



FINANCIAL MODELLING COLLABORATION WITH DEBT ADVISORY SERVICES

Case Study







CLIENT PROBLEM

A construction business operating throughout VIC and NSW has been a Business Advisory client of Moore Australia VIC for over 5 years. Despite demonstrating strong historical profitability and establishing a promising project pipeline, cash flow to sustain growth was restricting the potential of the business. For many of the pipeline projects, Performance Bank Guarantees in the form of cash are required as security, valued at 5% of total project value. The guarantees are traditionally held for the project lifetime, with 50% returned at completion and the rest 12 months later. For a business in a growth stage, this restricted capital is detrimental to not only servicing current projects, but their ability to tender for additional projects.

OUR SOLUTION

Moore Australia's extensive service offerings mean we can utilise the experience of professionals with a wide range of skills. Through internal consultation and based on discussions with the company's bank, Moore Australia established the need for a three-way financial model. The model would be required to demonstrate the businesses pipeline, bank guarantee requirements, future cash flows and also forecast financial position. It had to fill the bank with confidence that our clients business was profitable, stable, and had a quality pipeline of projects – enough to reduce security taken on projects.

PROCESS

1. To begin, our Debt Advisory team consulted with the bank to determine the exact materials required to reduce project security held including the requirement for a 3-way financial model (P&L, Cash Flow and Balance Sheet) to substantiate future cash flows and project pipeline.

2. A client meeting was then scheduled to review the banks requirements, explain the benefits of financial modelling and how we see the transaction unfolding under our management.

3. It was at this stage the Corporate Finance team entered the modelling process. Moore Australia's proven modelling process has been continuously modified to maintain the perfect balance of structure and customisation. Enter the Corporate Finance team led by Directors Benjamin Yeo and Colin Prasad, and supported by analysts Tasman Perrin and Pranay Shewani.

4. With our Debt Advisory team, led by David Considine, the newly developed financial model was presented to the bank requiring 5% security on projects. In this case, it was crucial to maintain transparency in how the forecast was set. This involved explaining different projects in the pipeline, answering any questions on model navigation, but most importantly, letting the quality of the model speak for itself.

5. After review, the banking team were satisfied the model and its inputs met their guidelines, and were comfortable to reduce security in the form of cash by 40%.

6. After achieving our first goal (reducing cash flow pressures for our client) we moved on to providing extensive training to management on operating the model moving forward. At their office, we held training sessions. We know not everyone is a modeling expert and we also know not everyone has an abundance of time to dedicate every month. That's why although the original purpose was for a deal, we built this model in line with management's existing forecast methods and in a way they understand. Although the official training doesn't last forever, we stand by our model and offer support years into the future.



BUILDING A FINANCIAL MODEL WITH MOORE AUSTRALIA

Moore Australia has a team of expert financial modelers – experienced and knowledgeable in building both deal and operational models. In utilising the Modano software, they are all best practice. In the case of this client, the model had to serve the purpose of reducing project security (deals model), but also being a useful long term management tool – used for monthly forecasting and cash flow projections (operating model).

PHASE 1: DESIGN

- During the design phase the Corporate Finance team met with key management to understand all aspects of the business.
- We confirmed the models purpose (reduce security and management forecasting).
- We confirmed key drivers specific to the company, ensuring both external users and management can understand how assumptions are made and the impact they have. We believe the best models tell a story in numbers – whether it be a story of growth, stability or a decrease in expected revenue. Our experience means we know best how to portray even the most complex business models.
- In this case, some complexities included the allowance for retention on subcontractor work, bank guarantee movements, and an individual forecast for each of the many projects both in work and yet to begin.

PHASE 2: CONSTRUCT

- Our team got to work. Over the course of two weeks, we built the structural components or ‘skeleton’ of the model.
- We don’t worry about assumptions at this stage, knowing in order for a model to be used by management moving forward, both useability and modularity are essential.
- This model was monthly historical and forecast – meaning it presented the last 2 years actuals alongside the next 3 years of forecast financials in monthly time periods. This is essential for management to conduct trend analysis and to see the impact new projects have on performance.

PHASE 3: TEST

- At our client’s office, the Corporate Finance team presented a working draft to management.
- Our aim here was to explain how to operate the model so management can sign off on structure. After all, they know how their business works best

PHASE 4: ASSUMPTIONS

- Working with the business, we set a 3 year forecast.
- While steering our client in the right direction, it was crucial they were the key storyteller.
- We provided thorough guidance, reviewing all assumptions and ensuring the model integrity meets the standards set at Moore Australia.

RESULT

The bank reduced the Term Deposit security coverage required by our client from 100% to 60%, improving their cash position and also providing them the confidence to chase new projects and further grow the business they love.

E.g.; previously for a project pipeline of \$100M, \$5M in cash was required as security, held for 12 months after completion. We reduced this to \$2.5M, leaving an additional \$2.5M at bank for operations and growth.

The business also came out the other side with a simple, easy to use, precise, short and long term 3 way forecasting tool that vastly improved insights and planning of their operations moving forward.

CLIENT TESTIMONIAL

“Our experience with the Moore Australia Corporate Finance and Debt Advisory team was seamless and of a greater benefit than we initially predicted. We came to them with a problem that required to be addressed quickly, and they provided a quick solution and executed successfully. The whole process was managed with great communication from start to finish as they treated the problem like it was their own. We couldn't recommend their services more highly”.

CONTACT US

Find your nearest member firm at
www.moore-australia.com.au

CONTACT DIRECTORY

BENJAMIN YEO

Director, Moore Australia Vic
Chairman, Corporate Finance Committee
benjamin.yeo@moore-australia.com.au

CHARLES OOSTERHUIZEN

Director, Moore Australia NSW
charles.oosterhuizen@moore-australia.com.au

DENIS OWENS

Director, Moore Australia Qld/NNSW
denis.owens@moore-australia.com.au

RICHARD PERKINS

Director, Moore Australia SA/NT
richard.perkins@moore-australia.com.au

PETER GRAY

Director, Moore Australia WA
peter.gray@moore-australia.com.au



www.moore-australia.com.au

An independent member of Moore Global Network Limited - members in principal cities all throughout the world.
Liability limited by a scheme approved under Professional Standards Legislation.

The information provided in this document is for general advice only and does not represent, nor intend to be advice. We recommend that prior to taking any action or making any decision, that you consult with an advisor to ensure that individual circumstances are taken into account.