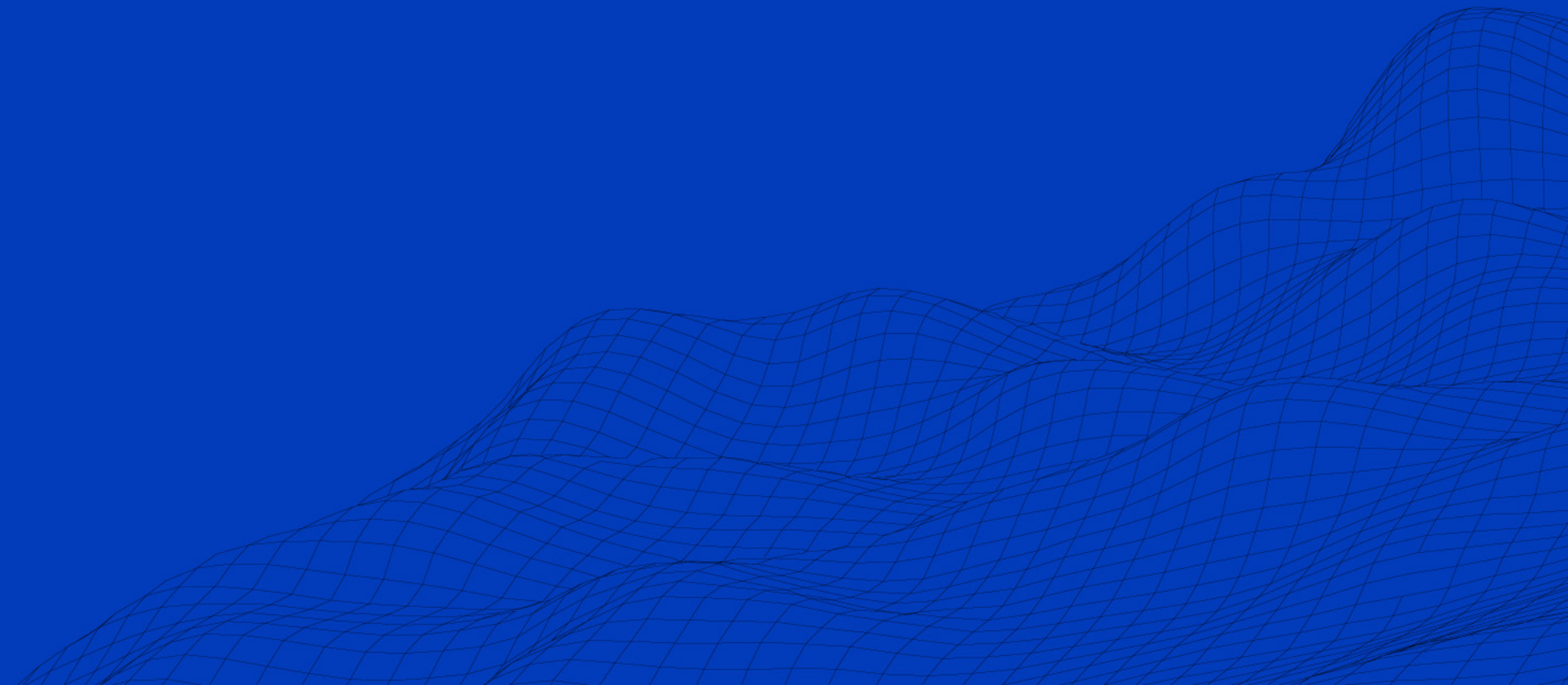


Perfecting the Cash Forecast

How to Add Business Value to Your Organization.

September 16, 2021



For Today

- Cash forecasting is an art that is rarely perfected. Every organization talks about forecasting more effectively, but few allocate sufficient people, time, and technology to build an effective program. Understanding the importance of an accurate cash forecast that can be relied upon for key financial decisions is critical to making the right investments in forecasting.
- Today we will cover the following topics:
 - The cost of an ineffective cash forecast
 - How treasury adds strategic value to the business through effective forecasting
 - Three steps to perfecting the cash forecast

But First....a Quiz

What year did I start in Treasury?

Clues:

Mad cow disease in UK

Gas was 89c per gallon

Wachovia Tower (Shipt) was built

Was it:

1986?

