Forecasting for Treasury

SETTING EXPECTATIONS AND ACHIEVING GREAT RESULTS

Craig Jeffery, Strategic Treasurer

Warren Davey, GTreasury

Tuesday, February 13th, 2018

2:00 PM EST

Today's Presenters

Craig Jeffery, CCM, FLMI

Founder & Managing Partner

Strategic Treasurer

Craig Jeffery formed Strategic Treasurer LLC in 2004 to provide corporate, educational, and government entities direct access to comprehensive and current assistance with their treasury and financial process needs. His 20+ years of financial and treasury experience as a practitioner and as a consultant have uniquely qualified him to help organizations craft realistic goals and achieve significant benefits quickly.

Warren Davey

Executive Vice President

GTreasury

Warren Davey currently oversees GTreasury's strategy, marketing, and business development operations. Warren has over 15 years' experience in the technology and treasury markets. Prior to joining GTreasury, Warren had a variety of roles with Selkirk Financial and Thomson Reuters, including consulting, account management, and a variety of executive roles. Warren's breadth and depth of experiences within treasury and technology have propelled him to become one of the main subject matter experts in this industry.

Topics of Discussion

- Introduction to Forecasting
- Types of Forecasts
  - *Short-term*
  - *Medium-term*
  - *Long-term*
- Cash Flow Forecasting
  - *Overview*
  - *The Forecasting Workflow*
  - *Challenges to Forecasting*
  - *Leading Practices*
- Variance Analysis: A Pillar for Improvement
- Case Studies
- Key Takeaways, Q&A

Introduction to Forecasting: General Overview

Goal

- To optimize future cash resources by making assumptions and projecting cash flows.

Responsibility

- Cash flow forecasting is one of the primary responsibilities of treasury, as it is directly correlated to treasury's role as the steward of working capital.
- Treasury is also frequently involved in creating forecasts for specific projects or strategic investments (FP&A) as well as forecasts related to capital budgeting.

Purpose

- **Predictive Forecasts:** Used to predict or project what will happen in the future, such as projected cash flows for the next week.
- **Analytical Forecasts:** also referred to as simulations, used to answer what-if questions or predict financial impact of certain actions (i.e. a large acquisition).

Uses for Forecasting:

- **Managing Liquidity**
- **Maximizing Returns**
- **Controlling Financial Activities**
- **Meeting Strategic Objectives**
- **Budgeting Capital**
- **Managing Costs**
- **Managing Currency Exposure**
- **Meeting Compliance Requirements**

Source: Essentials of Treasury Management, 5th Edition

Cash Forecasting: Horizons

Short-Term Liquidity Management

- Requires more precise measurements than long-term planning.
- Generally cover periods of 1-90 days.
- Used to predict cash receipts, disbursements, and identify any projected cash deficits or surpluses.
- Creating short-term forecasts is a primary responsibility of treasury.

Short-Term Horizon

0-30 days	90 days	180 days	270 days	365+ days

Medium-Term Forecasting

- Medium-term forecasts are often used for capital budgeting purposes.
- Medium & long-term forecasting typically requires the development of pro-forma financial statements.
- Can be used to determine the need for short-term credit or opportunities for short-term investing.
- Also used as check-ups to evaluate the accuracy of long-term forecasts and make adjustments.

Medium-Term Horizon

0-30 days	90 days	180 days	270 days	365+ days

Long-Term Liquidity Management

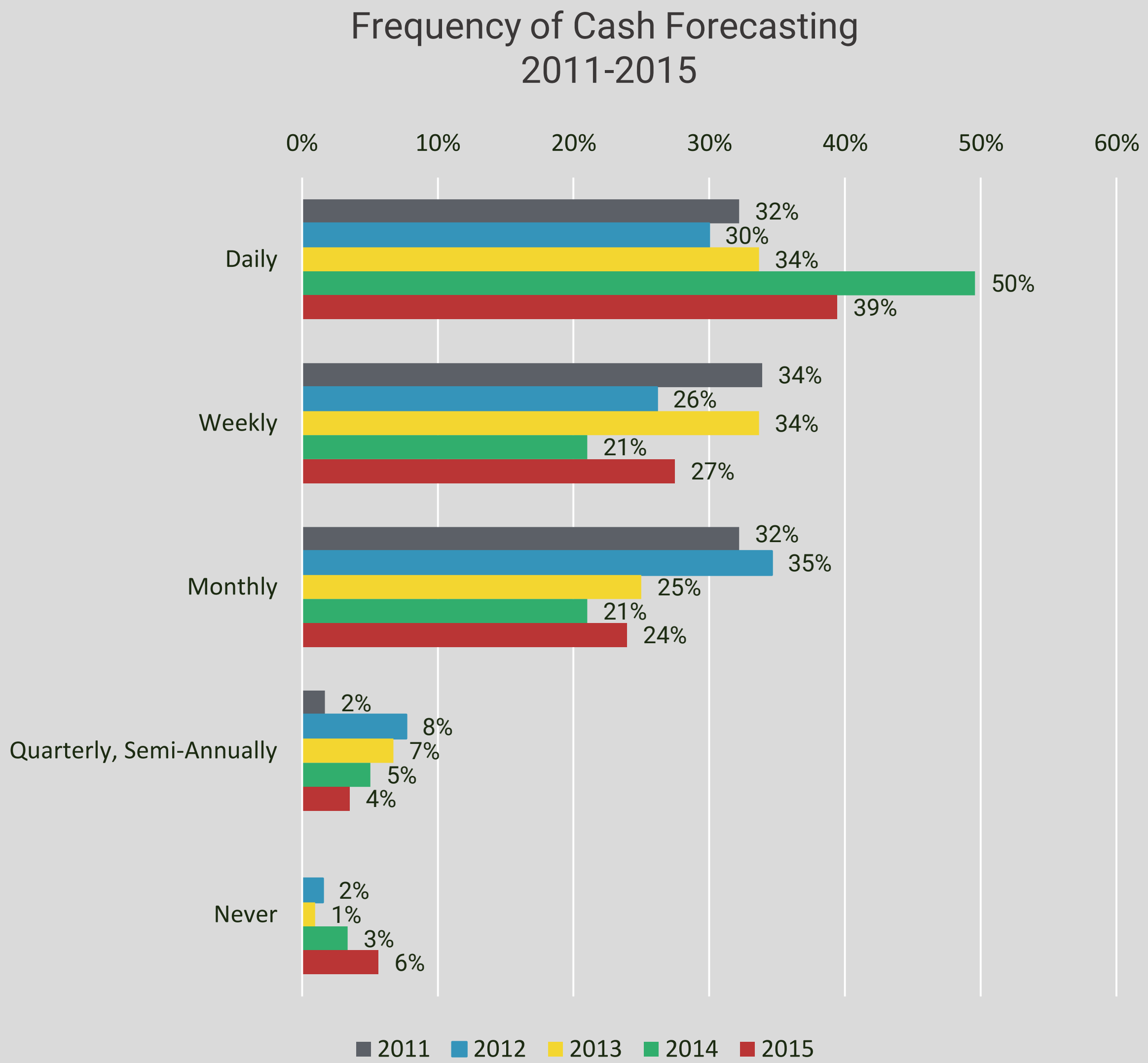
- Generally thought of as forecasts of one year or longer.
- Can be used to determine long-term sales and expenditures or potential market factors of influence.
- Guides decisions on long-term financing (FP&A Functions).
- More strategic in nature, the accuracy of long-term forecasts can be given more leeway than short-term.

