



CASH

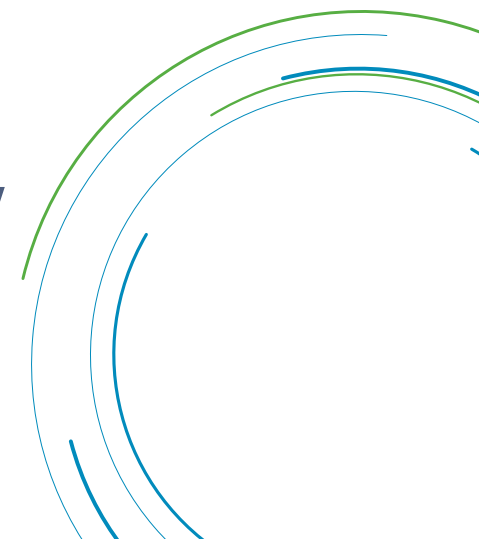
FLOW

FORECASTING

DecisionCFO



Overview



Why Financial Projections are Important

**Predicts
Cash Flow**

Provides:

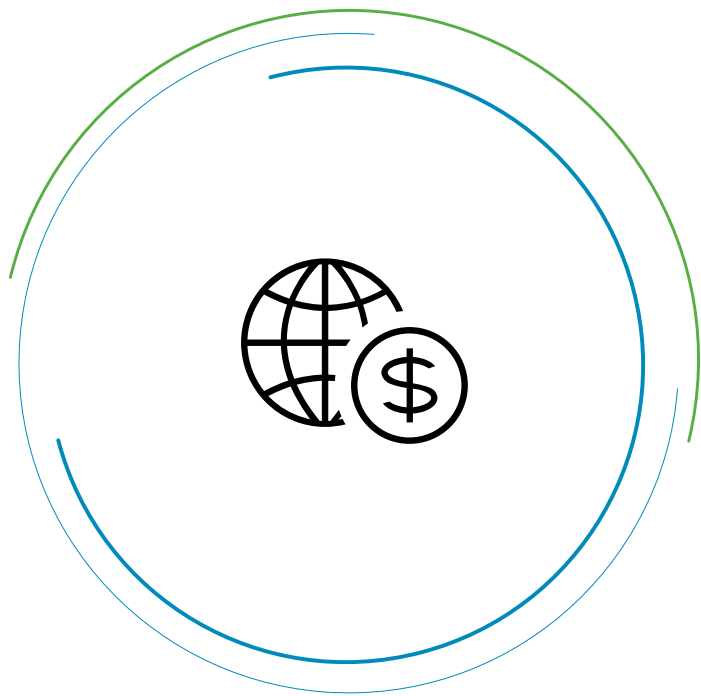
- A financial “Road-map” for the Organization
- Confidence to investors and bankers

Set goals for:

- Sales and Gross Margins
- Timing for staff hiring, capital investment, and inventory purchases (if necessary)
- Determines the amount of investment or debt required



Elements of a Successful Financial Model



Assumptions that are realistic and achievable

- Accrual vs. Cash Accounting

Projected financial statements

- Income Statement
- Balance Sheet
- Cash Flow

Planning Period – 1 - 5 years

Accurate Supporting schedules

- Sales Pipeline
- Staffing and Outside consultants
- Operating expenses
- Mini schedules for Balance Sheet (A/R, A/P, Capital, Def Comp, Taxes)

Dashboards to summarize the critical financial and operating information

Methodology - Unit Economics

“Bottom Up” Approach

- Show more calculation lines instead of imbedding long formulas into cells



LINE 01

SALES UNITS

LINE 02

SALES PRICE

LINE 03

REVENUE (UNITS TIMES PRICE)

Link Worksheets

Facilitate scenario planning by altering one or all variables

Income Statement Format



Income Statement

- Revenue (from Sales Forecast)
- Cost of Goods Sold (from Sales Forecast)
- Gross Margin (Revenue less Cost of Goods Sold)
- Operating Expenses (Personnel, Overhead, etc.)

