Introduction

A well-run company maintains a three-year strategic plan setting out medium term goals and objectives and the means by which management expects to achieve them. The corporate budget is a short term (one year) tactical plan to make progress towards the company's strategic plan. It sets out how the company will allocate resources to its operations to achieve the strategic plan.

This document is designed to provide guidance to Access' portfolio company leadership teams and remove ambiguity from the budget process.

Guiding Principles

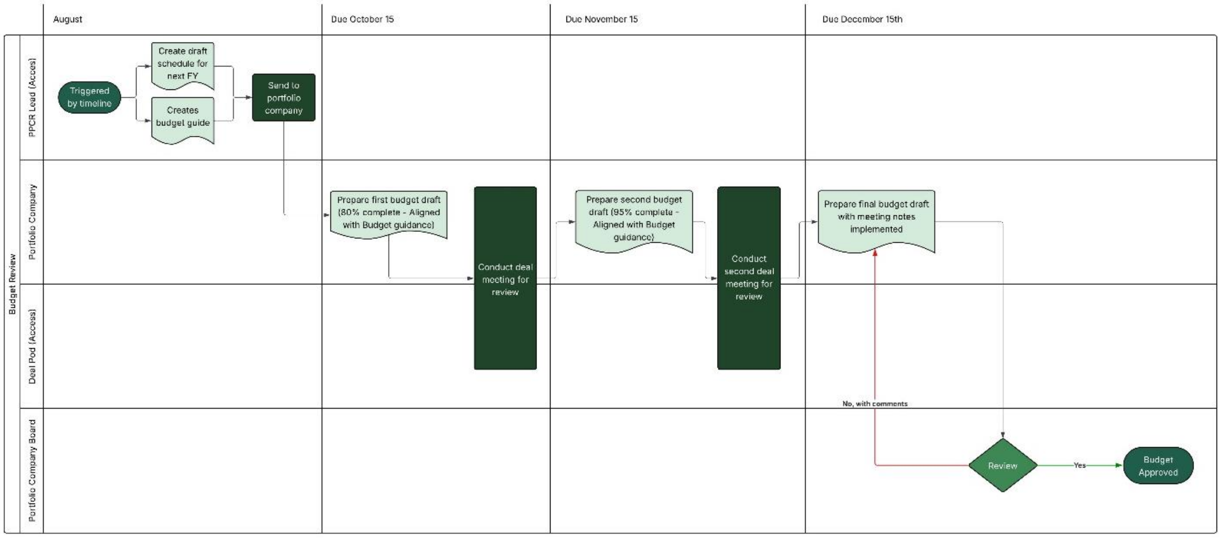
- Budgets represent the tactical execution of each company's 3-year strategic plan.
- Budgets must be built with a reasonable degree of risk of achievement. To contextualize this concept, budgets should be built on a 50/50 basis. That is, that management believes that there is a 50% chance that the business exceeds the budget and a 50% chance they underperform. This is an appropriate blend of risk and certainty.
- Each functional leader must be engaged in the process and own their targets. Finance cannot run the budget process in a silo.
- Budgets must clearly articulate how resources will be deployed to achieve organic growth, margin expansion, and cash flow improvement.
- Budgets must be built with a granular level of detail. This requires building budgets at the individual location / department level with the input and guidance of appropriate P&L owners. Revenue items should be based on the underlying KPI drivers of the business (i.e. price, volume, etc.). Cost items should be built zero based and bottoms up. Headcount planning should be at the individual (corporate) or employee type (field) level.

Timeline

- September 15th – Access Deal Lead and management discuss top-down guidance and expectations (Organic, M&A, expense management, capital efficiency).
  - No formal deliverable, just a discussion to align heading into the budgeting cycle
- October 15th – First Draft Due to Access
  - Meet with deal team to review
  - Budget should be 80% complete
- November 15th – Second Draft due to Access
  - Meet with deal team to review
  - Budget should be 95% complete
- December 15th – Final Draft due to Access
  - Board review & signoff[1]

[1] Exact timing for board signoff will vary based on portfolio company's board calendar. Contact your deal lead with any questions and discuss any material deviations from this timeline.