Long-Term Horizon

0-30 days	90 days	180 days	270 days	365+ days

Cash Forecasting: Overview

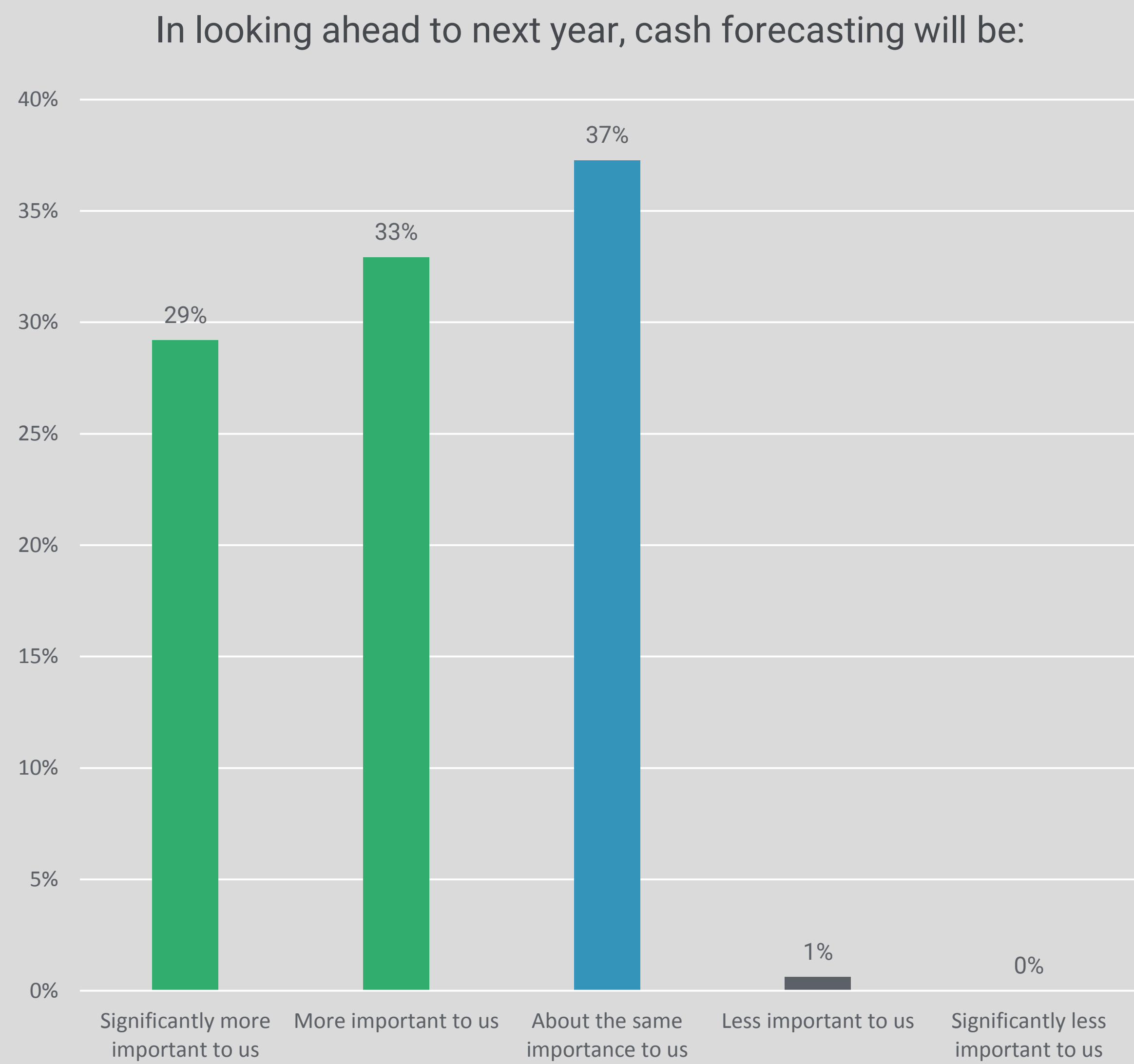
- A method of analysis that seeks to predict or project how much money a business expects to receive and pay out over a given period of time.
- Cash flow forecasting corresponds most closely with treasury's responsibility as the steward of working capital.
- Cash forecasting allows treasury to predetermine upcoming cash deficits or surpluses and plan any investing/borrowing.
- The frequency of cash forecasts may range from daily or weekly forecasts, to quarterly or semi-annually.
- Most cash forecasts completed by treasury consist of daily, weekly, or monthly horizons.