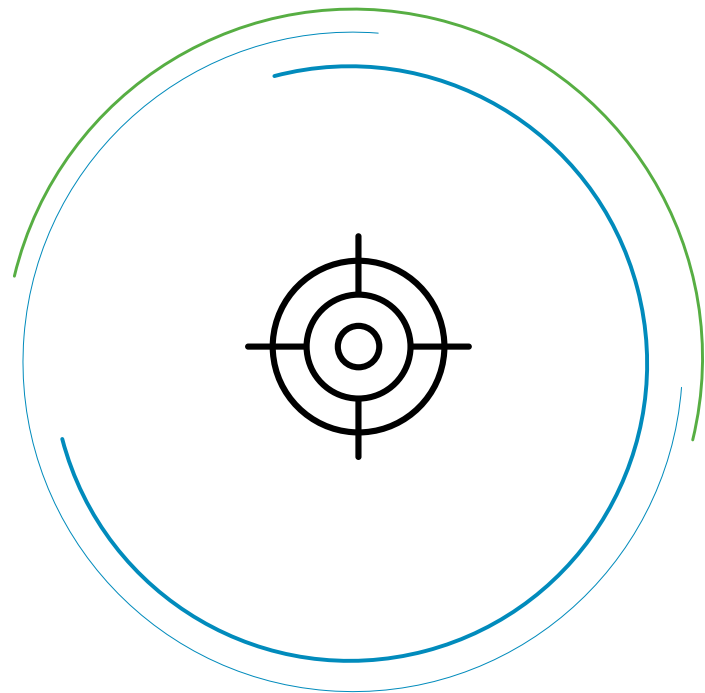
Operating Expense Forecast

- Net Income
- Less: Income Taxes
- Net Income after Taxes

Sales Forecast

Cash Flow Forecast Tip:

Find out what industry norms are for A/R collections - 45, 60 days or longer? Do your customers give you retainers or prepayments? For CGS suppliers, try to negotiate terms so those payments match the receipt of A/R collections. If you are in an inventory business, you will have to purchase CGS in advance of sales so you will have to calculate a target inventory level and what that will cost.



Well thought through assumptions for pricing and unit demand

Understand competition and market trends

Gross Revenue = Number of units times selling price

Net Revenue = Gross Revenue discounted by a probability factor

Cost of Goods Sold (CGS) = Number of sales units times all in cost
(purchase cost, freight, delivery, packaging)

Gross Margin – Net Revenue less Cost of Goods Sold

Are you required to collect sales tax?