Process Map



Required Deliverables

Deliverable	Detail	Complete (Y/N)
MD&A	Detailed MD&A linking strategic objectives to the budget, discussion of risk and opportunities, etc.	
Full 3-Statement Model	Income Statement, Balance Sheet, and Cash Flow Statement Monthly and annual views, consolidated and BU level	
Capital Expenditure (Capex) Plan	Detailed by category (IT, vehicles, facilities, etc.) Must tie to the budgeted cash flow statement	
Capital Plan	Breakdown of equity, debt, and any anticipated capital raises Clear linkage to growth strategy and liquidity needs	
Corporate SG&A Detail	Zero-based budgeting approach Function-by-function breakdown of spend and headcount Clear explanation of raises and new hires	
Adjustments Detail	Full transparency on adjustments to EBITDA (Adj, PF ADJ, Lender)	
Long-term debt and Compliance Detail	Summary of budgeted debt and compliance metrics vs covenants	
Downside Scenario Plan	Defined revenue and cost levers to be pulled in underperformance scenarios with contingency plans	
Organic Growth Plan	Clear breakdown of growth drivers: new logos, cross/upsell, churn, pricing Contextualization of organic growth vs industry benchmarks	
Budgeted KPI Metrics	Metrics tied to business drivers (marketing, sales, operations, and talent) Benchmarked against scaled peers and portfolio standards	
System Upload Requirement	Final approved budget must be uploaded into the company's ERP system	

Appendix: Budget Philosophy

The Budgeting Process – Top Down and Bottom Up

The starting point for the annual budget is the strategic plan. Senior management sets out broad guidelines tailored for each business unit, division, department, functional group informed by their expected contribution toward realizing the strategic plan. Profit centers, such as a business unit or division, are given guidance on revenue growth, gross margin targets, EBITDA targets. Revenue centers such as the sales organization are given guidance on growth targets. Expense centers such as the legal department or human resources group are given guidance on expected growth or changes affecting their operations and guidelines on tolerance for increasing corporate overhead.

The heavy lifting is done by the business units in these profit, revenue, and expense centers. They must build their budgets, examining lessons from the past year, projecting what can be achieved in the coming year, trying to stay within the guidelines provided by senior management. And they must be able to present and defend their proposed budgets effectively.

The company's corporate budget is built up from these business unit budgets. An iterative process of review, discussion, and revision between the business units and senior management is used to produce the draft corporate budget. The next step in the process involves senior management meeting with the board of directors to present their draft budget. Here another iterative process occurs and ultimately results in an approved annual budget acceptable to both the board and senior management.

A collaborative top down and bottom up process takes more time and effort than a top down only process. But it ensures buy-in from the front-line staff who have to run the operations of the company and makes it much more likely that the budget will be achieved. And it is obvious that a complex process like this must be subject to a well-planned timetable so that next year's budget can be completed and approved before the start of the next year.

Business Drivers and Assumptions

Corporate budgets are almost always based on the current year's forecast results since the budget timetable dictates that the budget will be completed sometime in the fall, when the forecast for the balance of the current year is likely to be fairly accurate and before the start of the next fiscal year.

Historic (forecast) results only offer a starting point. To plan the future (which is after all what a budget actually is) it is necessary to understand the drivers of the business. Drivers are different for every business – number of customers, price setting or price taking, input costs, weather – and how well management understands what will increase or decrease revenues, costs, cash flow will determine how accurate a prediction of the future the budget will offer.

From an understanding of the business drivers will come the key performance indicators (KPIs) and the assumptions which underlie the budget that will be used to measure progress towards budgetary goals.

EBITDA Definitions

Budgets should have very few, clearly defined versions of EBITDA:

1) Book EBITDA = Earnings before interest, income taxes, depreciation, and amortization on a GAAP basis.

2) Adjusted EBITDA = Book EBITDA plus or minus certain adjustments related to one-time, non-recurring, non-operating or out of period adjustments.
3) Pro-forma Adjusted EBITDA = Adjusted EBITDA plus pro-forma adjustments that add back the impact of (i) actions that have been taken during the year but the full impact has not been accounted for within the latest Book EBITDA figures and (ii) the impact of certain items that are highly likely to occur in the near future; both as if they had occurred at the beginning of the year.
4) Bank EBITDA = EBITDA defined in the banking agreement. It is not a measure of performance used by management to judge the performance or value of the business and should only be reported for the purposes of understanding how the bank will be viewing our performance.

Budgeting and Reforecasting

Once the budget has been approved by the board of directors, it should not be changed. All reporting of budget to actual should compare the original budget to the actual results each period. The reason for this is that the original budget represents the commitment by the various business units and by senior management to what they plan to achieve, and this is what their performance should be measured against.

However, at the same time as the budget is compared to actual each period, management should also reforecast what they expect the results for the fiscal year will be. This provides the flexibility to recognize and respond to changes in the business and an explanation of what is occurring that was not anticipated by the budget, while maintaining accountability for promised performance.

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