Budgeting & Forecasting for Better Business Decisions

Presenter: David Fennell, Client Director at Pitcher Partners

Welcome

KEY TOPICS

WEBINAR

- Annual & Periodic Budgeting
- Project Decision-Making
- Securing Finance

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David Fennell is a Client Director in the Corporate Finance practice of Pitcher Partners Melbourne, with twenty years' experience in professional services.

David leads Pitcher Partners financial modelling team and works with clients to provide them with insights to key business projects and financial clarity to decision making. He is experienced in both building and reviewing financial models across many industries and for different purposes including: mergers and acquisitions, tender modelling, strategic planning, business cases, debt and capital raising.

David has a significant involvement in supporting clients for contract negotiations and tenders. He works with his clients to assist them in modelling costs, responding to bids, supporting negotiations. He advises clients in relation to commercial contractual risks, payment structures and contractual penalty and incentive regimes.

Areas of Expertise

- Financial Modelling
- Tender Support
- Commercial Advice
- Negotiation

Industry Experience

- Transport
- Manufacturing
- Retail
- Not-for-Profit
- Property
- Hospitality

Industry Experience

- Bachelor of Commerce (La Trobe University)
- Member of the Institute of Chartered Accountants in Australia (ICAA)
- Master of Business Administration (Melbourne Business School)
- Master of Applied Finance (Macquarie University)

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Budgeting and Forecasting

For Better Business Decisions

David Fennell
Client Director
11 September 2025

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What we are covering today

Budgeting and Forecasting

What entry level, good and great look like

Forecasting for Sourcing Debt

How to put together quality forecast information when seeking finance from banks

Modelling for Decision Making

Incremental earnings

What measures should inform project decisions

Considering risk

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Budgeting and Forecasting

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Budgeting and Forecasting

What does good look like?

Profit and Loss Budget

- Setting targets
- Providing a base to measure
- Cost control
- Resource allocation

Three Way Model

Completing a balance sheet and cash flow budget.

This increases the quality of forecasts, and provides additional information and insight that can inform strategic planning.

Frequency

- Not set rules, it should be specific to the business.
- Consider quarterly or monthly re-forecasting.
- Significant changes.

Sensitivity and Scenario Analysis

Sensitivity analysis – impact of changes in a single variable such as interest rate, exchange rates or wage increases.

Scenario analysis – changes in several variables.