Cash Forecasting: A Point of Emphasis

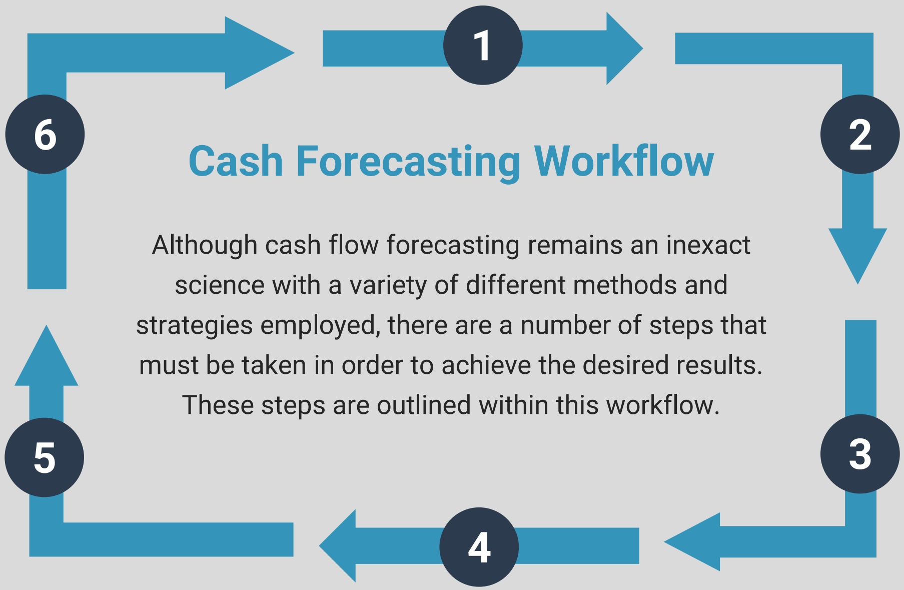
Gaining Importance

- Cash forecasting has always been important for treasury as a component of working capital management.
- For any working capital management strategy to realize the most potential, cash flow forecasting will play a significant role.
- As more firms recognize the widespread advantages of accurate forecasting, the emphasis placed upon the practice continues to increase.
- In 2017, a Strategic Treasurer survey found that nearly 2/3rds (62%) of practitioners were placing increased importance on cash forecasting when looking ahead to 2018.



Cash Forecasting: Process Workflows

1. **Establish Horizon & Objective.** The amount and type of data needed will depend upon the timeframe and purpose of the forecast.



Cash Forecasting Workflow

Although cash flow forecasting remains an inexact science with a variety of different methods and strategies employed, there are a number of steps that must be taken in order to achieve the desired results. These steps are outlined within this workflow.

2. **Gather Data.** Once the forecast objectives have been established, collect all relevant data that will aid in the development and enhance the accuracy.

3. **Aggregate Data.** After the data has been collected, it must be aggregated into a single statement of cash flows.

4. **Generate Forecast.** Once all pertinent data has been aggregated, you may run your forecast and identify the projected cash position.

5. **Evaluate Projected Position.** Depending on whether the projected cash position is a deficit or surplus, you will need to appropriately plan the necessary borrowing or investing activities.

6. **Update & Analyze.** As time passes and more data becomes available, the forecast can be updated and actual results may be compared to forecasts to analyze the accuracy and make adjustments.

Cash Forecasting: Key Challenges

Communicating Internally. Treasury must often rely on input from multiple departments, such as AP, Sales, AR, and others to facilitate the creation of accurate forecasts. If there is no established framework or process for gathering this information, it will most certainly impact forecasting operations.

Aggregating Data. Once data is collected from all the various sources, it must be aggregated for a single, comprehensive view of activity. Without the proper tech infrastructure or tools, especially for large organizations, this process will be complicated, error-prone, and heavily manual.

Generating the Forecast. Depending on the amount of information and frequency in which this information is made available, treasury may have a limited number of forecasting options available to them.

Updating the Forecast. Depending on the frequency in which information is made available, and also the tools available for generating forecasts, treasury may have to limit how often they can update projections. This can lead to delayed evaluations with regards to variance analysis and further impede working capital decisions.

