Building resilience through modelling & insight

Navigating today's complex and dynamic macroenvironmental conditions

Establishing strength through foresight, response, and reorientation

Tariffs, geopolitical stability, supply chain disruptions, inflation and interest rates are top of the list of perceived economic hazards amongst top leaders

BUILDING RESILIENCE UNDER MACROECONOMIC UNCERTAINTY

The macro playbook is being rewritten almost daily. Global trading terms are being redefined, impacting the wider macro and micro economic drivers that businesses plan around. In environments like this, **forward planning becomes the organising principle in order to thrive.** Organisations that are navigating 2025's volatility with confidence share three habits:

They don't obsess over the accuracy of a single forecast - they look to **understand and plan around the boundaries of plausible outcomes.**

Treat their plan as a living document, not an annual exercise. They deliberately plan to **hold spare capacity to absorb shocks** without sacrificing strategic momentum.

Move on signal, not on noise. Leaders wait for meaningful trends to emerge, **then move early and with conviction** before consensus forms.

Financial modelling is the connective tissue across those disciplines. Done well, it empowers leaders with the evidence to act decisively to implement both defensive and offensive measures across financial and operational initiatives.

PRIORITY FUNCTIONS

The initial response functions to drive transformation to a financially resilient organisation:

STRATEGY AND RESILIENCE

- Quantify the financial impact of changing macroeconomics on your business under various scenarios to inform and prioritise strategic investment decision and financial planning
- Develop and assess mitigation strategies for the most impacted business areas.

FINANCE AND LIQUIDITY

- Understand the impacts on financing and capital structure and take action if required
- Evaluate working capital, short-term cash flow projections, and liquidity risks
- Analyse implications on commercial agreements, workforce, footprint, and customer service.

PROCUREMENT AND SUPPLY CHAIN

- Consider the impact to supply change, product costs or availability, and inventory/demand forecasts
- Consider mitigation strategies for cost increases, such as alternative supply flows or pricing adjustments.

M&A

- Assess impact of market conditions on M&A strategy, including impact on target valuations and deal structure
- Define a post-merger/acquisition integration plan focused on cost optimisation and supply chain resilience.

SCENARIO MODELLING

Organsiations should **avoid a single-point forecast and instead consider a range of scenarios** that capture a range of disruption and opportunities.

There is no one size fits all solution in today's complex and dynamic environment. In our experience, we think companies must look at **multiple options in developing their corporate strategy**:

ECONOMIC SCENARIOS

Consider scenarios that capture a range of uncertainties, exploring the potential impact on key business metrics – what is a reset "realistic downside" in the future

MINDSET SHIFT TO CASH FLOW GENERATION

Spending control and pricing strategies amidst tariff uncertainties, rethink operations, and actions to optimise productivity

PROGRAMMATIC M&A

Divest more if in an expected downturn and shore up capital for acquisitions during a recovery

STRENGTHEN THE BALANCE SHEET

Explore opportunities to unlock cash; such as working capital analysis, recover trapped cash, manage credit support requirements

Establishing strength through foresight, response, and reorientation

Steps taken by successful organisations in rising to macroeconomic uncertainties and lessons for transforming into resilient organisations

Assess the exposures and associated risks

Establish KPIs tracking volatility exposures and link actions to decision thresholds

Proactive pre-crisis scenario modelling with trigger points

Stress test the P&L to determine financial exposure and define trigger points

Maintain an unflinching eye on LIQUIDITY

Maintaining 13-week cashflow forecasting and improving forecast accuracy where there are high variances

Take bold RESTRUCTURING opportunities

Be ready to take advantage of market opportunities to develop or optimise your business

Solidify new PRICING strategies

Protect margins through understanding the true cost to serve, exchange price for value

Proactive M&A

Winner after the COVID19 pandemic divested more during or in advance of the downturn and acquired more during the recovery

Establishing strength through foresight, response, and reorientation

Steps taken by successful organisations in rising to macroeconomic uncertainties and lessons for transforming into resilient organisations

