

Quo Vadis?

The Art of Forecasting

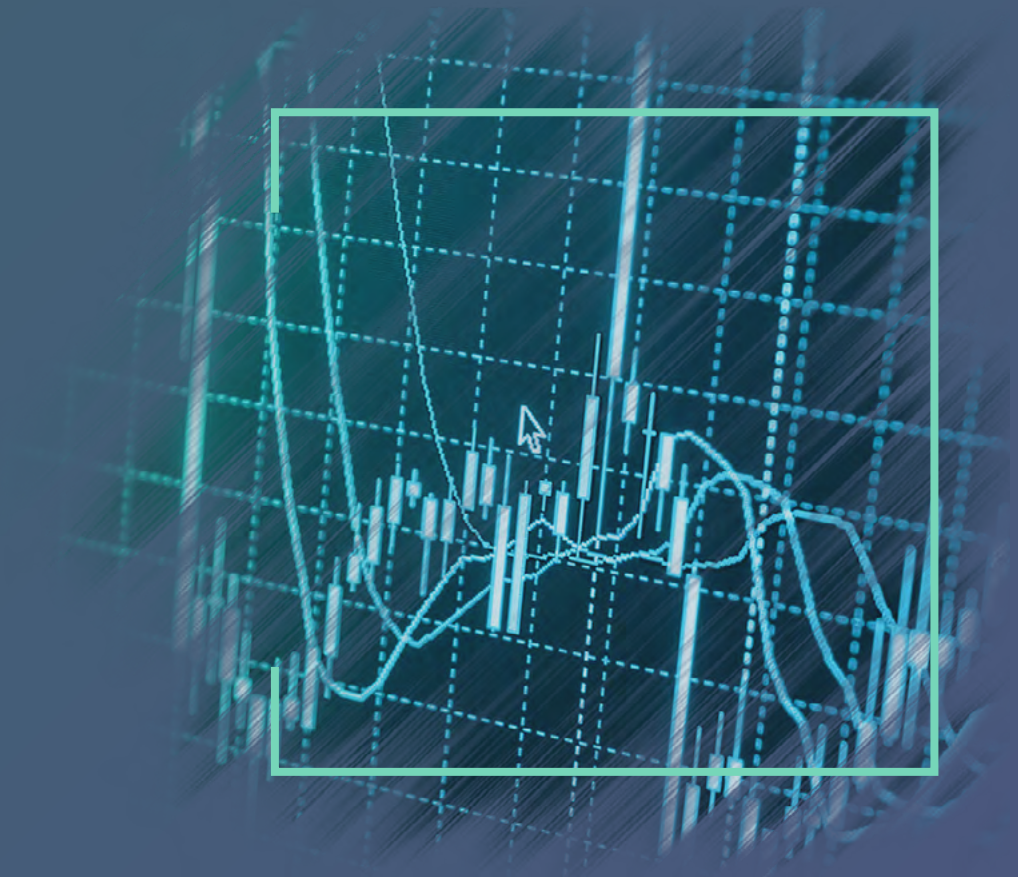


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Why Forecasts Matter

All organizations use forecasts to predict and manage their future performance. It is a significant driver of enterprise value and investor confidence. Although organizations invest significant time and effort into this important task, only few produce a forecast that is reliable. Fear of negative investor reaction, protection of bonuses, or overly-conservative assumptions may be a few of the reasons for producing an unreliable forecast. When these reasons are expressed in dollars, the cost to the organization may be millions, and the impact of wrong strategic and operational choices can be detrimental to the organization for years to come.

A forecast matters because it provides:

- Ability to quickly respond to changes in a dynamic business environment
- Transparency into future business opportunities
- Uncertainty and risk management
- Improved cash management
- Better planning for resources and investment allocation
- More accurate setting of incentive levels
- Improved tax planning

A reliable forecast translates to a dialog with transparency and insight as to the direction of the business. Management can use it to explain the opportunities and potential risks, enhancing overall trust and confidence with stakeholders.

What happened yesterday is history. What happens tomorrow is what we do with the data today.

Data and Process as the Main Hindrance

Many believe a forecast is limited to having an Excel spreadsheet and a financial tool. The notion that it is a financial tool used by finance with financial data hinders producing a reliable forecast. The reliability of the forecast is also dependent on non-financial input. The quality of the data is impacted by the extent of detailed historical information available, the ability to extract the information from other systems or processes, and the ability to convert this information to usable input data. Additionally, input data is not limited to internal and static data. Dynamic data and external business drivers such as customer demand, competitor activity, and economic conditions should be used as part of the forecasting process. The focus is on what really drives the business.

Forecasting is most often led by the finance department but makes limited use of involving operational or general managers. Forecasting requires a collaborative approach of the organization, including but not limited to:

- CFO and Accounting
- Business Development and M&A
- Operations
- Sales and Marketing
- Information Systems and Database
- Business Intelligence



Data and Process as the Main Hindrance (continued)

Business managers are often not held accountable to their forecasts and ongoing performance is not actively monitored. Additionally, incentive compensation is often structured to reward those managers who over-achieve, resulting in conservative forecast, and not reward those managers who achieve forecast accuracy. To create an environment of active ownership and responsibility of these managers, the forecast process should include the following factors:

1 **Embed range forecasts, scenario planning, and sensitivity analysis.**

Different scenarios can provide multi-dimensional insight into the impact of a company's biggest challenges, uncertainties, and the ability for management to plan.