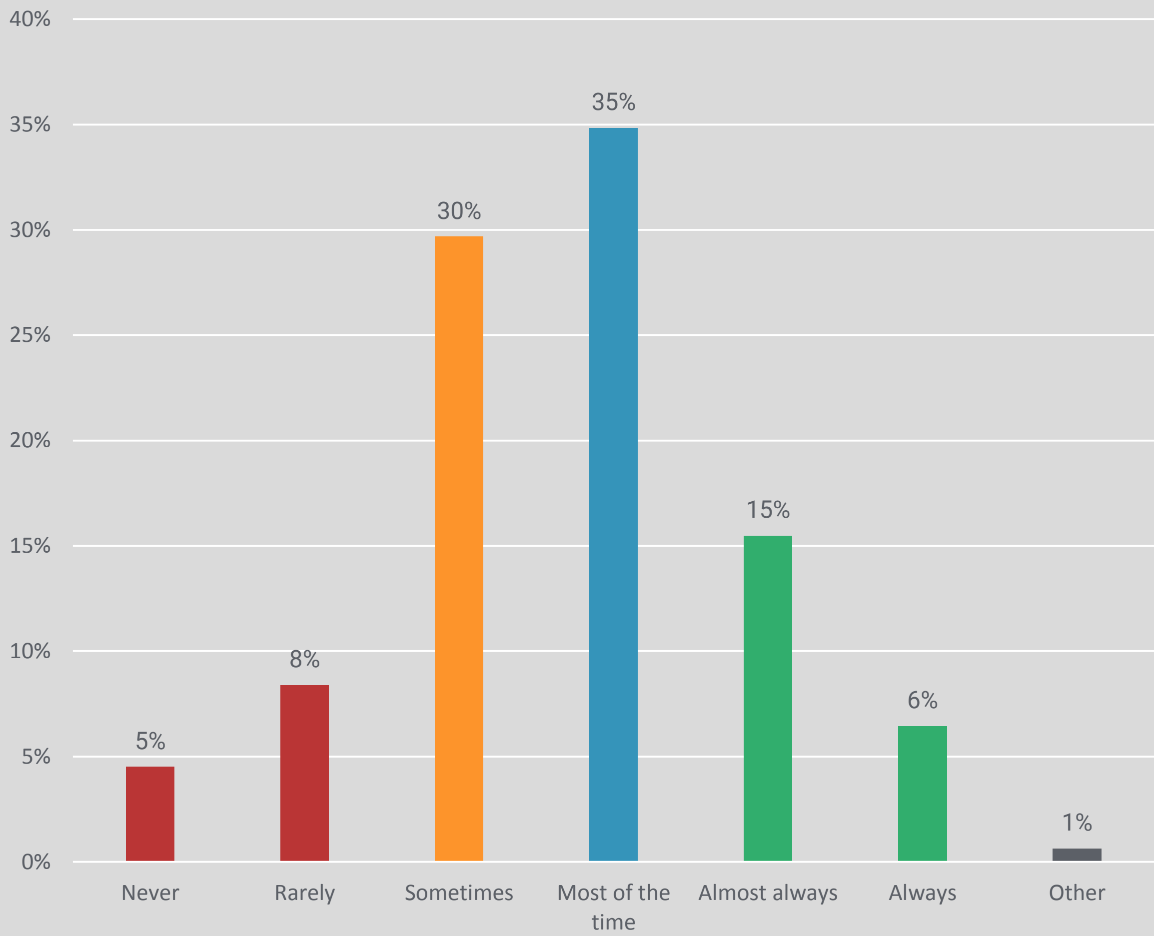
Evaluating Performance, ROI. There is a cost to forecasting; employees must be paid for their work and expenses related to any tools/software that aids in the development of forecasts must be considered. These costs must be weighed against the improvements in forecasting and savings obtained through such improvements to determine whether the efforts are worth the expense.

Cash Flow Forecasting: Gathering Data

A Variety of Sources

- When creating cash forecasts, treasury must rely upon a number of different sources.
- This often involves communicating with multiple departments and staff members internally to obtain the desired information.
- If an organization does not communicate well internally, or has an outdated or legacy tech infrastructure, this part of the process may be one of the most difficult.
- The use of updated technology systems that can integrate with one another and exchange/capture relevant data are of immense benefit in these circumstances.

Please complete this statement: "My access to the bank balance and AP/AR information I need enables me to forecast operational flows accurately..."

