4311 Finance Lab

Project 2

Balance Sheet and FCF Forecast

**Comment:** Project overviews are meant to layout the minimum requirements for a given project and to explain the motivation for a given project. Meeting the minimum requirements does not guarantee an A or even a passing grade. These projects are very rich, with many possible extensions to the analysis, various interpretations and recommendations from the results, and alternative methods of analysis that can be applied or discussed relative to the primary method introduced in the project. The finance faculty wishes to give students a chance to differentiate themselves to potential employers in the interview process and have left “meet on the bone” for the students to explore.

In industry, project overviews are rarely, if ever, created. Your boss will simply say “do this” and expect you to formulate the required aspects of the project. In addition, detailed written reports, as are required for this class, are also rarely done in industry. However, employers want to know that potential employees are not only technically capable, but also can communicate their findings effectively in written form. Proof read your papers. DO NOT write sentences that you do not understand but think that the professor will. Use proper grammar, spelling, and effective organization of the material presented. Do not think “what does the professor want”, rather think “what would impress my boss” or “what would get the customer to choose my company”. Bosses and customers are busy. They hate too much information more than to little information. Be clear and to the point. Look for ways to table or plot critical information so that readers can understand the results at a glance. Good Luck.

**Motivation:** The sales forecast typically form the basis for the establishment of management goals, budgets, and plans throughout a firm. This project uses the sales forecast to create pro-forma estimates of the current assets of a balance sheet and free cash flow. The method introduced can also be applied to other financial statements. A critical aspect of forecasting and financial management is risk management. Risk, in the sense of the sales forecast, refers to the standard error of the estimate. In other words, the sales forecast will likely be different from the actual value achieved, but inside of the high and low limits with a high degree of probability. Management must develop plans that take this risk into account, such that the plans will work with the most probable range of sales values. As a simple example, a labor plan could include overtime and temporary workers when sales are on the high side or reduced working hours and layoffs if sales are on the low side. By making these plans ahead of time, companies can become more efficient and quickly react to changes in the market.

Change is a constant in business. Strong spread sheet technique includes the ability to quickly update tables and results with only minimal changes to inputs. The technique of dynamic tabling is introduced in this project using the VLOOKUP function of Excel. Proper tables for management and planning purposes should incorporate the risk of the forecast from the standard error. Excel has a process called the Scenario Manager that quickly incorporates the forecast risk to generate tables that can be used for planning purposes. This project also introduced the students to the Scenario Manager of Excel.

**Basic requirements of the report:**

1) A short description of the company assigned to the student is required. The description should be no longer that one page, double spaced, 11 point type, Garamond font. Give the reader key details of what the company does and how it performs, without boring them with details about the founding date, the address, and other needless information that can be quickly referenced but has no bearing on the sales forecast. You may copy this from the prior report, incorporating any feedback from the professor.

2) A formatted table showing the mean, standard deviation, low, and high values of the percentage of sales for each item in current assets and current liabilities is require.

3) A pro-forma table of current assets, current liabilities, and working capital for 1, 5, and 10 years ahead of the current year is required. Discussion should focus on the change in total current assets, total current liabilities, and working capital.

4) A working capital scenario table is required for 1 year ahead. Discuss the key aspects of this table in your view.

5) A formatted table showing the mean, standard deviation, low, and high values of the percentage of sales for each item in free cash flow is require.

6) A pro-forma table of free cash flow for 1, 5, and 10 years ahead of the current year is required. Discussion should focus on the change in free cash flow.

7) A free cash flow scenario table is required for 1 year ahead. Discuss the key aspects of this table in your view.

8) All tables and plots, except the working tables, must be integrated in the text and labeled as Table 1, Table 2, or Figure 1, Figure 2 ect.

9) Working tables should be labeled and included in the appendix as indicated in the videos.

**Remember, you are building a portfolio of projects and work examples that can be used in the interview process, not just creating a report for a grade. While the projects will give you many marketable skills in Excel, the ability to clearly communicate your findings is another marketable skill that can only be demonstrated through the writing of your report.**