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ORIGINAL/ESSENTIAL/UNBIASED/INFORMATION

What is your Cash Forecast costing you?

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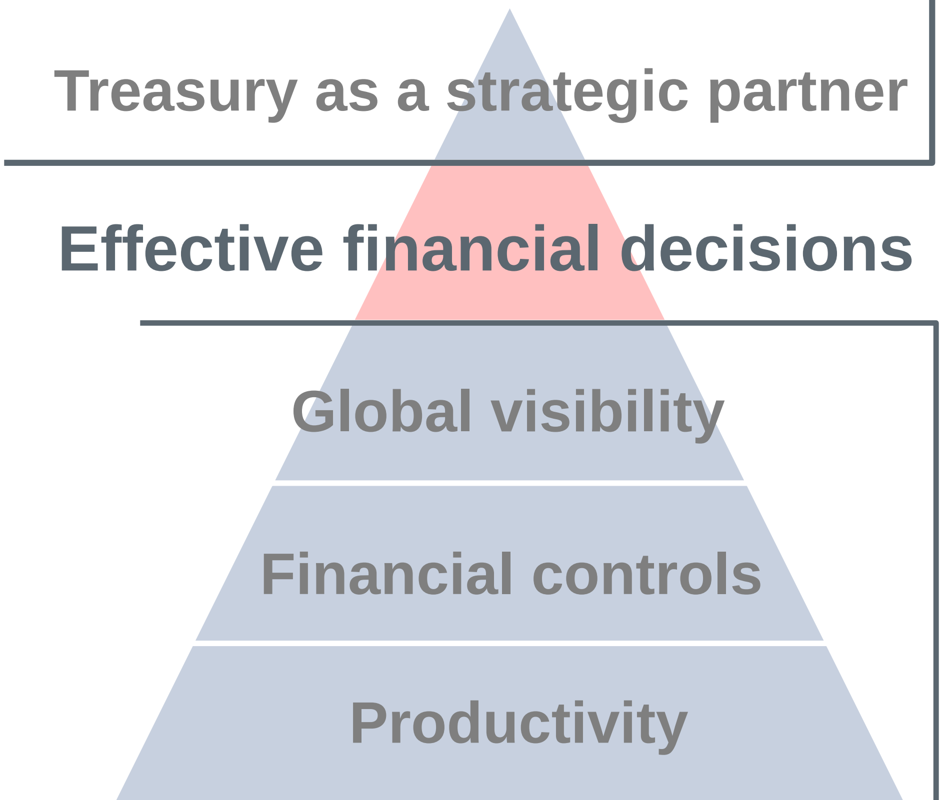
Agenda

<u>Today's discussions</u>

- Introduction to the Panel
- Why Forecast: what is the value of forecasting and what is it costing you
- Opportunities to improve forecasting
- Cash Forecasting Tips and Tricks

Why Forecast?

Why Forecast?



Excess Cash
- Investing longer
- Debt repayment
- Idle balance optimization

Cash mobility
- Minimized Global Payments
- Cash Pooling
- Cash Repatriation

Risk Management
- FX hedging
- Liquidity planning

Strategic
- Free cash flow guidance
- Supplier financing programs

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 demanding return on cash – or return of cash
- Complete visibility → confidence to make future decisions regarding excess cash (regardless of location or currency)

Why Forecast – Excess Cash Balances

Repatriating cash from overseas

- Repatriation of cash: need to prepare for cash balances allocated to corporate actions (dividends, repurchase, acquisitions)
- A good forecast will confirm where/when cash is needed in overseas markets
- Forecasting will reduce cost of unnecessary borrowing, last minutes wires, and extra FX transaction costs

Why Forecast – Investment Returns

Increased Investment

- By improving forecast accuracy, CFOs are able to reduce idle or underinvested cash balances and increase returns on cash
- For every $10M of idle cash freed for strategic investment, bottom line impact can be > $100,000/year
- Centralizing cash through In-House Banking / Cash Pooling will uncover more idle cash (and increase mobility back to subsidiary entities)

Why Forecast – Debt Repayment

Reduced Borrowing

- Many organizations maintain idle balances but also have short term and/or long term debt outstanding
- Without a reliable cash forecast, Treasurers hesitant to commit to debt repayment (*save for a rainy day*)
- Can pay short term facilities first; others target longer term borrowing to retain credit availability
- Also focus on subsidiary lending and optimize with In-House Banking