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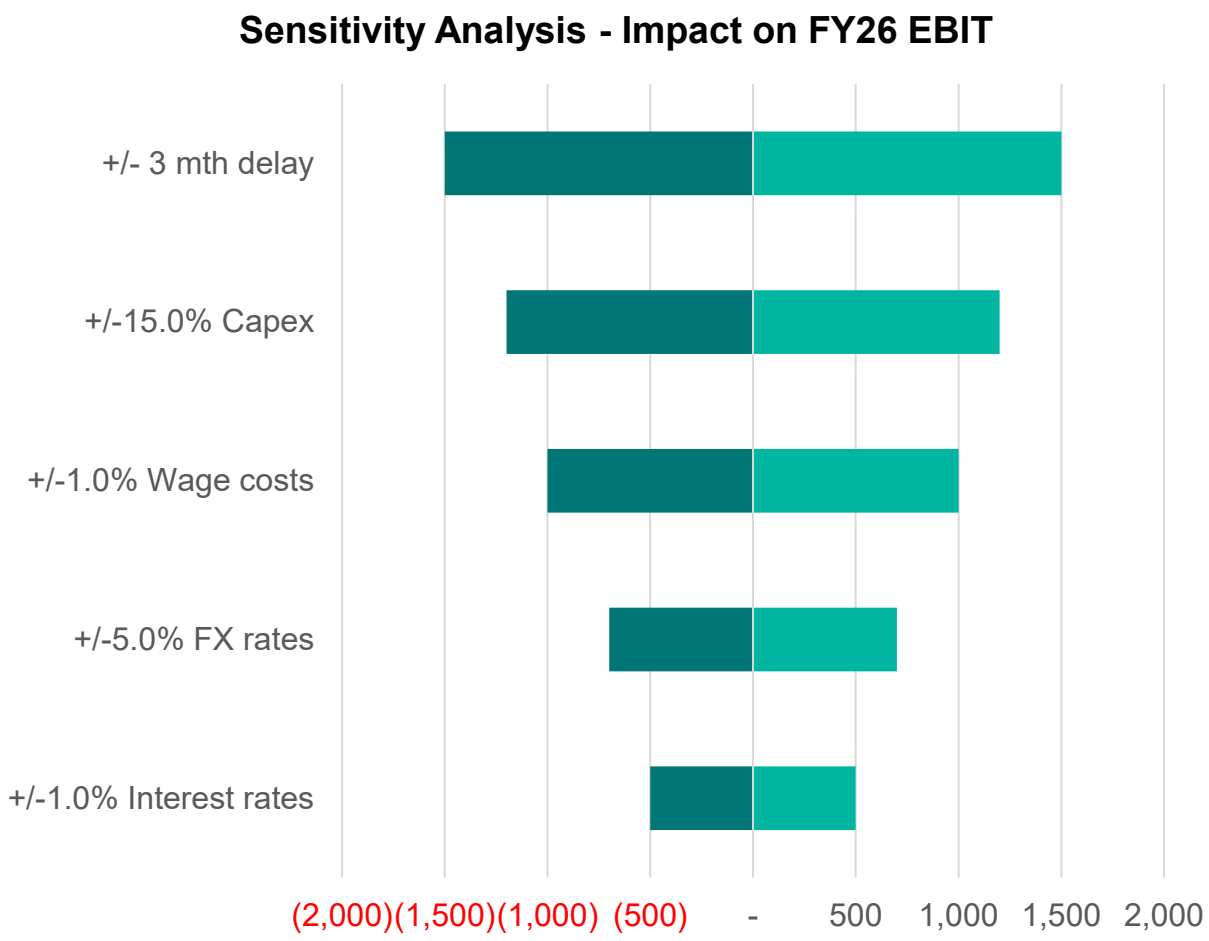
Sensitivity and Scenario Analysis

Having this analysis built into models can be powerful for supporting decision making



Sensitivity Analysis

	NPBT FY26	Cash flows FY26	Cash Balance FY26	Peak Debt FY26
Base Case	10,000	13,000	25,000	70,000
+1.0% Interest rates	9,500	12,500	24,500	70,000
+5.0% FX rates	9,300	12,300	24,300	70,000
+1.0% Wage costs	9,000	12,000	24,000	70,000
+15.0% Capex	8,800	11,800	23,800	70,000
+ 3 mth delay	8,500	11,500	23,500	70,000

Scenario Analysis

	NPBT FY26	Cash flows FY26	Cash Balance FY26	Peak Debt FY26
Base Case	10,000	13,000	25,000	70,000
Base +New Contract	17,000	19,000	30,000	100,000
Base +New Contract +1% Int Rates	16,000	18,000	29,000	100,000
Base +5% Wages +5% USD	7,000	10,000	22,000	70,000

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Forecasting for Debt Sourcing

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When are forecasts required

Look out for these attributes

01

Cash flow lend

Debt facilities that are more reliant on the cash flows of the business for repayment are more likely to require forecast financials.

02

Security

Debt facilities that have limited asset security are more likely to require supporting forecasts.

03

Leverage

As leverage increases so does the need for quality forecasts.

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What do good forecasts look like?

Good forecast information speaks to the quality of management and the business

Quality Forecasts

1. Three-way forecasts
2. Term of forecasts
3. Quality model
4. Make is easy

Tell the Story

The forecasts should support the story of the business, its growth and the debt requirement.

Measure Covenants

The banks will measure financial covenants in assessing your credit application so you should measure first to increase the chance of success.

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Quality Forecasts

What do they look like

Three-way forecasts

Profit and Loss

Balance Sheet

Cash Flow

Term

Monthly forecasts for the remaining year plus at least two more years.