Key Questions for Sales Forecast

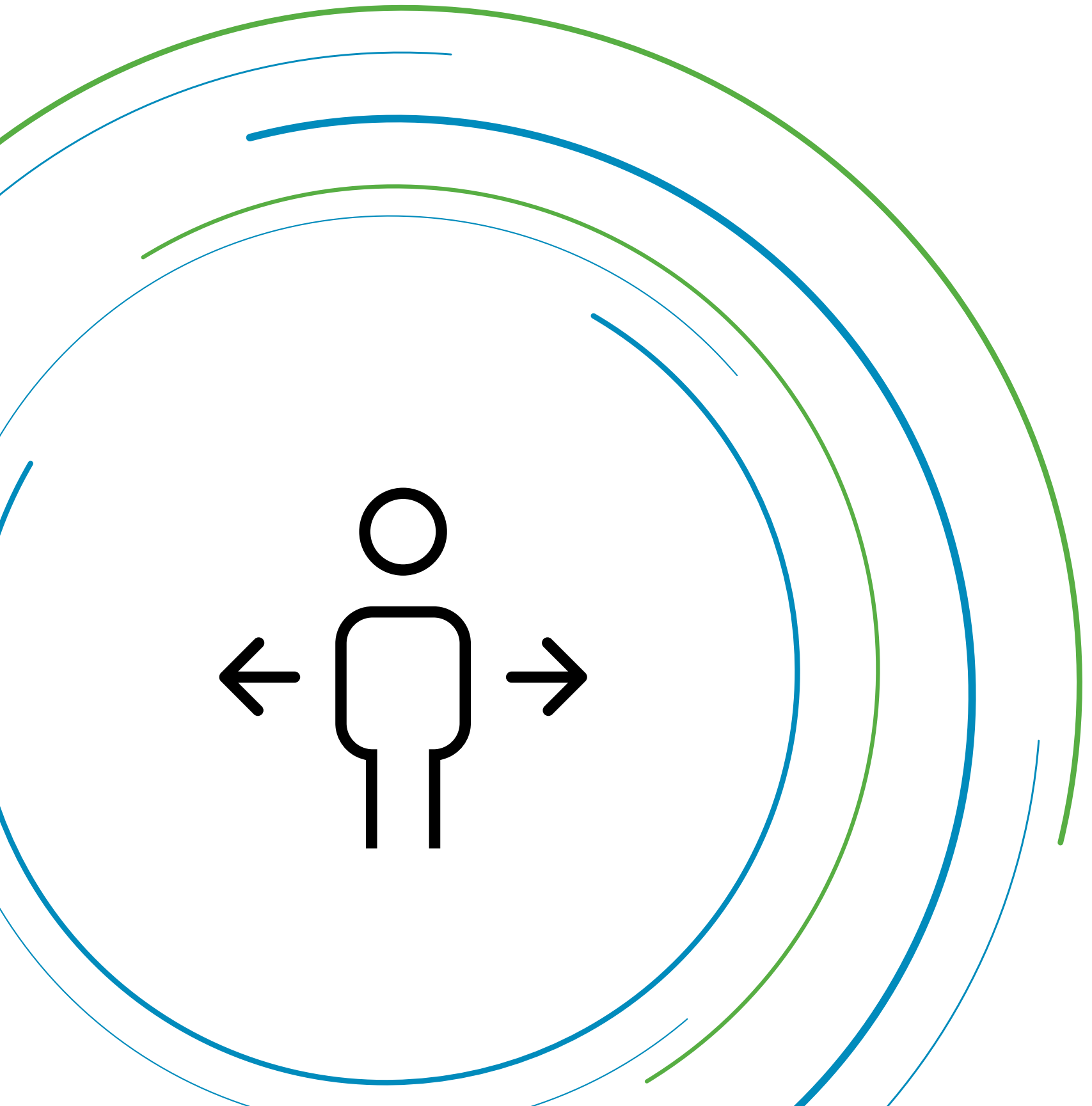
Selling Process

- Understand the selling and buying process
- What is the “Sales Cycle”
- What are the steps involved
- Who needs to approve the purchase on the customer end
- How soon from approval will we get an approved Purchase Order or Completed Sale

Sales Pipeline

- By client
 - # of units of each product / service they will buy x price of each product /service
 - Apply a probability of the likelihood that it will happen
 - Result = Expected Revenue (That is the number that goes on your monthly income statement forecast; see example.)

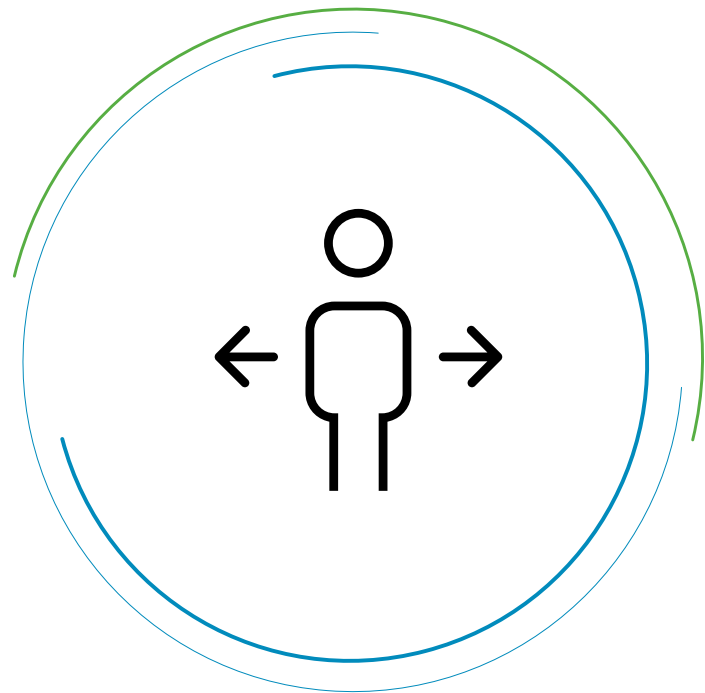




Staffing Forecast

Cash Flow Forecast Tip:

Base monthly compensation is usually paid twice per month. If you use an outside payroll service, your payroll taxes will be withheld by the provider when they process the payroll. Benefits could be paid the next month along with related workers compensation and other insurances.



