

Financial forecasts, risks and rewards

This section of the business plan details financial forecasts, risks and rewards and possible items to be included in the appendices. We can assist you in the compiling of this section

Historical trading performance

This section gives additional credence to the financial forecasts and thus gives the investor comfort that the forecasts are achievable.

It also gives management the opportunity to comment on their past performance and highlight problem areas that will be improved upon under new proposals.

The following points should be considered for inclusion in this section:

- identify the key factors affecting the historical profit and loss account and balance sheets;
- set out any abnormal factors affecting the results;
- discuss the reasons behind fluctuations in sales, gross profit percentage, net profit percentage, retained earnings etc;
- discuss significant aspects of the balance sheets (e.g. stock holding period, number of weeks sales in debtors, number of weeks purchasers in creditors, major fixed assets, depreciation policy etc.); and
- comment on the return of capital achieved.

Financial analysis and underlying assumptions

Grant Thornton has significant expertise in this area and can assist management in

preparation of forecasts that are in line with the investor's requirements. The assumptions used in the preparation of the projections must however always be supplied by the management team.

It is normal for the first year's forecast to be prepared on a monthly basis, with year two onwards being monthly, quarterly or annually depending on the nature of the proposal. All financial forecasts should show integrated profits and loss, balance sheet and cashflow statements. This provides a self-check to avoid errors and provides for the needs of users of the information.

The following points should be considered for inclusion in this section:

- explain how the sales forecast has been arrived at (e.g. how many products will be sold, when, what will be the price etc.);
- set out the levels of production required to achieve the sales forecast and maintain a practical level of finished goods stock;
- explain how these production levels have been used to calculate direct costs of production, including direct labour;
- set out the major variable and fixed overheads and explain how these have been accounted for in the projections;

- explain the assumptions used in the cash flow projections in particular credit taken by customers, stock and work in progress levels, credit taken from suppliers, discounts given and taken etc;
- detailed taxation assumptions, in particular corporation tax, VAT, PAYE, PRSI;
- cover any other significant items within the profit and loss account or cash flow projections (e.g. distribution costs, research and development, repairs etc.);
- give details of assumptions made regarding inflation, movement in interest rates, foreign exchange rates etc;
- explain the funding assumptions (e.g. type, availability and timing, grants used, interest rate, dividends etc.);
- state fixed asset requirements, costs, methods of financing the purchase, depreciation method and rates;
- include commentary on the forecast explaining in layman's terms what the numbers mean;
- ensure the figures are clearly justifiable by reference to other sections of the plan; and
- set out sensitivity analysis on key assumptions (e.g. the effect of 10% movement in sales profit and cash flow or the effect of a 10% movement in labour efficiency etc.).

Risks and rewards

This section shows the investor that management recognise the risks inherent in the proposals and how the risks are going to be minimised. However, this should be countered by pointing out the strengths of the proposals and the likely rewards. This section should cover;

- the inherent risks in each part of your business plan and your opinion on the likelihood of these occurring;

- details of the steps taken and to be taken to minimise the effect of these risks on the performance of the business;
- an analysis of the likely effect of such risks on both profit and cash flow;
- the rewards to the investor if the plan is achieved, e.g. indicate the worth of the business in three/five/seven years time and the return on his investment this would represent; and
- recognition of any potential investor's needs and demonstrate how your plans meet them.

Appendices

The following are typical items, which may be found as appendices to a business plan:

- CVs of key managers;
- organisation charts;
- market studies, articles from trade journals etc;
- product literature and technical specifications;
- details of patents, Government approvals, industry standards etc;
- professional references;
- historical record (three years +) or if not practical the latest audited accounts;
- latest management accounts;
- financial forecast (e.g. profit and loss account, cash flow statement, balance sheet, assumptions etc.) for three to five years; and
- glossary of terms.

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