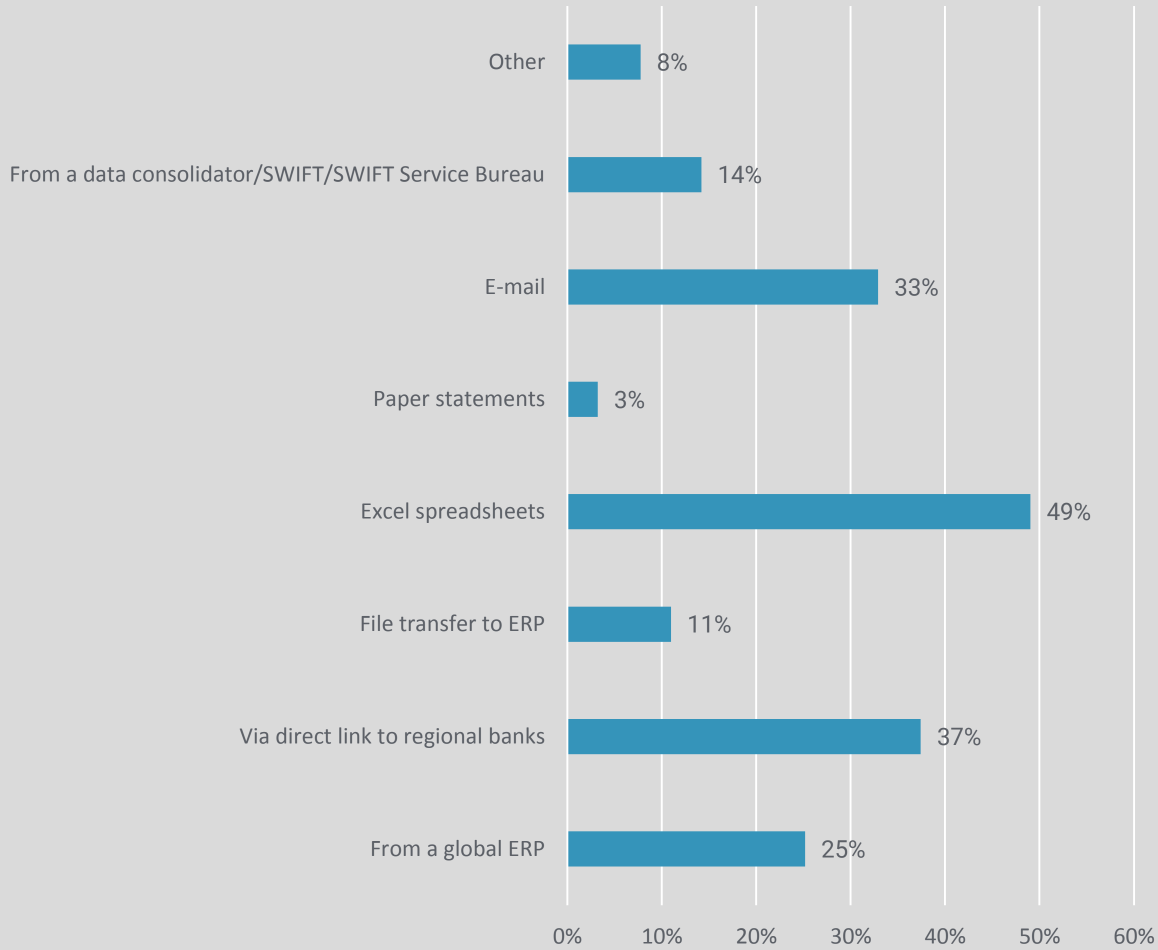


Cash Flow Forecasting: Aggregating Data

A Variety of Tools

- A process that goes hand-in-hand with data collection is data aggregation.
- This step involves consolidating the data received by A/P, A/R, sales, etc. and aggregating all forecast inputs into a single view.
- One of the key challenges associated with this step is that data may be presented to treasury in a variety of formats and consistencies.
- Depending on the resources that treasury has, this may take excessive amounts of time and be prone to manual error.
- The use of technology resources that automate data retrieval can provide immense benefits here.

How do you get treasury data from your offices/headquarters? (Select all that apply)

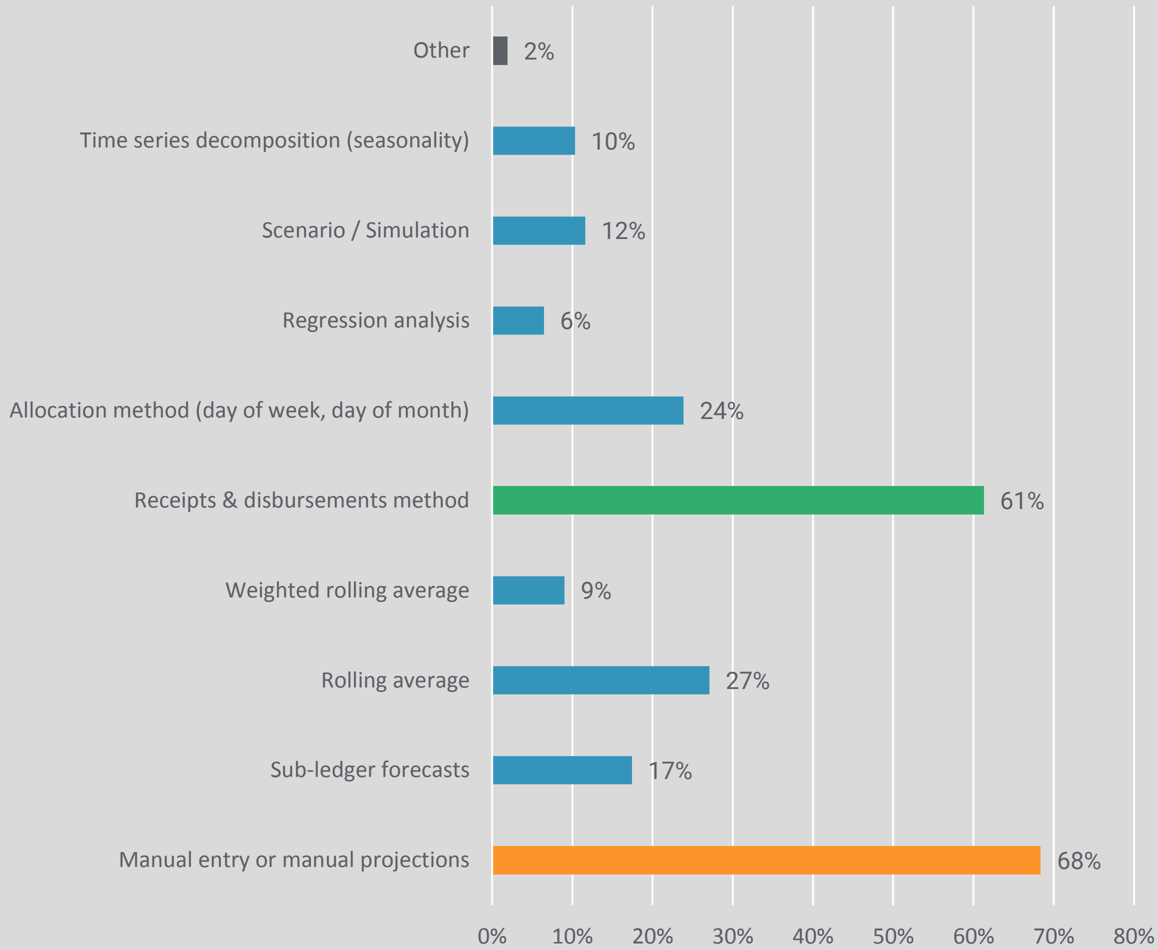


Cash Flow Forecasting: Generating the Forecast

A Variety of Methods

- Once treasury has collected and aggregated all the relevant data, they may create their forecast.
- Typically, treasury has already selected the forecast method before gathering and collecting data, as the type/amount of data collected will depend on the forecast method used.
- Often, the length of time for the forecast plays a significant role in the type of forecast used.
- The amount of information available for forecasting and the availability of any software/tools will also impact the type of forecast utilized.
- The accompanying graph showcases the broad variety of forecasting options/practices currently utilized by practitioners.

