The background features a faint, light-colored grid pattern. Overlaid on this grid is a dark, semi-transparent image of a surveying instrument, possibly a theodolite or similar, mounted on a tripod. The instrument is positioned in the upper right quadrant of the frame, with its lens and various adjustment knobs visible. The overall aesthetic is technical and professional.

# *Cash Forecasting & Working Capital Management*

**TREASURY WORKSHOP**  
**Barry Wolde Yohannes**

# *Agenda*

- *Benefits of Forecasting*
- *Critical Success Factors*
- *Common Forecasting Problems*
- *Methodologies*
- *Best Practices in Working Capital Management*

# ***Benefits of Cash Flow Forecasting***

- *Lower Borrowing Costs*
- *Greater Investment Income*
- *Lower Cost of Capital*
- *Satisfied Lenders/ Analysts*
- *Management Discipline /Tools*
- *Early Warning System*

# Benefits of Cash Forecasting(2)

- *Anticipate Financing Needs*
- *Improve Investor/ Lender Confidence*
- *Improve Working Capital Management*
- *Invest Cash in Business*
- *Reduce Credit Facility Dependency*
- *Better Decision Making*
- *Minimize Interest Expense*
- *Reduce Cash Volatility*

# Cash Forecasting Horizons

## ◆ Short-Term

- ◆ *Predict Cash Receipts & Disbursements on a Daily , Weekly and Monthly Basis*

## ◆ Medium-Term Forecasting

- ◆ *1-12 Months Projection of Inflows and Outflows on a Monthly Basis*
- ◆ *Used to determine Company's Need for ST Credit and /or ST Investments*

## ◆ Long-Term

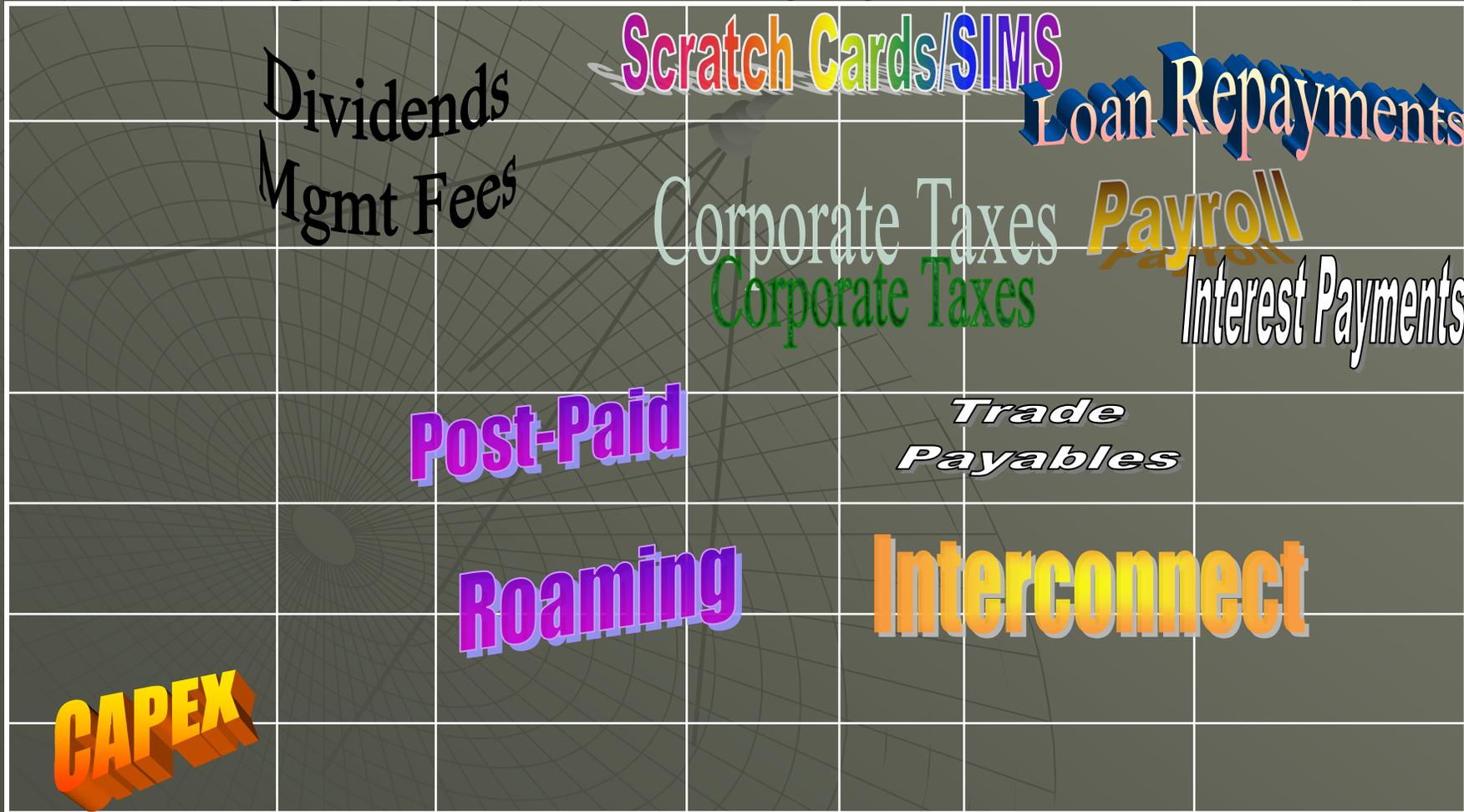
- ◆ *Cover Any Period Beyond 1 Year.*
- ◆ *Projections of LT Revenues /Expenditures*
- ◆ *Relate to LT Financial Planning*
- ◆ *Used by Banks and Credit Agencies for Credit Analysis and Evaluation*