1981?

1990?

What is Cash Forecasting?

A key component of Corporate Cash Management, which when performed correctly provides:

- ▮ Improved certainty of project cash balances
- ▮ Longer term investing outlook
- ▮ Reduced borrowing costs
- ▮ More effective hedging programs
- ▮ Better cash mobility

KEY STAT

The #1 treasury issue that causes CFOs the most potential concern is unreliable cash visibility and forecasts, according to a Nov. 2018 CFO Publishing survey, "3 Key Areas Where CFOs Say Treasurers Need to be More Strategic."

Types of Forecast

KEY VOCABULARY

Cash positioning is concerned with today and often the next five business days. The purpose is to manage daily liquidity to ensure shortfalls are covered and surpluses are concentrated to earn some yield on excess cash.

(Cash) budgeting is performed by finance teams such as FP&A and is more focused beyond one year – although with increased emphasis on free cash flow guidance, the reconciliation of indirect budget-based forecasts with direct cash flow forecasts is increasingly managed quarterly.

Cash forecasting typically extends cash positioning with horizons anywhere from one week to one year. Forecasting leverages multiple data sources to increase confidence in the projected cash balances so that better cash decisions can be made. The value of forecasting is based upon the value of those better decisions.

Poor Forecasting – So What?

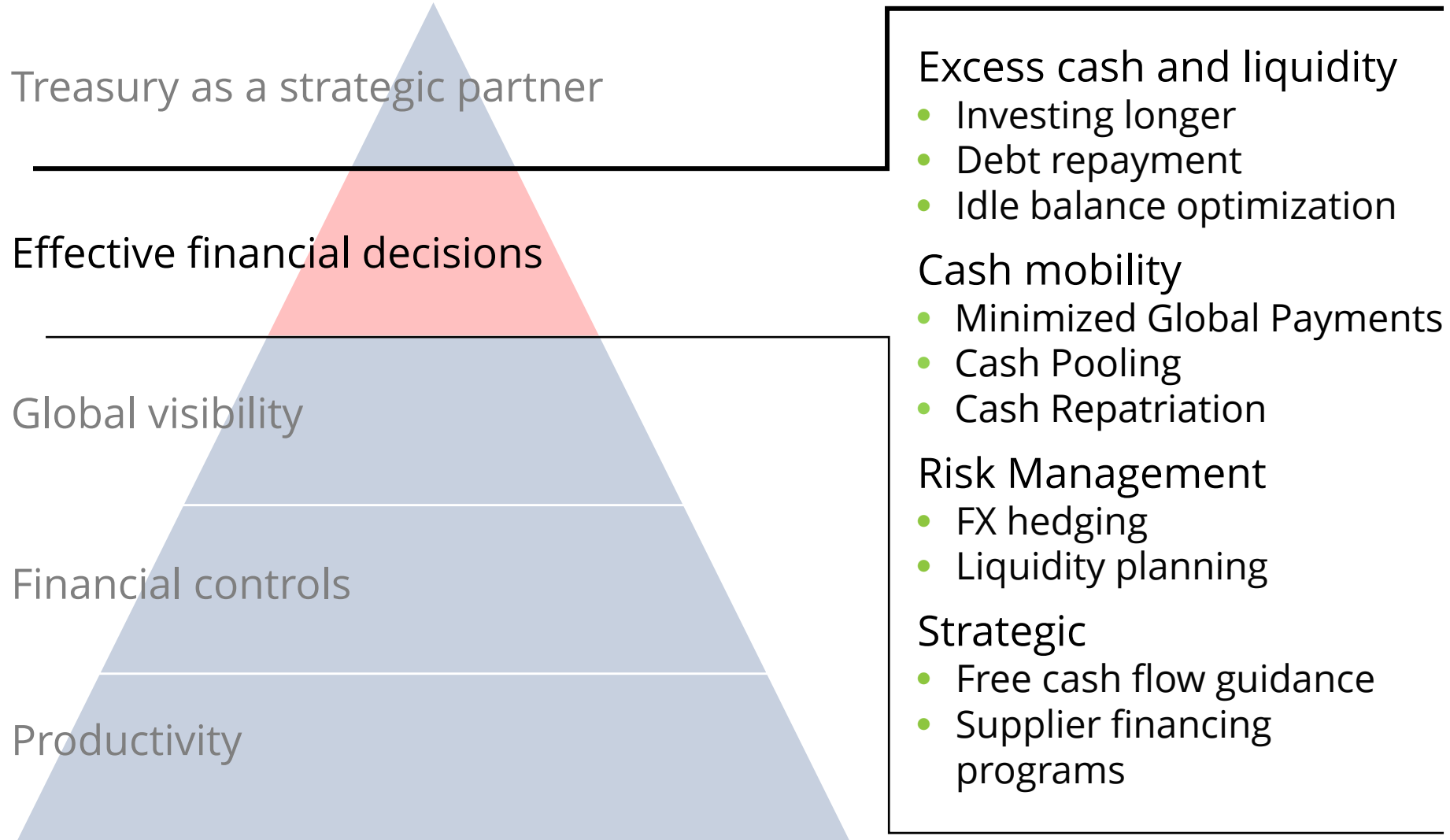
- ▣ Lack of clarity = poor decisions. Impacts staffing levels, growth, future planning
- ▣ Financial risk – hedging in the dark
- ▣ Incur higher funding costs – unnecessary lines of credit
- ▣ Inability to invest
- ▣ Overall poor operational efficiency