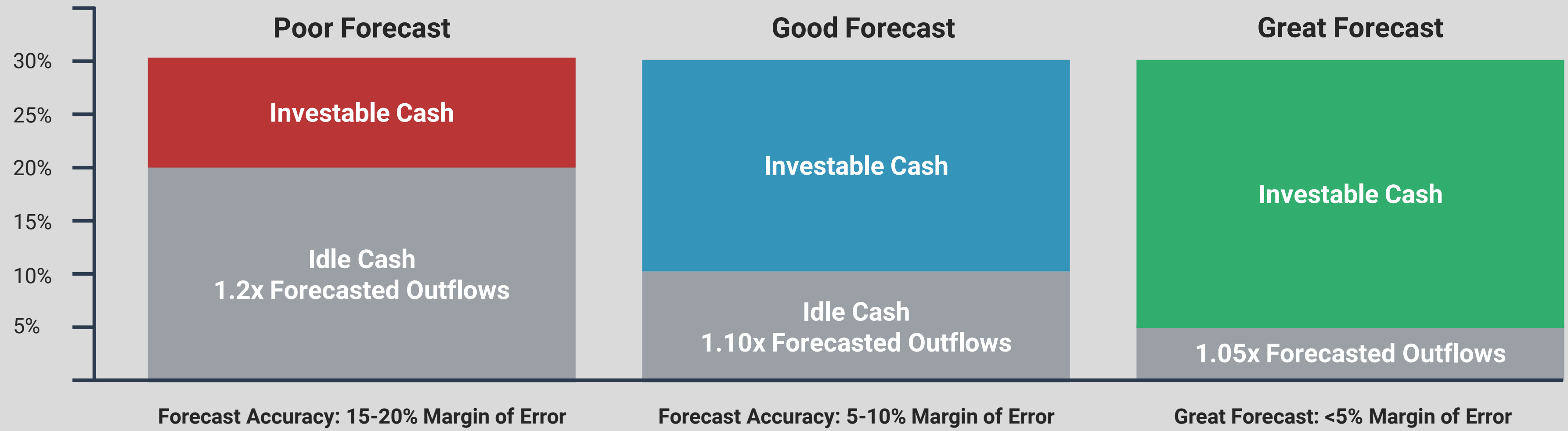
What methods of forecasting does your company use? (Select all that apply)



Cash Flow Forecasting: Updating the Forecast

Updating the Forecast

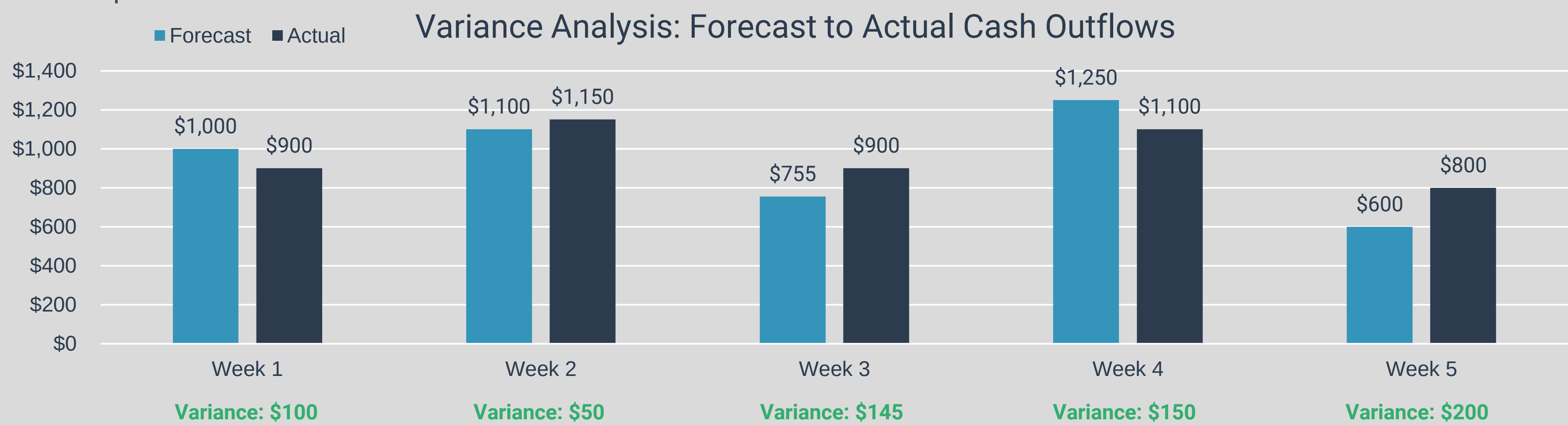
- As forecasts are generated and analyzed, the process or workflow for creating them should be continually refined over time.
- The mix of inputs, projections, and metrics can be adjusted for each new forecast as prior forecasts are analyzed and compared to actual results.
- The advantages of performing this analysis and enhancing the forecast should match the objectives and strategies of the firm in optimizing working capital.
- The accuracy of a cash forecast will have a direct impact on any working capital strategy. The less accurate a forecast, the more idle cash must be available in case an unexpected cash outflow occurs.
- Conversely, the greater the accuracy of a forecast, the less idle cash treasury must keep on hand, which means more capital is available to invest and generate returns.