# Cash Flow Components & *Degree of Certainty*

- ◆ Operating
- ◆ Financing
  
- ◆ *Certain Flows*
- ◆ *Predictable Flows*
- ◆ *Less Predictable Flows*

# Measuring Forecast Reliability by Transaction Groups

I  
Certainty of timing  
└



# ***Issues that Can Impact Forecast Reliability***

- Data Quality*
- Availability of Data*
- Confidence Decay over time*
- Timeliness of Reporting*
- Treasury Resources*
- Interpretation of Forecasts*

# Forecasting Methodology

## Direct Method

- Receipts and Disbursements Forecast
  - ◆ Receipts Schedule
  - ◆ Disbursements Schedule
  - ◆ Completed Forecast
- Distribution Forecast
  - ◆ Simple Average
  - ◆ Regression Analysis

# Forecasting Methodology

## Indirect Method

- ❑ Typical for mid-to long-term horizons
- ❑ May Not Pick up Short-term Fluctuations in Cash Flows
- ❑ Pro Forma Financial Statements based on a % of Revenue Method
  - ❑ Forecast P&L/BS
  - ❑ Determine Impact on Cash of the Forecasted IS and BS Changes
- ❑ Measures Change in Cash over the Period and is not used for Daily Cash Position Setting

# Common Cash Forecasting Pitfalls at Every Step of the Process

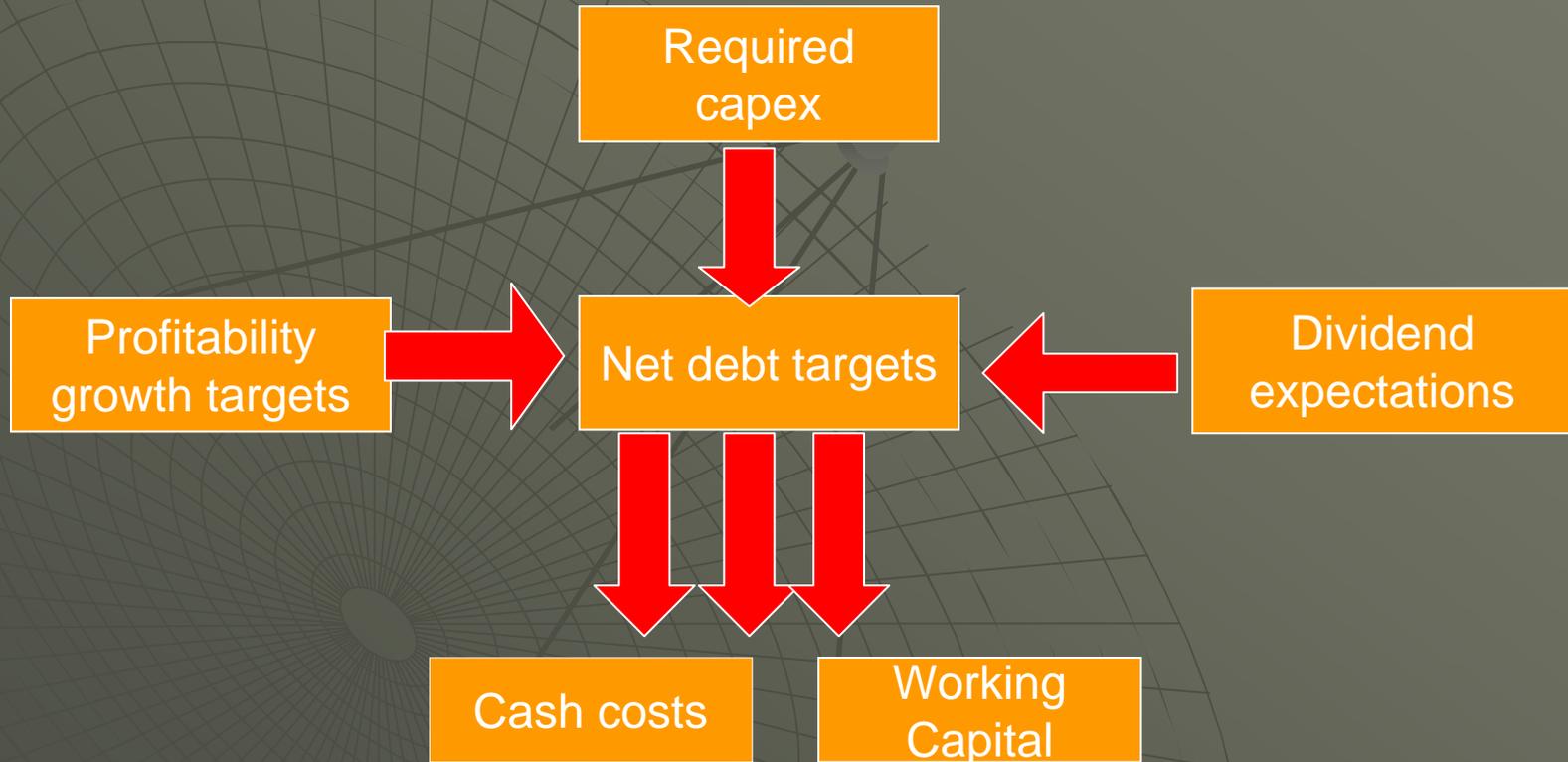
- ◆ Poor Data
- ◆ Ineffective Technology
- ◆ Inconsistent Assumptions
- ◆ Junior Level Responsibility
- ◆ Lack of Accountability
- ◆ Lack of Treasury BU Collaboration
- ◆ Misaligned Incentives

# *Critical Success Factors*

- .Focus on Relevant Items*
- .Efficient , Systematic Data Flow*
- .Relevant and Consistent Forecast Horizon*
- .Understanding Cash Flow Volatility*
- .A High Degree of Organisational Focus and Alignment Behind Cash As a Key Performance Indicator*

# Creating the Right Organizational Behavior

## *Establish Targets for Net Debt*



**To create the focus on cash and working capital**

# Critical Success Factors (2)

- *Optimize forecast process methodology ,data access and compilation and related systems architecture.*
- *Develop effective variance analysis methodologies*