Determine the staff required by

- Department or division
- Title

Determine the annual pay and date of hire for each staff person.
Need to track headcount separately and then calculate base pay from that.

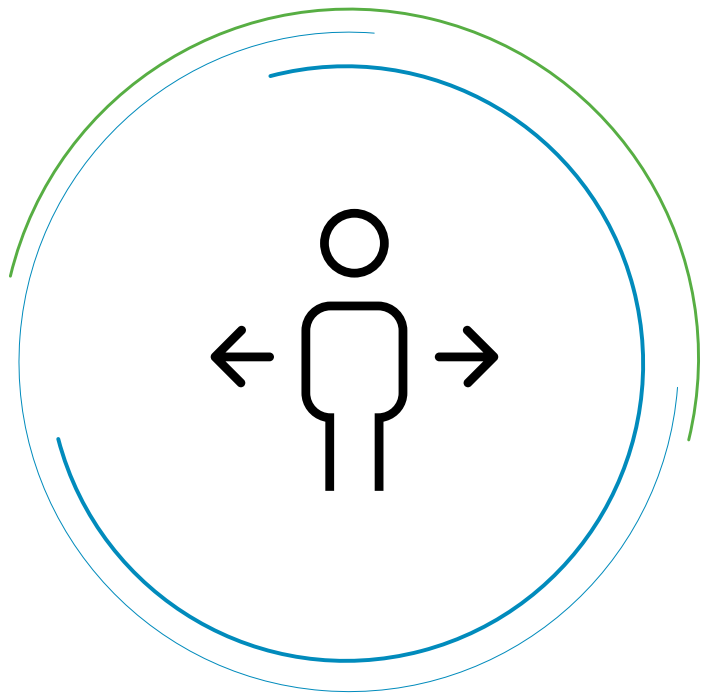
Calculate and link in sales commissions (if applicable)

Enter overall or individual bonus plan data and goals

Annual pay + sales commission + bonus = annual compensation

Payroll taxes = annual compensation times 10% (estimate)

Other benefits = 5 - 8% of annual compensation



Annual pay + sales commission + bonus = annual compensation

Payroll taxes = annual compensation times 10% (estimate)

Benefits = calculate based on headcount totals

- Company cost of benefits could be \$250 - \$750/month per person

Enter stock or options for each person

Key Questions for Staffing & Consultants

Build vs. Buy (employees vs (1099) consultants)?

Skill Sets Required / Timing to Acquire Skills

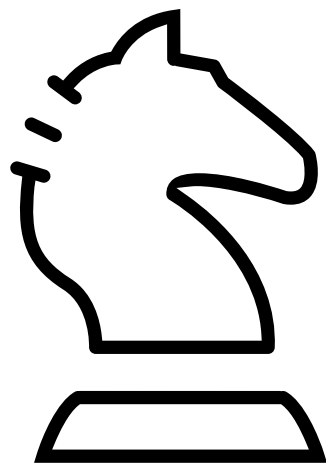
How much will it cost? And how much can your business afford?

Who is available in the marketplace or labor pool?

Staffing Options:

- FTE
- Permanent Part Time
- 1099 / Outside Consultants





Operating Expenses

Cash Flow Forecast Tip:

Rent is usually paid within the first 10 days of the month, and all other costs can be paid by credit card (which would be due 30 days or the next month after purchase).