A Pillar for Improvement: Variance Analysis

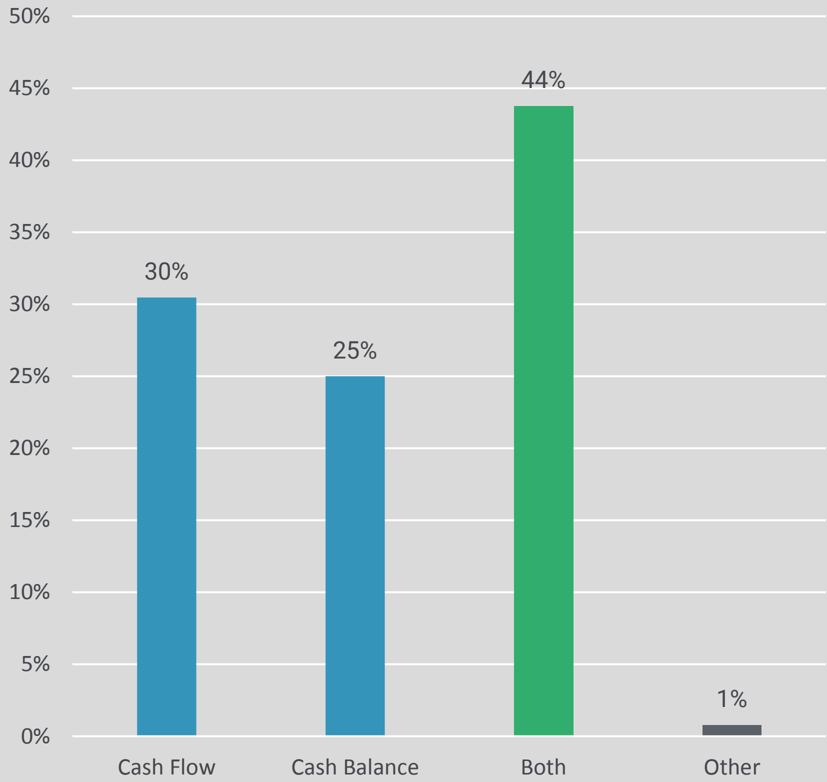
Variance Analysis

- Variance Analysis involves comparing forecasted cash flows for a given period to the actual cash flows that occur during that period to identify discrepancies and evaluate the accuracy of the forecast.
- This process can help identify shortcomings within the forecast and aid treasury in improving the accuracy of their forecasts moving forward.
- The faster treasury can conduct variance analysis, the quicker they can correct misestimations and improve future forecasts.
- Variance analysis is only helpful if the SPECIFIC reasons behind variances can be identified… it is not good enough to simply identify what the difference was. For instance, in week 1, what SPECIFIC cash outflows occurred that were not anticipated?



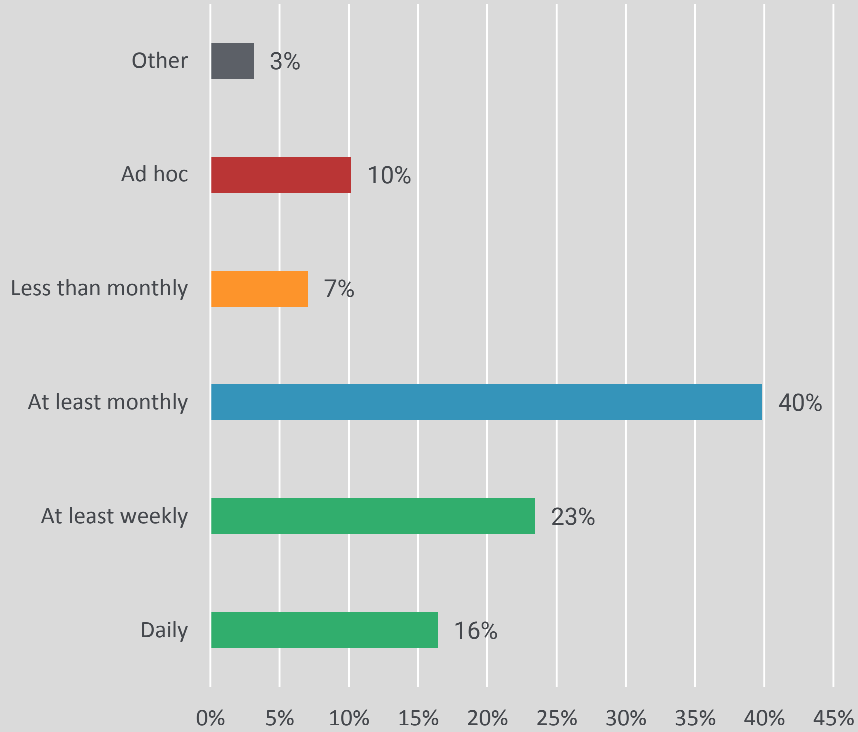
A Pillar for Improvement: Variance Analysis

What do you measure your variance analysis on?



The more factors that variance analysis can be performed on, the better chance that treasury has in identifying discrepancies and improving future results.

How often does your organization perform variance analysis on your forecast to actual?



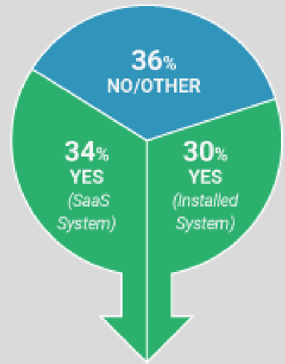
Furthermore, the frequency in which variance analysis can be conducted will help treasury identify errors or discrepancies quicker and allow them to adjust their working capital levels to account for the difference.

