

Using the Forecasting Cash Flow and Profits Template Spreadsheet

After generating optimal rents and the resulting forecast annual revenues after transaction fees for all 244 Watershed properties, it is time to move to creating the financial model. All relevant financial assumptions are explained and demonstrated in the *Annual Cash Flows and Profits Guide Spreadsheet*, as well as in the two videos in this lesson.

Once you have reviewed those videos and the Guide spreadsheet, follow Excel best practices and use formulae to program the financial assumptions into each row of Template Five, *Forecasting Cash Flow + Profits*. Once you have done this, you will have a value for the expected profit in the first year after conversion. The video *What Watershed Owners Want* explains why profit in the second year after conversion is a reasonable metric to use to evaluate the overall merits to Watershed of taking on this new business opportunity and risk.

A reminder: the main reason cash flow and profits are not the same for Watershed is that Capital Expenditure – the cash needed to buy equipment for the initial property conversion – impacts cash flow 100% in the conversion year, but the same amount is allocated across multiple years on the profit and loss statement, through the process called “depreciation.” If a standard 5-year straight-line depreciation is used, one fifth of the cash expenditure is allocated to profits and losses each year for five years.

Once you have calculated values for the column called “Net Change in Profits, each year thereafter (for next 4 years)”, take note of the following four columns:

“Watershed Property IDs”

“Net Change in Cash Flow, Conversion Year”

“Net Change in Cash Flow, Each year Thereafter (for next 4 years)”

“Net Change in Profits, each year thereafter (for next 4 years)”

In the next section of the lesson, you will need to copy and paste these four columns into the, *Sorting by Profitability Spreadsheet Template*.