Rent (use 200 SF/person) and benchmark rental space in your market
Example: 10 people * 200 SF = 2,000 SF * \$30/SF = \$60,000 annual rent

Items to budget based upon headcount (vary up or down based upon staffing levels)

- Office supplies
- Telephone
- Desks, chairs and phones
- Insurance
- Laptops and printers



Balance Sheet Forecast

Current Assets

- Cash, ST Invest.
- A/R
- Pre-paid Expenses
- Inventory



Working
Capital

Current Liabilities

- A/P
- Deferred Revenues
- ST Debt

Fixed Assets

- Property, Plant & Equipment
- Investments
- Intangible Assets



Permanent
Capital

Long Term Liabilities

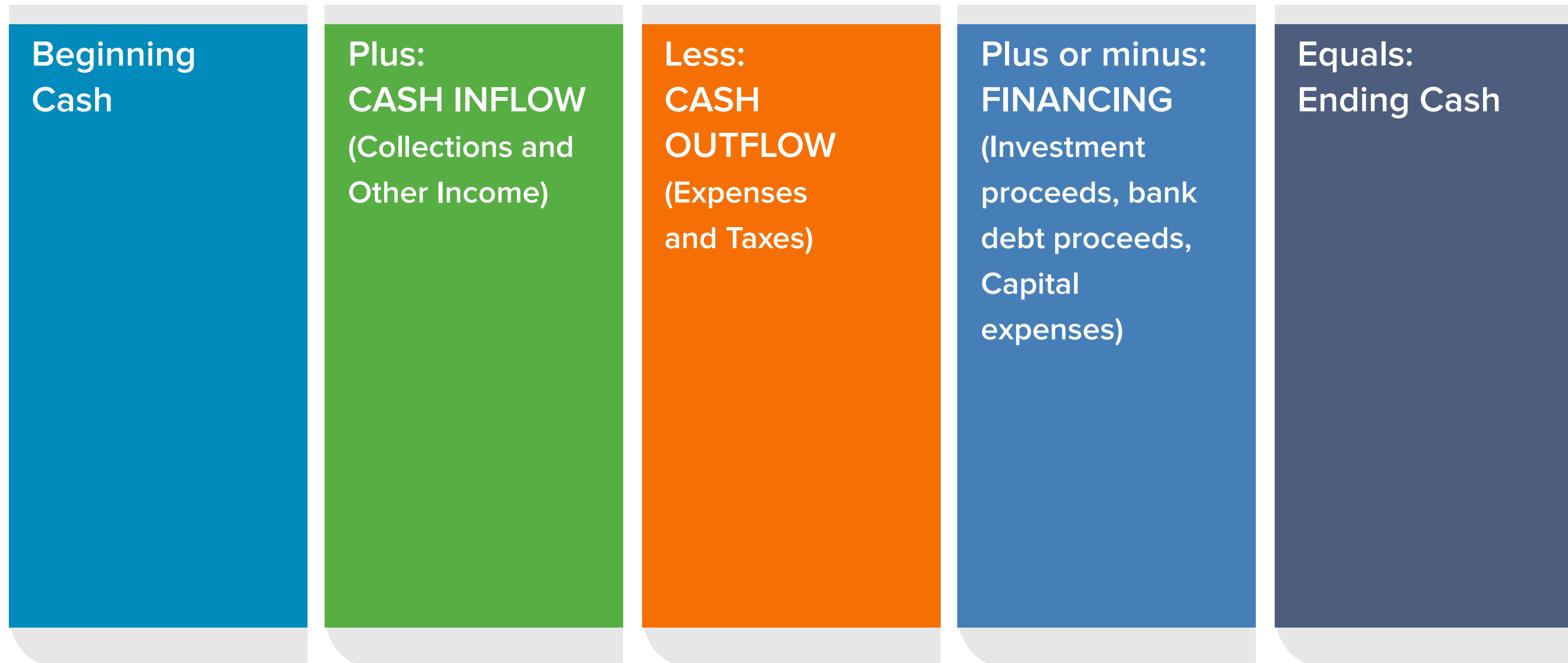
- Debt
- Subordinated Debt
- Convertible Debt

Equity

Cash Flow Forecast

Option 1

Traditional Cash Flow



Option 2

Statement of Cash Flows

Starts with
Net Income

Cash
provided by
Operations

Cash Flows
from investing
activities

Cash
Flows from
financing
activities

Adds up to
Net Increase
(Decrease) in
Cash and should
agree with the
ending cash
balance

Create Mini
schedules
for Balance
Sheet for any
item where
activity in one
month has
an effect in
a following
month (A/R, A/P,
Capital, Deferred
Compensation,
Income Taxes,
Sales)



For further details contact us
at info@decisioncfo.com

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