Leading Practices: The Role of Technology

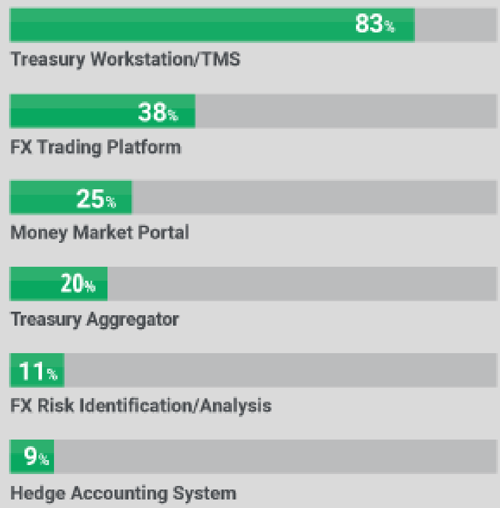
The Steady Flow of Tech Adoption

- Historically, Excel and other spreadsheet software have been the treasurer's go-to tool for a variety of operations, including forecasting.
- Over time, however, developments in technology are resulting in the inadequacy of spreadsheets for forecasting.
- Despite some skepticism over the ability of modern-day solutions to accurately perform cash forecasts, data shows that the adoption of treasury solutions continues to increase over the use of Excel.
- In recent years, the rise in the adoption of TMS and other software solutions has also resulted in the adoption of enhanced forecasting techniques.
- Chiefly, the benefits of today's solutions include the ability to conduct real-time variance analysis, gather and aggregate data from multiple sources automatically, and run a diverse array of forecasts on-demand.

Do You Have a Treasury System Besides Excel?



What Treasury Systems Do You Currently Use?



Leading Practices: The Role of Technology

Improving Cash Forecasts: Technology as an Enabler

Centralization. Leading forecasting solutions are able to integrate with other back-office and 3rd party solutions to extract and then aggregate data for forecasts in a central location.

Variance Analysis. The leading forecasting solutions enable treasury to conduct variance analysis in real-time, thus enabling them to quickly identify and correct discrepancies.

Automation. The gathering of data and generation of forecasts, coupled with subsequent analysis components, can all be automated to reduce the possibility of errors and drive efficiency.

Regression Analysis. Forecasting solutions can take vast quantities of data submitted by treasury and other departments and search for correlations between specific variables as they pertain to cash flows to increase forecast accuracy.

Case Study

The Client

- A global organization with decentralized treasury operations – treasury centers in multiple locations worldwide.

The Task

- A CFO mandated (and incentivized) plan to more accurately forecast cash

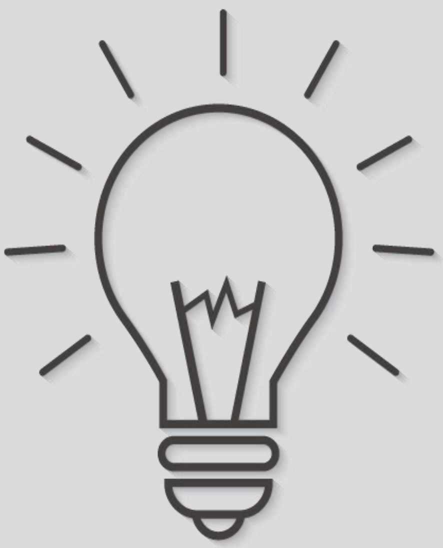
Project Parameters

- As some divisions were cash poor and others cash rich, the dollar number was irrelevant to this exercise
- The variance between forecasted to actual was the metric tracked
- Centers were rewarded based upon the accuracy of their forecasts.
- As these forecasts rolled up into a consolidated view, corporate treasury (HQ) had much more reliable data.

Result

- The more accurate forecast saved enough to add millions into the investment arm of the firm while also paying off the bonuses related to the endeavor.

Final Thoughts



Key Takeaways for Treasury:

- There are a wide variety of forecasts that treasury has a stake in, including FP&A, capital budgeting, and cash flow forecasting.
- Cash forecasts are the primary responsibility of treasury and an essential component of operations, especially with regard to working capital management.
- Accurate cash forecasts enable treasury to optimize working capital and appropriately plan for any upcoming cash surpluses or deficits.
- Due to the complexities involved in gathering and aggregating data and also in generating forecasts/analyzing results, there is a clear need for many firms to upgrade their forecasting capabilities.
- While many organizations continue to rely upon Excel and other spreadsheets to run forecasts, there are a number of benefits related to the adoption of sophisticated forecasting software that can enhance the accuracy and efficiency of treasury's operations.

Contacts

Speaker Contacts

Craig Jeffery, CCM, FLMI

Founder & Managing Partner
Strategic Treasurer

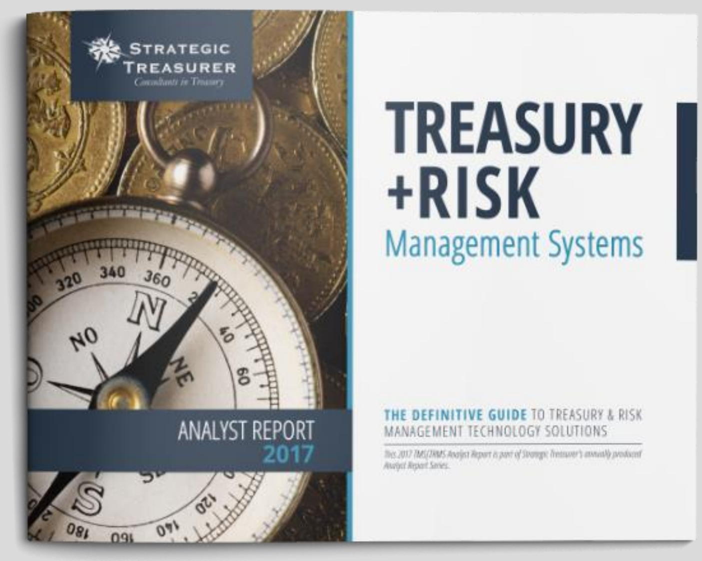
Email: craig@strategictreasurer.com
Direct: +1 678.466-2222

Warren Davey

Executive Vice President
GTreasury

Email: wdavey@gtreasury.com
Direct: +1 847.847-3706

Download our Analyst Report here:



Thank you for participating in this event!