CAPEX investment is required in the ensuing period - ie shop refits, cars, premises?

☐ Does the cash flow forecast include all capital expenditure required to maintain and grow revenue?

☐ Is CAPEX to be financed or paid in cash? If financed then include new facilities in the Balance Sheet

Other Balance Sheet / Cash Flow Forecast considerations

☐ Does the cash balance remain within the limits of existing facilities (overdraft, debtor finance)?

☐ Do Loan facility balances show scheduled principal reductions?

☐ Is the business demonstrating that it will meet loan covenants set by the bank?
If not then explanation needs to provide the lender with comfort when this will occur and why they should not be worried

☐ Does the Balance Sheet display a positive Current Ratio - ie Current Assets / Current Liabilities is > 1?

☐ Is the equity balance greater than 50% of the Debt balance? If not then what are the plans to get to this?

Overall Analysis

☐ Does the forecast sufficiently balance conservatism with presentation of an exciting future?

☐ Does the forecast demonstrate that the business will meet all banking covenants?

☐ Does forecast balance with Accounts previously produced (especially Equity balances)?

Summary Sheet template

When presenting your forecast to your bank, make it easy for them to understand by providing a summary of what has changed. The following template is provided to help you consider things that need to be included in the summary.

	FY10 Actual	Worst Case Forecast	Likely Case Forecast	Best Case Forecast
Profit and Loss				
Revenue				
Revenue Growth %				
Gross Margin %				
Operating Expense %				
EBIT %				
Interest Expense				
Net profit after tax %				
Balance Sheet				
Accounts Receivable (days)				
Inventory (days)				
Accounts Payable (days)				
Working Capital %				
Closing short term debt				
Closing long term debt				
Total Current Assets				
Total Non Current Assets				
Total Current Liabilities				
Total Non Current Assets				
Total Equity				
Debt to Equity Ratio				
Current Ratio				
Interest Cover				
Equity over Total Assets				
Asset Turnover				
Return on Net Assets				
Cash Flow Forecast				
Maximum Overdraft Requirement				
Total Prinicpal Reduction				
Total Capital expenditure				

Please contact us at Pearl Financial Services if you require assistance in producing your forecast to ensure maximum success with your bank.