Why Forecast – FX Hedging

Hedge Effectiveness

- A better forecast means a better hedge program
- For a $1B distributor with 50% global revenues, a 1%↑ in USD means $500M of global revenue becomes $495M
- Increasing hedge coverage from 50% to 75% protects $1.25M for every 1%↑ in USD

Why Forecast – Working Capital

Working Capital Improvement

- Improved visibility into cash flow needs and supplier payment terms identifies value of extending DPO
- Determines ROI of a supply chain finance program
- Sample scenario:
  - $1B annual supplier spend
  - Term extension of 30 days
  - Annual free cash flow gain of $83M
  - Income of $50,000

Why Forecast – Free Cash Flow

Free cash flow analysis is performed by two teams using two strategies

1) **Indirect method: FP&A**
2) **Direct method: Treasury**

- Free cash flow is increasingly part of guidance to investor community
- Confidence in forecasting helps alignment with FP&A
- A good variance analysis gives objective answers

Why Forecast – Management Insight

Become a strategic partner

- CFOs (and CEOs) generally ask for cash projections
- Keys to success: Proactive and confident. Getting ahead of requests will raise treasury's profile
- If management isn't asking → Opportunity to impress!

Opportunities to improve your forecast

Perfecting the Cash Forecast

Path to Success

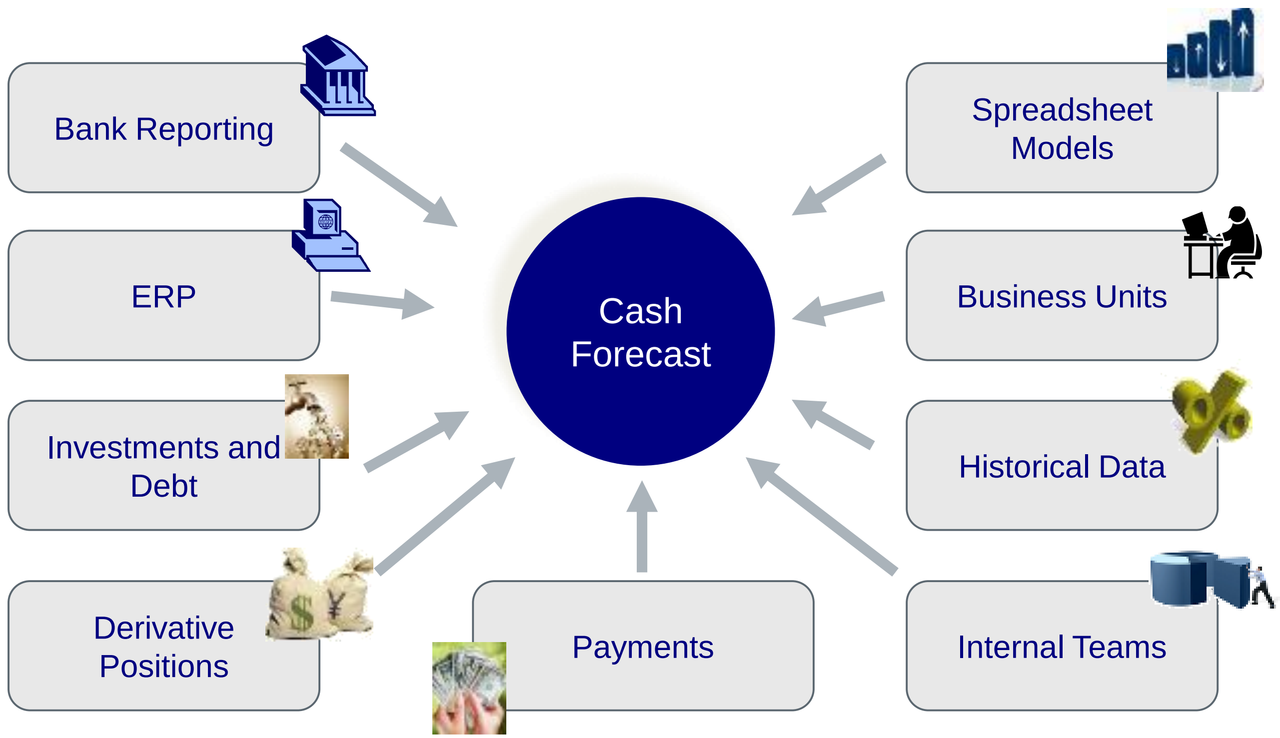
a) Collaboration – involving the right people