There may be reasons why you need to go out further.

Quality model

Well structured

Looks professional

Easy to understand

Make it easy

Help the audience (Bank) but making it easy for them.

Think about the detailed line items you provide in the financial statements.

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Telling the story

Forecasts should support the story of the business and the debt requirement

Why?		The forecasts should support the narrative of the business, the growth or reasoning for the debt requirement.

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Debt Covenants

Banks will measure them and so should you

01

Interest cover ratio

EBIT / Interest expense

Higher ratios indicate higher ability to pay interest expense.

02

Debt cover ratio

EBIT / total debt service

Higher ratios indicate higher ability to service debt obligation.

03

Debt / EBITDA

Informs leverage – the ability of the business to pay its debts.

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Forecasting for Decision Making

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Forecasting for decision making

How should you prepare forecasts that will inform a decision on a project?

Incremental earnings and cash flows

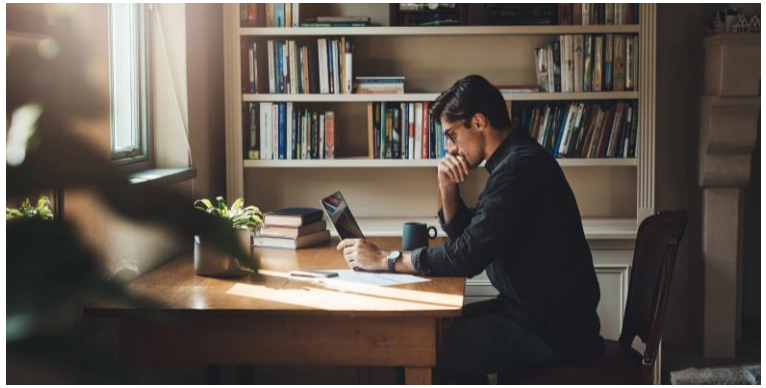
When making decisions on projects, focus on the incremental project cash flows

Consider a company's cash flow with the project to its cash flow without the project

What measures should be used to assess projects

Discounted cash flow measures such as NPV or IRR

Compared to traditional accounting measures such as net profit before tax



Considering risk in your forecasts

How should consider risk when forecasting projects

How to think about project cash flows

Sensitivity analysis

Documenting risks

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Incremental Cash Flows

Look out for opportunity costs, sunk costs and effects on the existing business

Identify the incremental cash flows

Sales associated with the new product ✓

Reduction of existing sales as a result of introducing a new product ✓

Expenditure on plant and equipment ✓

Excess distribution centre capacity that can be utilised within a project ✗

Cost of research and development that has been undertaken in relation to the project over the last 3 years ✗

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How to assess projects

What measures should be used to make decisions on projects?

Method	Definition	Recommended
Net present value	A project's net contribution to wealth being the present value of its cash flows minus the initial investment.	Recommended
Internal rate of return	The discount rate at which the NPV equals zero.	Recommended
Accounting rate of return (ARR)	Traditional accounting profitability measures such as net profit after tax.	Not recommended
Payback period	Time until the cumulative project cash flows equal zero.	Not recommended
Discounted payback	Time until the cumulative discounted cash flows equal zero.	Not recommended
Profitability Index	Ratio of the projects NPV and the initial investment.	Recommended

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How to think about and assess risk

Use expected

Use **expected cash flows**, not **most likely** and certainly **not optimistic**

Scenario	Probability	Cash flows
Low	35%	$50
Base	50%	$100
High	15%	$150
Expected	100%	$90

Sensitivity analysis

Use sensitivity analysis to understand to risks specific to your business / project:

- Exchange rates
- Commodity prices
- Interest rates
- Labour costs

Document risks

Document risks in relation to the project, including:

- Type and nature of the risk
- Rate the probability and impact
- Document potential mitigation
- Be clear on residual risk

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Want to know more?

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Article
Service contract pricing and commercial factors: Managing risk and return

WEBINAR

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Thank You

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