WORKED EXAMPLE · LONG-RANGE PLAN

The five-year plan, and how wide the range is

In July the supplier rolls its five-year plan forward from the landing in "Where the year will land": net-net sales of 51,641 and EBIT of 2,263 thousand euros this year. Three scenarios differ in four assumptions: volume, net price, cost per case and operating costs. The plan is set for the company as a whole, and every product moves with it: in the base scenario, laundry capsules at Retailer A go from 5,415 thousand euros of net-net sales this year to 5,633 in year 1.

THE HEADLINE

By year 5, EBIT runs from 1,426 thousand euros in the downside to 4,956 in the upside, and the value of the business from 11,239 to 38,439. Net price against cost per case explains most of the gap.

Three scenarios over five years (EUR thousand, unless stated)

Scenario	Volume, a year	Net price, a year	Cost per case, a year	Operating costs, a year	Net-net sales, year 5	EBIT, year 5	EBIT, % of net-net
Downside	+0.5%	+1.8%	+2.2%	+2.8%	57,885	1,426	2.5%
Base	**+2.0%**	**+2.0%**	**+2.0%**	**+2.5%**	**62,950**	**3,242**	**5.2%**
Upside	+3.0%	+2.2%	+1.8%	+2.3%	66,748	4,956	7.4%
This year (landing)					51,641	2,263	4.4%

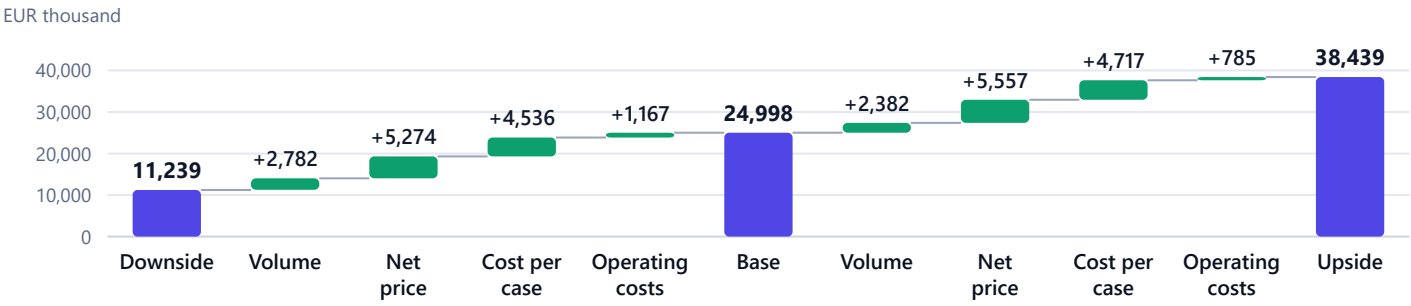
Free cash flow, and the value of each scenario

EUR thousand	Year 1	Year 2	Year 3	Year 4	Year 5	Years 1 to 5	Value
Downside, free cash flow	1,367	1,223	1,071	910	739	5,310	**11,239**
Base, free cash flow	**1,493**	**1,597**	**1,707**	**1,823**	**1,944**	**8,564**	**24,998**
Upside, free cash flow	1,625	1,956	2,315	2,703	3,122	11,721	**38,439**

From the downside value to the upside (EUR thousand)

Value of the scenario · One assumption changed

Each step changes one assumption, in this order



Year one against the budget's targets

EUR thousand	This year's budget	This year's landing	Year 1, base	Change on the landing
Net-net sales	52,792	51,641	**53,727**	+4.0%
Gross margin	11,471	10,708	**11,140**	+4.0%
EBIT	2,906	2,263	**2,503**	+10.6%

Year one becomes next year's budget targets. The budget is built against them, and it can't be locked while its net-net sales sit more than 2% from the strategy target, unless someone overrides it on record.

Price against cost

Net price and cost per case explain 74% of the range. In the downside, net price grows 1.8% a year and cost 2.2%: EBIT falls to 1,426 by year 5.

The rate matters too

At a discount rate of 9.0%, the base is worth 24,998 thousand. At 8% it would be 29,262; at 10%, 21,803.

Year one, held to the budget

Year one asks for EBIT of 2,503 thousand, 10.6% above this year's landing and 403 below this year's budget.

Key tables export to Excel with their formulas. Illustrative figures. Not a client's data. Value means the value of the business before its debt, at the end of this year: free cash flow for years 1 to 5 after tax at 20%, and the years after growing 2.0% a year, all discounted at 9.0%. Capital spending is 2.5% of net-net sales; working capital moves with sales.