Improved Pro Forma Forecasting Under Alternative Growth Rate Assumptions

Larry C. Holland[1]

Abstract

Pro forma forecasting and balancing an external financing need can become inconsistent because a change in debt also changes the interest expense, which creates a circular logic problem. A second issue arises in the special case of no additional external financing at the internal growth rate (IGR), which should incorporate spontaneous financing from increases in current liabilities while maintaining a constant interest expense. Solutions are offered to both problems through a direct calculation of the interest expense without the need for an iterative process and an updated formula for the IGR, thus strengthening the literature on pro forma analysis.

[1] Professor of Finance, University of Arkansas at Little Rock, 2801 S. University, Little Rock, AR 72204, Telephone: (501)569-3042, Fax: (501) 569-8871, Email: lcholland@ualr.edu