Forecasting in the face of uncertainty

Looking into the future when it feels like nothing is certain

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Management teams are under unprecedented pressure to urgently answer complex questions

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
- Stimulus and fiscal and monetary policy
- Trade terms
- Closure of borders

And its impact on...
- Cash runway
- Medium-term cash pressure
- Covenants and debt maturity
- Upcoming re-financings / capital raises
- Sales and operational planning
- Forecast dividends and share price

Finance teams will face increased pressure from internal and external stakeholders to re-forecast cash flows and perform scenario analysis.
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A three step approach

1. Can my forecasting tool answer the questions being asked?
   - Many scenarios are whole-of-business and phased over time
   - Forecast tools must have the flexibility 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)
   - New lenses applied to budgets and forecasts, such as discretionary vs non-discretionary vs contracted spend
   - Ensuring the model tells the story at the right level, e.g. forecasting weekly cash vs monthly; forecasting below EBITDA for true cash position
   - Analysis delivered under pressure 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?
   - You must 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 off of “one source of truth” and not inconsistent assumptions
   - Reconcile to most recent budgets or re-forecasts
   - Identify your up-to-date external data sources (eg WHO, Governments) and link to your business drivers
   - Obtain data of the impact of comparable incidents and shocks
   - What have been the impacts / reactions for similar businesses globally

3. What happens if I pull the levers I have at my disposal?
   - Product prioritisation and demand substitution
   - Raise short-term capital aligning capital mix decisions to expected impact
   - Ramping down / up production
   - Re-rank all investment/expansion business cases vs ROC and priorities
   - Postponing or rapid elimination of non-critical spend / expansion activity
   - Re-negotiating lease, supplier and capital contracts
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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.
- Data models to create a single source of truth
- Tactical targeted BI 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 and 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.

You are not alone. We are here to help.

- 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.
- **Predictive forecasting** provide insights into demand forecasting and risk assessment.
- **Financial model review** to enhance confidence in the integrity of your tools.
- **Board paper development** to provide an outside in perspective.

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