

# 5 Steps

## Forecasting Financial Statement Information

### 1 Gather and Analyze Historical Financial Information

History is often an ideal point of reference for future performance. It provides tangible evidence of what your company has already achieved.

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### 2 Develop a Story for the Company's Future

Figure out where your company is going and how it will get there. This is the 3- to 5-year plan for the business and arguably one of the most important and challenging steps in the forecasting process. Don't worry about the numbers yet.



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### 3 Translate the Story into Numbers

Put pen to paper and estimate where your company is going financially. This is where your story manifests in growth rates and profit margin improvements, as well as working capital reinvestment and capital expenditures.



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### 4 Test Assumptions for Reasonableness

Now that you have numbers on paper (or spreadsheet), it's time to take a step back and check your work. Does it match the story? Is future financial performance reasonable given anticipated hurdles and business risks?



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### 5 Make Adjustments to Your Assumptions

Make adjustments based on your assessments in Step 4. Once you have made the necessary adjustments, repeat the assumption testing and adjustment process until your financial forecast reflects an "expected case" set of results.