b) Consolidation – incorporating the right data streams

c) Measurement – feedback loop to measure and report on forecast accuracy

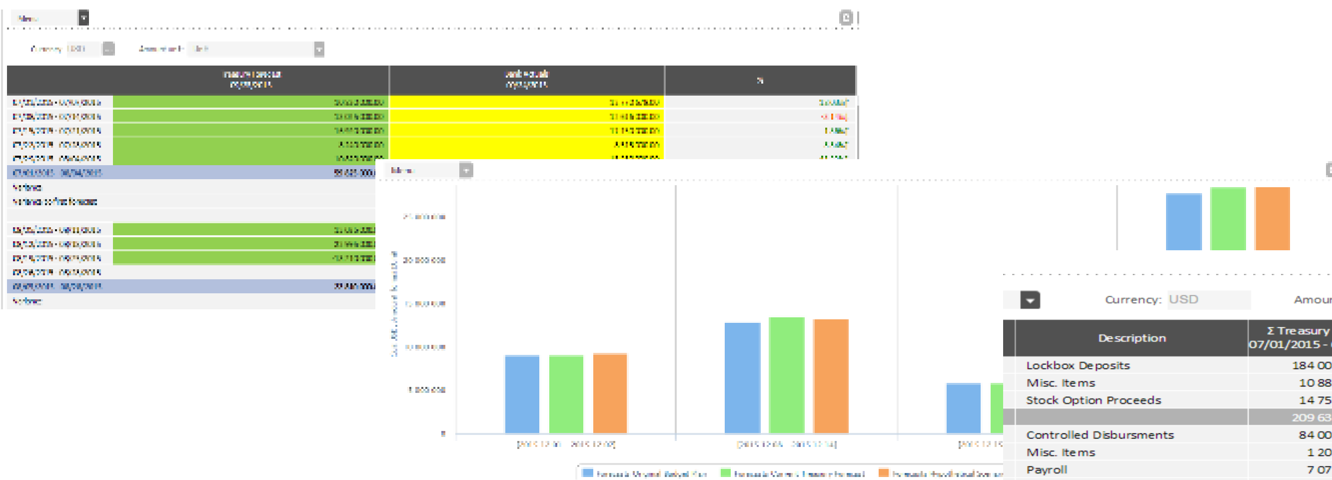
Building the Forecast

Forecasting success is about choosing the right sources and models for the different forecasting line items



Forecast Accuracy – analyzing variances

- Require detailed variance analysis to find the discrepancies
- Only way to improve forecasting is to uncover and explain imperfections



Currency: USD   Amount unit: Unit   Apply

Description	Σ Treasury Forecast 07/01/2015 - 08/28/201	Σ Bank Actuals 07/01/2015 - 08/28/201	Σ Bank Actuals - Σ Treasu 07/01/2015 - 08/28
Lockbox Deposits	184 000 000.00	185 053 000.00	1 053 000.00
Misc. Items	10 880 000.00	12 694 000.00	1 814 000.00
Stock Option Proceeds	14 750 000.00	13 859 400.00	-890 600.00
	209 630 000.00	211 606 400.00	1 976 400.00
Controlled Disbursments	84 000 000.00	88 043 000.00	4 043 000.00
Misc. Items	1 200 000.00	1 140 000.00	-60 000.00
Payroll	7 075 000.00	6 776 800.00	-298 200.00
Taxes	3 270 000.00	3 126 322.00	-143 678.00
Capital Expenditures	8 000 000.00	9 090 000.00	1 090 000.00
Milestone and Earnouts	3 450 000.00	3 450 000.00	0.00
Share Repurchase	20 000 000.00	20 000 000.00	0.00
	-126 995 000.00	-131 626 122.00	-4 631 122.00
	82 635 000.00	79 980 278.00	-2 654 722.00

Cash Forecasting Tips and Tricks

- **ROI of Cash Forecasting is High:** Forecasting enables better treasury decisions and creates bottom line value. Measure the results to better justify the value of investing in improved forecasting

- **Creating the cash forecast.** Forecasting is art. What works for one will be different than another based on: available information, dispersion of organization, type of business, etc.

- **Measuring the forecast** is the most important part of forecasting. Without measuring forecast accuracy, it is impossible to know if you are good at forecasting.

Thanks for attending!

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