Forecasting uncertainty

Steps to support forecasting in fast-changing times

March 2020
Forecasting uncertainty

Coronavirus (COVID-19) is having far-reaching implications for the economy. Businesses are being stretched beyond what they considered their downside business cases. Focused, pragmatic crisis forecasting can help businesses understand exactly how best to react and to access finance during these uncertain times.

Finance teams are facing increased pressure to reforecast cash flows and perform scenario analysis from internal and external stakeholders.

Consider the impact of...
- Mass closure of retail outlets or centres
- Major supply chain disruption
- Workforce restructure
- Production and factory shutdowns
- Product demand mix changes
- Demand volume increase
- Revenue contract renegotiation
- Termination of leases
- Stimulus and fiscal and monetary policy
- Trade terms and price wars

And the impact on...
- Cash runway
- Medium-term cash pressure
- Covenants and debt maturity
- Upcoming re-financings / capital raises
- S&OP: supply chain, demand planning
- Forecast dividends & distributions and share price
- Ability to access emergency loans and demonstrate longer term solvency
Forecasting uncertainty
A three step approach

1. Can my forecasting tool suite answer the questions being asked?
   - Many scenarios are whole-of-business and phased over time - would need to be broken down to run geographic or subject-matter specific scenarios
   - Have the flexibility in your forecast tools to consider upside and downside scenarios, including impacts of fixed, variable and step-variable costs as well as sales and operational planning issues (e.g. supply chain)
   - Apply new lenses to budgets and forecasts, such as discretionary vs non-discretionary vs contracted spend
   - Ensure the model tells the story at the right level, e.g. forecasting weekly cash vs monthly; forecasting below EBITDA for true cash position
   - Deliver analysis under pressure that is reliable and revised models are robust and designed to cope with future changes

2. Do my base case assumptions reflect new realities and possibilities?
   - Have robust, defensible and up-to-date forecast assumptions/drivers to allow you to confidently communicate the expected impact on your business, supported by a description of the base case environmental assumptions and “what you have to believe”
   - Communicate base case broad assumptions to ensure all teams forecasting from “one source of truth” and not inconsistent assumptions
   - Reconcile to most recent budgets or revised forecasts
   - Identify your up-to-date external data sources (e.g. WHO, Governments) and link to your business drivers
   - Obtain data for the impact of comparable incidents and shocks
   - Look at the impacts / reactions for similar businesses globally

3. What happens if I pull the levers I have at my disposal?
   - Reviewing product prioritisation and demand substitution
   - Raising short-term capital aligning capital mix decisions to expected impact
   - Ramping down / up production
   - Re-ranking all investment/expansion business cases vs ROC and priorities
   - Postponing or rapid eliminating of non-critical spend / expansion activity
   - Re-negotiating lease, supplier and capital contracts
Forecasting uncertainty

Suggested next steps: Rapid Scenario Planning and Business Intelligence

**Rapid assessment of your current state forecasting and scenario planning capabilities**
- Can your forecast tools be updated rapidly?
- Do they have the right level of granularity to answer questions being posed?
- Are your sales and operational planning tools agile enough?

**Rapid development of tactical models to deliver the analysis you need**
- Strategic business forecast models to pull the major business levers
- Strategic cash flow models based on value drivers that are under threat and assess impact on covenants, cash etc
- 13 week cash flow models that assess short-term cash demand and quantify the cash run, introduce a cash culture and communicate confidence to stakeholders
- Entity Priority Analysis to size the lock box
- Data models to create a single source of truth
- Tactical targeted business intelligence solutions to quickly extract and publish reporting dashboards

**Validate your assumptions**
- Leverage your existing data to provide better business intelligence supporting your forecast assumptions (e.g. extracting data on demand; supply chain trends by SKU/region)
- Deliver fast targeted tactical data analysis exercises to validate the key hypotheses.
- Embed reporting to allow ongoing analysis and assessment as the situation evolves.
- Validate your assumptions using external data sources, global trend data and lead indicators.

**Support available:**
- Driver-based **strategic planning models** that forecast cash flows under various scenarios
- **13 week cash flow models** to assess short-term cash demands and cash runway
- Tactical **data and analytics** provide business intelligence for forecast assumptions fast
- **Predictive forecasting** provide insights into demand forecasting and risk assessment
- **Financial model review** to enhance confidence in the integrity of your tools
- **Commercial Due Diligence** to challenge and diligence your hypotheses
- **Board paper development** to provide an outside in perspective

---

Natalia Taylor
Partner
+44 7884 418265
natalia.taylor@pwc.com

Mike Moffett
Partner
+44 7940 911 927
Michael.moffett@pwc.com

Dan Stott
Partner
+44 7715 485339
Daniel.p.stott@pwc.com

Rob Moran
Partner
+44 7725 706173
Robert.J.Moran@pwc.com