2 **Implement a rolling forecast.**

Under this approach, regular updates would instill a discipline in the forecasting process and risks and opportunities would be reflected on time and accurately.

3 **Define data**

and rigorous controls around the forecasting process.

Organizations should ensure meticulous governance processes and control over data to enhance reliability.

The Art of Forecasting: How Connor Group can Help

We have supported out clients in situations such as:

- Slow and manual accounting and reporting processes
- Disintegrated source data across multiple systems
- Undefined data structures feeding to the forecasting process
- Disparate accounting process to forecasting process
- Inadequate financial model

Operating Model Advisory

- Operating and reporting financial models
- Budgeting and forecasting
- Liquidity forecasts and cash management
- Pricing, profitability, and gross margin analysis
- Capital expenditure analysis and planning
- “What-if” scenarios and stress testing
- KPI and dashboard development

Reporting Tools & Business Intelligence

- Financial system strategy and roadmap
- System implementation – Adaptive Insights and/or Anaplan
- Integration to other systems and flow of information
- Supporting module implementation
- Data process automation and reporting
- Data visualization tools

Outsourced FP&A Function

- Development of budget and monitoring
- Actual to forecast analysis
- Quarterly re-forecasting
- Identification of drivers in business performance
- Capital allocation strategy
- Validate operational data and link to accounting data
- Management reporting, dashboards, visualizations, and charts
- Long range strategic planning
- Pro forma financial statements
- Revenue / expense allocations

CFO Services

- Financial reporting improvements and gap identification
- Operations and strategy evaluation
- Financial results interpretation and performance metrics
- Ad-hoc financial and accounting related projects
- Complex and technical accounting matters
- IPO readiness and services
- Financial due diligence and transaction advisory

The Art of Forecasting: How Connor Group can Help

Connor Group is a specialized professional services firm of Big 4 alumni and industry executives. Our team of highly-experienced professionals helps financial executives with their most complex and significant matters. Our FP&A team provides in-depth analysis and tools for financial executives to integrate business plans aligned with financial and strategic objectives. Our team is well-equipped to share best practices and assist you with the design and development of the forecast, including scenario planning and sensitivity analysis, as well as definition of key performance indicators. If you are seeking direction with financial and operating model design and reviewing and onfiguring technology, our FP&A subject matter experts are equipped to assist you with your most pressing concerns.



Business Development (M&A)

- Evaluate investment opportunities
- Assist with target identification
- Prepare financial models and sensitivity analyses



Operations

- Perform quantitative analysis of operational and financial data
- Utilize advanced analytics to support operating assumptions and budget/forecast drivers



Information Technology/ Business Intelligence

- E2E integration build and maintenance
- Integrating bespoke/homegrown systems
- Workflow and process automation leveraging AI



Accounting

- Create budgets and monitor actual to forecast variance
- Integrate operating data with financial reporting and close process
- Prepare multi-year plan to assist the execution of an IPO

The Art of Forecasting: How Connor Group can Help

Selected Financial Modeling/Forecasting Engagements:



Objective:

Developed 10-year forecast financial statements, including income statement, balance sheet, and cash flow statement for \$30M Series C fundraising round.

Details:

- Dynamic model allowed the Company to evaluate levered IRR and cash return under six different scenarios.
- Bottoms-up modeling included monthly build-up of headcount, production, royalties, operating expenses, capital expenditures, working capital, funding requirements, equity dilution, etc.

“Connor Group was a Great Resource for on-demand finance and accounting support. Their ability to quickly turn around financial models for a variety of business scenarios was Critical for Fundraising when we were in a period of rapid growth.” – Calysta Nutrition, Inc.



Objective:

Developed five-year forecast financial statements, including income statement, balance sheet, and cash flow statement for a fundraising round.

Details:

- Assisted with the analysis of monthly forecast to actual variances.

“Connor Group M&A team was Absolutely Instrumental in helping us with financial diligence. It is impossible to find talent that can do it all, work with you around the clock, and treat every deadline as their own. Connor is Best in Class due to their technical skills and personal dedication of each team member.” – Cujo AI

The Art of Forecasting: How Connor Group can Help (continued)

Selected Financial Modeling/Forecasting Engagements:



Objective:

Developed 5-year forecast to evaluate continuing operating the division or spin off the division into a joint venture. Also, developed a financial model of a large medical equipment conglomerate to assess potential acquisitions.

Details:

- Evaluated quarterly EBT and EPS impact under each scenario.
- Developed bottoms-up and top-down revenue forecasts based on historical KPIs and projected industry growth.
- Used option pricing models to value liquidation preferences, call rights, and put rights negotiated in the LOI.



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About Connor Group

Connor Group is a specialized professional services firm of Big 4 alumni and industry executives. Our team of highly experienced professionals helps financial and operation executives with their most complex and significant matters, including digital solutions, financial accounting and operations, IPO and M&A services, and managed services. Our clients are the world's top growth companies, and we support them as they change the world and create new markets!

Our client portfolio includes multi-billion-dollar public, mid-cap public, and pre-IPO companies ranging from early stage to late stage. Our global clients represent the most exciting industries including high tech, Internet, social networking, gaming, software, ad tech, cleantech, life sciences, financial services, consumer products, life sciences, services, and manufacturing.

Our goal at Connor Group is to be the most respected firm across our service lines by delivering the highest quality services to our clients. We are hired by executives who understand the importance of leveraging their time as well as having a partner that can successfully execute their finance and accounting, IT, and operational needs.

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