- *Identify and monitor key business drivers and incorporate them into an early warning system that allows management to identify forecast shortfalls and take corrective actions .*
- *Develop communication channels between Finance and the "owners" of individual cash flows*
- *Strive for continuous improvement*

# Best Practices for Treasury & Working Capital Management (1)

- ❑ Consolidate Cash Management Banking Partners
- ❑ Create a Centralized Cash Management Structure that Serves Global Needs
- ❑ Improve Investment Yields at the Lowest Risk and Cost
- ❑ Automate Invoice and Remittance Processing
- ❑ Leverage Compliance Efforts in Process Improvement Opportunities

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# Best Practices for Treasury & Working Capital Management (2)

- Review the Cash Management Structure Regularly
- Maintain an Open Line Communication with Suppliers Regarding Payment Matters
- Manage Payment Timing and Terms to Maximize Company Cash Flow
- Shift the Focus of the Finance Staff to Value Adding A/P activities
- Focus Priority Attention on Distressed and Delinquent Accounts

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# Best Practices for Treasury & Working Capital Management(3)

- ❑ Monitor Financial Exposure and the Effectiveness of Risk Management Strategies
- ❑ Strive to Reduce the Cost of Capital on an Ongoing Basis
- ❑ Explore Alternative Financing Sources Continuously

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# Benefits of Improving Treasury & WC Processes.

- ✓ Operational Effectiveness in A/P & A/R from Faster Processing Time
- ✓ Decrease the Risk of Over-funding Payables and Maintaining Excess Balances
- ✓ Increase Access to Funds to sustain Operation or Finance Additional Capex
- ✓ Lower Bank Charges-Improved Information Flow with Banking Partners
- ✓ Redeploy Staff from Mundane Tasks into Increased Availability for Professional Cash Management Activities

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