Assess the exposures and associated risks	Identify business areas that are exposed to market uncertainties and risks; and **establish KPIs tracking volatility exposures**, e.g., percentage of cost base at risk from changes to trading conditions, or subject to other market uncertainties. **Quantify the second- and third-order impacts**, including effects on customers or suppliers and subsequent consequences for the company. **Link actions to decision thresholds** (e.g., "If demand changes by X% or certain KPIs change by X%, we will take action Y").
Proactive pre-crisis scenario modelling with trigger points	Resilient companies model the right business scenarios and **stress test the P&L to determine financial exposure and define trigger points** for key actions (when A happens, do B) and watch for these indicators to enable swift response. Constantly review and refresh assumptions based on global signals.
Maintain an unflinching eye on LIQUIDITY	This starts with **maintaining 13-week cashflow forecasting** and improving forecast accuracy where there are high variances. Next, look for low hanging fruit by **analysing receivables and payables to reveal process gaps**, unfavorable customer and vendor terms, and near-term opportunities to improve the cash conversion cycle. Not every dollar on the balance sheet is equal; companies should periodically review methods to **recover trapped cash** or a tax efficient way to deploy it. An **examination of credit support arrangements** may unlock cash collateral or letters of credit that are no longer required.
Take bold RESTRUCTURING opportunities	For companies anticipating headwinds or want to be fit to take advantage of market opportunities, **digital technologies will provide new ways to simplify their business.** Examples include scaling up the use of robotic process automation to automate back-office functions and free up human resource or augmented reality tools to cut maintenance costs. Companies can also **identify business units, geographies, and channels that are noncore, or underperforming** to determine where to release or deploy capital.
Solidify new PRICING strategies	The approach of passing cost increases to customers is reaching a limit and organisations need to get more sophisticated regarding their approach to pricing. Instead, companies could consider **protecting margins through understanding the true cost to serve, exchange price for value, or offer bundled products.** Companies can also take a holistic view at product offerings and seek to optimise the product mix or even eliminate and streamline product families and SKUs.
Proactive M&A	Winners of the pandemic showed a critical attribute around M&A by **divesting more during or in advance of the downturn and acquired more during the recovery.** Companies need to capitalise on previously unavailable industry shaping M&A.

Develop tools to support your strategic modelling

We advocate a Financial Modelling Framework to provide a basis for evidence-based decisions to navigate today's complex and dynamic market conditions

1 AGREE KEY METRICS OF FOCUS

Short to medium term

- Earnings and liquidity resilience in response to both disruption and emerging opportunities to assess requirement for strategic shift
- Immediate risk assessment to understand potential exposure.

Longer term

- Underlying free cash flow, profitability, financing and capital structure, investment requirements to support growth positioning
- Non-financial enablers including talent pool mix, sustainability agenda targets, and innovation pipeline.

2 UNDERSTAND THE DOWNSIDE RISK

Suggested approach

- Capture the base line by anchoring analysis to the current business plan
- Draw learnings from prior periods of disruption (e.g., pandemic response) to challenge existing views of risk and to identify financial strengths and fragilities in the business
- Develop a scenario-based responses for the next business cycle, considering:
  - Economic scenarios (sustained tariffs, mild recovery, prolonged stagnation)
  - Disruption response (ambitious transformation programme or pivot to profit)
  - Spending control and working capital measures.

3 APPLY MITIGATIONS AND STRATEGIC OPTIONS

Mitigations (operational and more immediate)

- Immediate cost savings around discretionary spend
- Cash management with trapped cash recovery and working capital review
- Medium-long term cost out initiatives (and cost to achieve).

Strategic levers (medium to long term)

- Raising new capital, refinancing, covenant resets
- Growth initiatives and/or disposals
- Partnering and acquisition opportunities.

4 ANALYSE

Robust, timely analysis

- To generate confidence and provide clarity requires use of a financial modelling tool that considers the inter-dependency of the components and agreed metrics of focus
- For instance, while a disposal may improve liquidity (subject to any obligations on how proceeds are used), it may not improve covenant headroom if the valuation achieved is low relative to earnings
- The analysis should be translated into language and outputs that resonate with senior stakeholders.

Model diagnostic to give you confidence in your financial models

Organisation should continually evaluate whether their financial models are “fit for purpose”, testing their integrity and accuracy, in order to minimise the risk of failure

IS YOUR MODEL ‘FIT TO PURPOSE?

Does the model answer todays question and are you able to interpret the model output and draw insights on:

- The **key drivers** and **logic** behind the model’s key outputs
- The overall **model structure** including the flow of inputs to outputs
- The potential model **issues** and areas of **risk**
- **Limitations**, including the model’s capability of running sensitivities
- **Surplus** or **redundant** content
- **Efficiency** of formula, including calculation speed and file size

IS YOUR MODEL “FIT FOR PURPOSE”

A financial model sits at the centre of all financial planning and decision-making processes. Organisations rely on their models as a single source of truth, using it to shape and test their strategy and response to the ever-changing business environment. We advocate that organisations should complete regular **Model Diagnostics** assessing their financial forecasting tools are fit for purpose.

