

22nd March 2011

GO GROW GLOBALISE
Building Capabilities

Financing Options for Growth
– Balancing Risks and
Opportunities

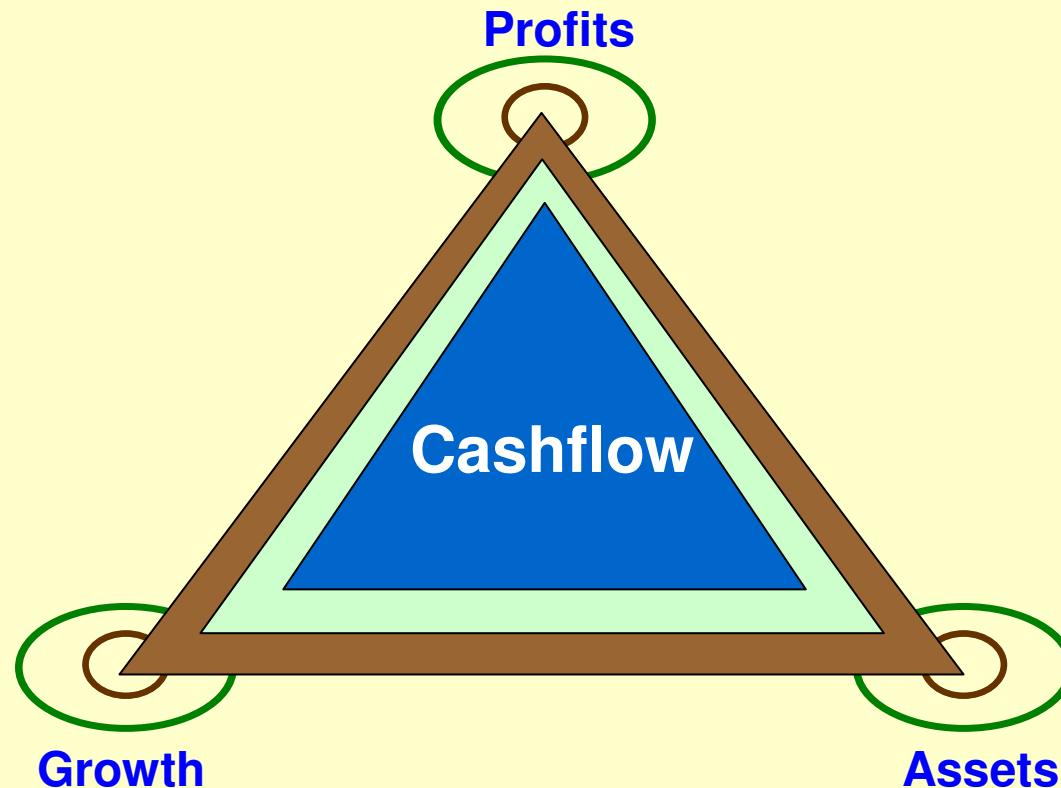
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The Financial Aspects of The Business

Growth

- **Key for Sustaining Success and Enhancing Shareholder Value**
- **Balanced Growth**

