

Financial Planning & Analysis



FINANCIAL ACUMEN: BUDGETING SERIES

- The Budget: Aligning Capital, Company and Customers
- Capital Budgeting

**FINANCIAL ACUMEN:
BUDGETING SERIES**

The Budget: Aligning Capital, Company and Customers

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COURSE LENGTH

Three 2-Hour Virtual Sessions or
One Full Day In Person

DESCRIPTION

Why do we budget? This course addresses the question in two ways. We start by reviewing the arguments against the budget process in a fast-paced, dynamic world. With this foundation established, the course then lays out a straightforward argument that budgets are useful for aligning a wide range of interests to produce clear actions, such as investor capital deployed through corporate people, resources and processes to meet the company's mission and investors' needs.

Participants learn how all parts of the organization must align effectively and strategically to create an effective budget. It is important for finance professionals to clearly communicate the goals of the budget to other parts of the organization, in addition to responding to their requests or objections. Learn not only the technical aspects of the budgeting process, but also how to communicate clearly with stakeholders and come to a firm understanding about executing the budget with a mindset of continuing improvement.

LEARNING OBJECTIVES

- Understand the need and value of a coherent and pragmatic planning process
- Learn to align the organization to the budget so all stakeholders can validate and strengthen the process
- Walk away with tips for executing communication with other parts of the firm as a key process
- Be informed of the many nontechnical tools available to assist finance staffs in the creation of budgets

AGENDA

- Relevance
 - History of the budget
 - Budgeting challenges and dangers
 - Continuous planning cycle
 - Aligning business and G/L
- Capital Alignment
 - Capital markets and equity
 - Debt
 - Private equity
 - Non-profits
 - Consistent measurement and metrics from capital to customer

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The Budget: Aligning Capital, Company and Customers

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- Strategic alignment
 - Goal of strategic alignment
 - Strategic environment matrix
 - Porter's five forces
 - Industry life cycle
 - Capital deployment
- Operational alignment
 - GL reporting of capabilities
 - Investment decisioning
 - Common calculations
- Execution and implementation
 - Project management process
 - GAAP - Service Delivery - Product
 - Finding your key drivers
 - Budget validation
 - Sensitivity and stress testing
 - Scenario testing
 - Risks and opportunities
- Tools
 - Delivering insight
 - Risk management
 - Setting the risk appetite
 - Zero-based budgeting

**FINANCIAL ACUMEN:
BUDGETING SERIES**

Capital Budgeting

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COURSE LENGTH

Two 2-Hour Virtual Sessions or
One Half-Day In Person

DESCRIPTION

Capital budgeting is a process for evaluating and ranking the investment opportunities of a firm. Capital budgeting is a bottom-up approach that includes project identification, estimating cash flows, quantifying risk and determining if the proposed project adds value to the firm. Successful firms develop a capital budgeting methodology applicable to all levels of the firm, from analyst to CFO.

This course covers the basics of capital budgeting that all business professionals must understand to successfully navigate the complexities of capital expenditures and investment decision-making. Course topics include terminology, time value of money, introductory valuation tools, pro-forma cash flow statement development and analysis presentation.

LEARNING OBJECTIVES

- Understand the impact of capital budgeting on firm value
- Understand why Albert Einstein said the time value of money is the “most important equation in the history of mankind”

- Learn to perform modern capital budgeting techniques in Excel
- Learn to build pro-forma cash flow statements in Excel
- Learn to prepare a report with assumptions, analyses and recommendations

AGENDA

The course is laid out “menu” style. Course topics 1-5 must go together, topics 6-8 are highly recommended, and topics 9-11 are optional.

- What is capital budgeting?
 - Capital expenditures vs operating expenses
 - Project identification and rationing
 - The capital budgeting systems approach
- Time value of money
 - Net present value (NPV)
 - Economic equivalence
 - Mapping NPV from analyst to CFO
- Cost of capital
 - Linking cost of capital to value-added decision making
 - Calculating the discount rate

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Capital Budgeting

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- The capital budgeter's decision tool box
 - Payback period and why not to use it
 - Discounted payback period
 - NPV as a function of borrowing costs
 - Internal rate of return and why not to use it
 - Modified internal rate of return
- Pro-forma cash flow statement (PFCFS) development
 - Cash flow identification
 - Depreciable assets and macrs
 - Calculating applicable taxes
 - Basic PFCFS development
 - PFCFS with working capital investments
 - PFCFS with borrowed funds
 - PFCFS with multiple assets
 - PFCFS for cost-only projects
- Deterministic capital budgeting in an uncertain world
 - Discounted break-even analysis of a PFCFS
 - Sensitivity analysis of a PFCFS
 - Scenario analysis of a PFCFS
- The analyst's deliverable (0.5 Hours)
 - Analyst report format
 - Executive summary, assumptions, analysis, recommendations
- Comprehensive case study
 - Extensive problem statement
 - Pfcfs statement development
 - Tool box: discounted payback period, NPV, NPV profile, MIRR, sensitivity and scenario analysis
 - Analyst report
- Optional: introduction to stochastic capital budgeting in an uncertain world
 - Determining the probability of project success
 - NPV distribution using random variables of a pfcfs
 - NPV distribution using monte-carlo simulation of a PFCFS
- Optional: mean-variance portfolio project selection
 - Optional: introduction to real options capital budgeting
 - Managerial discussion of the real options approach
 - Valuing the option to defer an investment
 - Valuing licenses and leases
 - Valuing sequential investment scenarios

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Capital Budgeting

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- Optional: mini-case studies
 - Annual equivalent (AE) analysis
 - NPV on a per hour basis
 - Make vs buy decision on a per unit basis
 - Break even point per unit of equipment use
 - NPV of motors and electric use
 - Investment decision in large equipment
 - Comparing mutually exclusive investment opportunities
 - Lease or buy decisions
 - Leasing vs retained earnings vs borrowed funds NPV analysis
 - Evaluating projects with unequal lives
 - Replacement analysis
 - Economic service life of equipment
 - Finite replacement cycles
 - Replacement analysis over long time horizons
 - Make vs buy decisions