

# Forecasting Cash Flow



RAISE YOUR EXPECTATIONS.

Terry Robinson  
tjrobinson@comerica.com

Theodore Tzafaroglou  
ttzafa@neconsultingpartners.com



Financial Boot Camp  
Forecasting Cash Flow  
New England Consulting Partners, LLC

# Financial Boot Camp

---



- Importance of forecasting cash flow
- Impact of cash flow on your ability to operate your business
- Key elements of understanding cash flow forecasts
- Questions and answers

# Importance of forecasting cash flow

---



- Allows Management to quantify, understand and plan activity going forward such as:
  - Material/product inventory drive
  - Labor required
  - Equipment additions
  - Customer commitments
  - Vendor commitments
  - Stakeholder communications
- Provides a communication tool and Roadmap to lead the Company
- Required in times of growth as well as contraction

- Every aspect of the business is affected
  - Recruiting
  - Production
  - Sales
  - Marketing
  - Customer due dates
  - Credit ratings
  - Public relations
  - Employee retention/ morale
  - R&D
  - New Jobs

# Polling Question #1

---



- Does your business prepare a detailed cash flow forecast?
  - Yes
  - No

# Typical significant uses of cash

---



- Inventory
- Accounts Receivable
- Wages
- Health Care Costs
- Insurance

# Typical sources of cash

---



- Sale of product/services
- Bank Loans and leases
- Vendor credit terms
- Equity investments



# Areas to focus on

---



- Inventory Management
  - Lead times
  - Quantity levels on hand
  - Mix of product
  - Size of product lines
  - Conversion Cycle
  - Age of the inventory
- Accounts Receivable Management
  - Credit screening and setting limits
  - Payment terms
  - Follow up
  - Cash in advance if needed
- Line of credit usage
- Vendor Terms

# Polling Question #2

---



- Which of the following do you rely on most as leading indicator of the success your business?
  - a. Backlog
  - b. Inventory levels
  - c. Cash on hand
  - d. Debt levels

# Key elements of developing cash flow forecasts



## Develop cash flow model:

- Review accounts payable detail
  - Purpose
    - Analyze expense structure
    - Determine vendor creep
    - Margin rationalization
    - Gain understanding of management's insight of costs
- Review payroll detail
  - Purpose
    - Employee utilization
    - Compensation structure
    - Drill down for managerial talent
- Review accounts receivable
  - Purpose
    - Analyze cash “base” (how much is there)
    - Gain understanding of customer base (particularly liquidity)
    - Estimate collection time
    - Formulate sale strategy

# Quantify Stakeholder Exposure

---



- Borrowing base
  - Purpose
    - Determine actual ability to borrow
    - Basis for negotiating with stakeholder (Bank)
    - Ability to continue to make lease payments on M&E
- Analysis of critical vendors
  - Purpose
    - Cash basis for essential vendors
    - Formulate plan for unsecured creditors
- Collateral deterioration
  - Purpose
    - How will cash flow affect existing borrowing base?
    - What is necessary to maintain enough inventory and accounts receivable to move forward?
    - How does existing M&E configuration enhance ability to sustain collateral?

# Immediate Steps

---



- CCD
  - Cut (expenses)
  - Collect (cash)
  - Defer (payments)
- Purpose
  - Immediately bring company to a cash neutral or cash positive position

# Managing the Pressure Points

---



- Definition
  - Vendors
  - Unions
  - Lenders
  - Other stakeholders
- How do we manage
  - Communication
  - Feel their pain

# Polling Question #3

---



- Is your business experiencing an increase in volume over the over the past 30 days?
  - Yes
  - No

# Sales Analysis

---

- Do trends represent a change in business environment or loss of customers to competition?
  - Management must explain
- How will current sales effect future cash flows?
  - Is the back log sufficient and stable?
- Is sales staff giving back price and/or reluctant to pass on prime cost increases?
  - Is the sale staff running the company?
- Does the company have adequate forecasting tools (data & personnel)?
  - Are customer relationships being analyzed for growth potential?
  - Is expansion possible and does it make sense i.e. can growth be funded?



# Polling Question #4

---



- Has your business passed on the cost of COVID Compliance on to your customers?
  - Yes
  - No

# Analysis of IT and Operations

---



- Is IT infrastructure adequate to sustain current business?
  - Infrastructure collapse can bring down company
  - Infrastructure = hardware + software
- Does IT staff have capability or desire to function in crisis?
  - Loss of key personnel could mean IT shut down
  - Loss of critical data
- What additional IT investment will be needed in next 12 to 18 months?
  - Future cash flows are necessary to fund reinvestment
- Are operations streamlined to fullest extent?
  - Personnel and equipment must have adequate utilization
  - Rule out/in consolidation opportunities

# Creating Value in a Cash Flow Forecast



- Financial statement rehabilitation in following order:  
reverse engineer
  - Cash Flow
    - Reduce costs to enhance P&L and liquidity
  - Profit & Loss
    - Cash flow improvements improves profitability and equity
  - Balance Sheet
    - Cash flow and profitability cure ratio deterioration over time:  
structure discount for unsecured creditors
- Funding
  - Identify amount of cash required to operate
  - Identify and procure sources of cash
- Measurables
  - Clear detailed targets
  - Frequent and thoughtful monitoring

## Theodore Tzafaroglou

Principal at New England Consulting Partners

[ttzafa@neconsultingpartners.com](mailto:ttzafa@neconsultingpartners.com)

[www.neconsultingpartners.com](http://www.neconsultingpartners.com)

734-377-1053

# Questions?



RAISE YOUR EXPECTATIONS.

Terry Robinson  
[tjrobinson@comerica.com](mailto:tjrobinson@comerica.com)

Theodore Tzafaroglou  
[ttzafa@neconsultingpartners.com](mailto:ttzafa@neconsultingpartners.com)

# Bootcamp Session #3

## ▪ August 20<sup>th</sup>

**Hosted by Steve Davis**, Senior Vice President, Middle Market Banking, Comerica Bank

- **Financial Crisis Management**– Sean A. Pattison, Principal, Management Consulting, Plante & Moran
- **Restructuring during Turbulent Times** - Presented by Sheldon L. Stone, Partner, Advisory Practice Leader, Amherst Partners –
  - Please join Sheldon Stone Practice Leader of Amherst Partners Restructuring Advisory Services as he covers the operational efforts in a turnaround. Mr. Stone will draw on current and past Amherst engagements to illustrate the qualitative and quantitative aspects of an operational turnaround. Additionally, You will gain insight into the implementation of these tactics as well.