“People Who Hold Cash Feel Comfortable”

Warren Buffet

- ▮ Pays nothing
- ▮ Will depreciate in value the longer it is held
- ▮ Cannot be put to good use

Why Forecast?



Why Forecast – Increased Investment Income

Increased Investment

- In improving forecast accuracy CFOs are able to reduce idle or uninvested cash balances and in turn increase investment income
- Every \$ of idle cash freed for strategic use can impact the bottom line of your business
- Centralizing cash through in-house banking or cash pooling will reveal more cash that is sitting unutilized and be put to use

Why Forecast – Debt Repayment/Reduction

Reduced Borrowing

- Many businesses keep idle cash on account but at the same time have debt both on a short and long term basis outstanding
- An unreliable cash forecast = inability to commit to paying down debt ('you never know/save it for a rainy day')
- Depending on costs Treasury may have a variety of options to pay down – revolvers, bonds, etc. – more costly are paid down first typically
- Subsidiary lending can be considered in place of borrowings subsidiaries are making directly – normally more expensive than parent

Why Forecast – Improving Foreign Currency Hedging Effectiveness

Hedge Effectiveness

- Better forecasting = a better hedging program
- A business of \$1B in revenue where 50% is from overseas – a 1% shift in USD equates to an impact of \$5M
- Confidence to hedge more tightly – increasing hedge coverage reduces exposure to moving rates

Why Forecast – Excess Cash Balances

Shareholders want value from free cash flow & excess cash balances

- Shareholders have visibility into your balance sheet and cash flow statement
- Shareholders demand a return on cash – or a return of cash!!
- Complete visibility = confidence to make the correct decisions related to excess cash

Why Forecast – Excess Cash Balances

Overseas Cash Repatriation

- Possibility of cash needed for corporate actions - dividends, share repurchases, acquisitions
- Accurate forecasts will confirm when and where cash is needed in overseas markets
- Accurate forecasting will reduce cost of unnecessary borrowing, last minutes wires and possible late stage FX transaction costs

Why Forecast – Management Insight

Become a Strategic Partner

- CFOs (and CEOs generally need cash projections)
- Being proactive and accurate will raise Treasury's profile within the business
- If Management is not asking (!!!!) – Opportunity to impress

Three Steps to Perfection

Become a Strategic Partner



Three Steps to Perfection

1. Consolidation – incorporate the relevant data streams
2. Collaboration – involve the right teams/departments/people
3. Measurement – feedback loop to measure performance of accuracy

Consider This Before You Get Going

1. What Am I Solving For?
Be efficient – getting this together involves significant effort
Clearly identify what the forecast will facilitate and the business benefit
2. Am I Making the Same Mistakes?
It will never be 100% accurate
It is an iterative process and analysis and understanding to determine root causes and adjust accordingly
3. Do I Understand my Business?
Treasury cannot operate in a silo = failure
Insight into new product lines, M&A business, etc. will ensure future needs are built in and don't come as a forecast shock

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