Forecasting in the face of uncertainty

A three-step approach to scenario planning

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Management teams are under unprecedented pressure to urgently answer complex questions

- Mass closure of retail outlets or centres
- Major supply chain disruption
- Workforce restructuring
- Production and factory shutdowns
- Product demand mix changes
- Demand volume increase
- Revenue contract renegotiation
- Termination of leases
- Stimulus and fiscal and monetary policy
- Trade terms and price wars

Consider the impact of...

- Cash runway
- Medium-term cash pressure
- Covenants and debt maturity
- Upcoming re-financings / capital raises
- S&OP: supply chain, demand planning
- Forecast dividends and distributions and share price

And the impact on...

Finance teams are facing increased pressure to reforecast cash flows and perform scenario analysis from internal and external stakeholders.
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A three-step approach

1. Can my forecasting tool suite answer the questions being asked?
   - Many scenarios are whole-of-business and phased over time
   - Forecast tools must have the flexibility to consider upside and downside scenarios, including the impacts of fixed, variable and step-variable costs as well as sales and operational planning issues (e.g. supply chain)
   - New lenses applied to budgets and forecasts: such as discretionary vs non-discretionary vs contracted spend
   - Ensuring the model tells the story at the right level, e.g. forecasting weekly cash vs monthly; forecasting below EBITDA for true cash position
   - Analysis delivered under pressure is reliable and revised models are robust and designed to cope with future changes

2. Do my base-case assumptions reflect new realities and possibilities?
   - You must have robust, defensible and up-to-date forecast assumptions/drivers to allow you to confidently communicate the expected impact on your business, supported by a description of the base-case environmental assumptions and ‘what you have to believe’
   - Communicate base-case broad assumptions to ensure that all teams are forecasting off ‘one source of truth’ and not inconsistent assumptions
   - Reconcile to most recent budgets or re-forecasts
   - Identify your up-to-date external data sources (e.g. WHO, Governments) and link to your business drivers
   - Obtain data on the impact of comparable incidents and shocks
   - What have been the impacts/reactions for similar businesses globally?

3. What happens if I pull the levers I have at my disposal?
   - Product prioritisation and demand substitution
   - Raise short-term capital aligning capital-mix decisions to expected impact
   - Ramp production up or down
   - Re-rank all investment/expansion business cases vs ROC and priorities
   - Postpone or rapidly eliminate non-critical spend / expansion activity
   - Re-negotiate lease, supplier and capital contracts
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Suggested next steps: Rapid scenario planning and business intelligence

Rapid assessment of your current-state forecasting and scenario-planning capabilities
- Can your forecast tools be updated rapidly?
- Do they have the right level of granularity to answer the questions being posed?
- Are your sales and operational planning tools agile enough?

Rapid development of tactical models to deliver the analysis you need
- Strategic business forecast models to pull the major business levers (will the model support operational turnaround hypotheses?)
- Strategic cash-flow models based on value drivers that are under threat and assess impact on covenants, cash etc.
- 13-week cash-flow models that assess short-term cash demand and quantify the cash burn rate and peak cash requirements in a range of stress scenarios; introduce a cash culture and communicate confidence to stakeholders
- Data models to create a single source of truth
- Tactical targeted BI solutions to quickly extract and publish reporting dashboards

Validate your assumptions
- Leverage your existing data to provide better business intelligence supporting your forecast assumptions (e.g. extracting data on demand and supply chain trends by SKU/region)
- Deliver fast, targeted tactical data analysis exercises to validate the key hypotheses
- Embed reporting to allow ongoing analysis and assessment as the situation evolves
- Validate your assumptions using external data sources, global trend data and lead indicators

You are not alone.
We are here to help.

- Driver-based strategic-planning models that forecast cash flows under various scenarios
- 13-week cash-flow models to assess short-term cash demands and cash runway
- Tactical data and analytics to provide business intelligence for forecast assumptions
- Predictive forecasting to provide insights into demand forecasting and risk assessment
- Financial model review to enhance confidence in the integrity of your tools
- Commercial due diligence to challenge your hypotheses, including independent business reviews to manage your stakeholders
- Board paper development to provide an outside-in perspective, including contingency planning

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