A model diagnostic should consider:

1

MODEL RISK QUANTIFICATION

Whether the Model has flexibility in key drivers to reflect and show impact of potential new and existing risks and opportunities.

Overlay potential mitigating actions by management to address uncertainties and risks of delivering the plan, and demonstrate the impact on cash and liquidity.

2

FUNCTIONALITY AND STRUCTURE

Show BAU forecasts, as well as alternative scenarios and sensitivities, including a reasonable worst-case scenario which is consistent with your internal risk register.

3

QUALITY OF OUTPUTS

Present suitable dashboard outputs to:

- Support the requirements of potential investors or other stakeholders
- Present the financial story consistently with the language of the equity story.

4

MODELLING GOOD PRACTICE

Represent modelling good practices including: Consistency, Transparency, Simplicity, Linearity, Integrity, Robustness.

Be capable of supporting the requirements of a transaction and stand up to potential diligence.

5

ALIGNMENT WITH FINANCIAL STATEMENTS AND HISTORICAL MANAGEMENT INFORMATION

Produce dynamic monthly integrated income statements, balance sheets and cash flow statements; including driver based assumptions for revenues, costs and working capital.

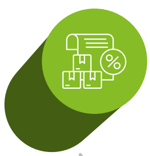
Relative ease of updating for actual results.

Business modelling & insights

Our modelling & insight specialists provide clarity in complex situations, developing robust financial forecasts and delivering industry-specific insights and solutions to optimise decision making in the backdrop of macroeconomic change

HOW CAN WE SUPPORT?

The future is never certain. We are here to support clients to:



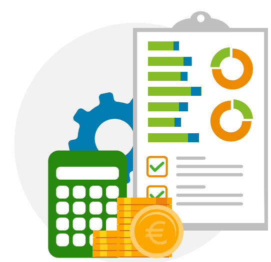
Assess the impact of changing macro and micro economic conditions as and when they emerge.

Shape & test strategic options, quantifying their value impact.

Develop strategic options and help clients transform to resilient operations and navigate through difficult and complex decision making in the persistently changing world using **bespoke financial models** and **analytical tools.**

We believe the **best performing companies don't wait for a events to reveal themselves**; they act in the face of profound uncertainty about the macroeconomy.

We offer a select menu of propositions and tools to **support clients harness the power of scenario** planning through a combination of an advisory mindset, modelling best practices, and frameworks to manage the risk of cognitive biases typically associated with scenario planning.



OUR SELECTED EXPERIENCE

Case study 1

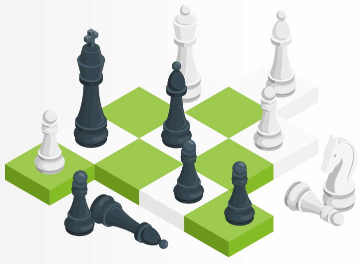
Supported the board of a listed multinational company in navigating the COVID-19 challenges, which involved:

- Developing robust and timely financial analysis and scenario modelling to project the impact of COVID-19 on key trading and non-trading metrics over a 12–36-month period, including profitability, cash flow, liquidity and banking covenant
- Quantifying the potential impact of various mitigating options, such as cost reduction, M&A, refinancing, and growth initiatives, to inform both short-term and long-term decision-making.

Case study 2

- Developed a sophisticated bottom-up financial model for a multinational automobile manufacturer to assess the financial impact of different business strategies and sensitivities
- Facilitated "what-if" scenario planning (e.g., new model development, Brexit scenarios, US import tariffs) to determine potential impacts on profitability, cash flow, and DCF valuation
- The model served as the client's key analytical tool for decision making including around impairment analysis.

OUR PROPOSITIONS



STRATEGIC OPTIONS APPRAISAL

- Analysing the present and **simulating the future** to support your business decisions. We help build robust financial models to assess the future impact of your choices and help you make informed decisions
- Our **specialist modellers** apply technical and commercial expertise to quantify your strategies and analyse scenarios, underpinning compelling value stories.

MODEL GOVERNANCE

- **Building confidence** in financial models to improve business certainty. We work in partnership with you to improve the accuracy and ease of use of your business-critical financial models
- By implementing **robust governance** frameworks and stringent quality controls, we **enhance your confidence** in the models.

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