Growth and the Need for Balance



Any imbalance will impact strongly on cashflow and future of the company

Growth

- **Profitable**
- **Sustainable**
- **Capital Efficient**

Profitable

- **Revenue Growth**
- **COGS %**
- **Overheads %**
- **EBIT %**

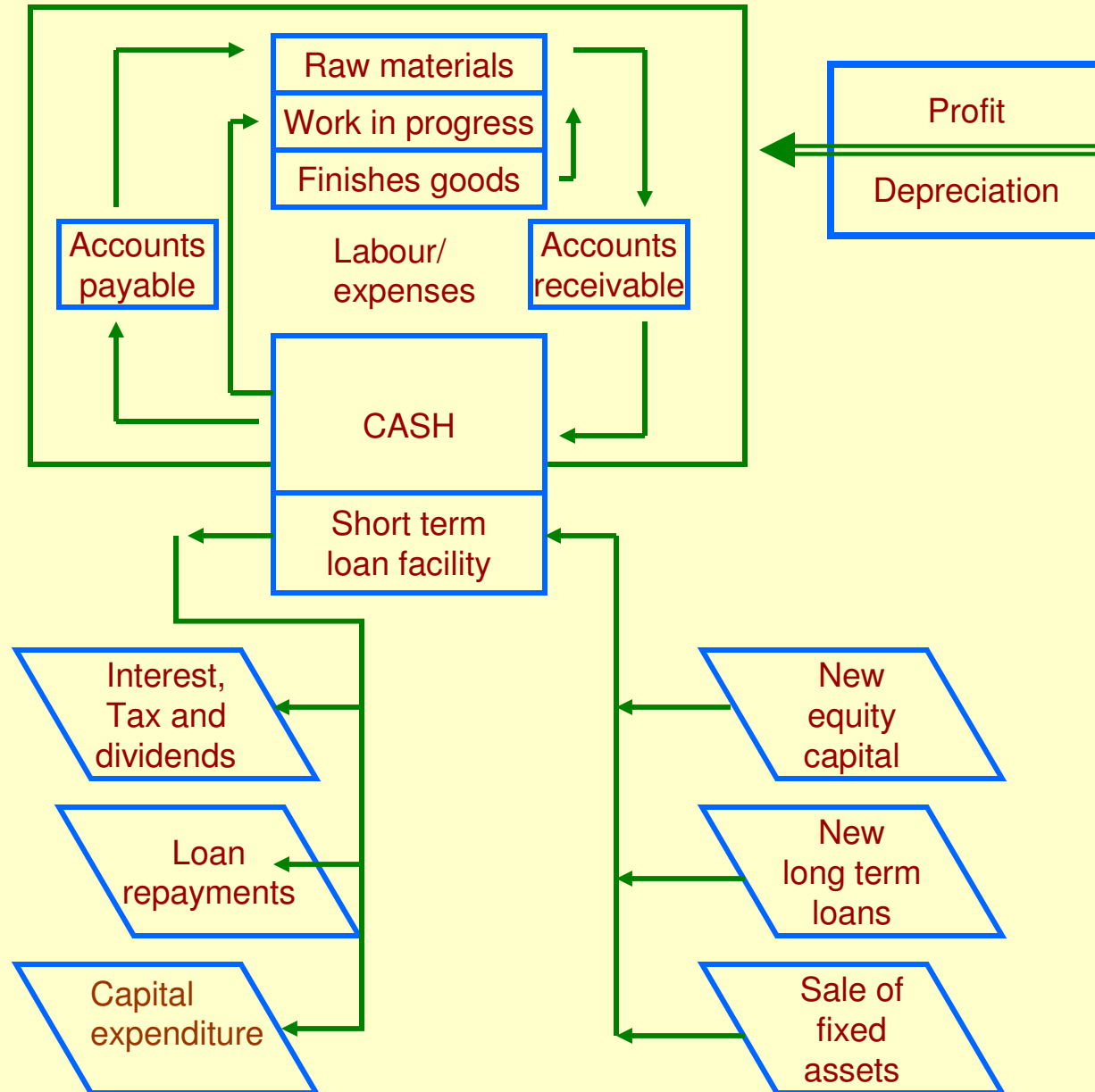
Sales

- **Develop new products and services**
- **Continuous improvement**

Sustainable

- **Avoid over-focus on:**
 - **Industry**
 - **Clients**
 - **Countries**

Capital Efficient – Cash Flow



Short-Term Liquidity

$$\text{Current Ratio} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

$$\text{Quick Asset Ratio} = \frac{\text{CA} - \text{Inventory}}{\text{CL}}$$

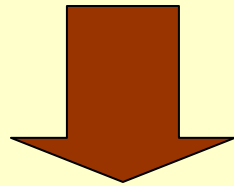
Financial Strength

$$\text{Interest Cover} = \frac{\text{Earnings before interest and tax (EBIT)}}{\text{Interest}}$$

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity (SHF)}}$$

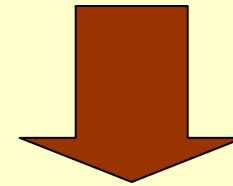
The Accounting Equation

$$\text{Debt} + \text{Equity} = \text{Total Net Operating Assets} \\ \text{(Capital Employed)}$$



How the Business
is funded

=



How the funds are applied
in the business

Why go into business?

To get a **Return On Capital Employed (ROCE)**
OR **Return On Net Assets (RONA)**

$$\text{ROCE} = \text{RONA}$$

(The Dupont Theory of Financial Analysis)

Interest

Q. Why do we measure return before interest?

A. Because we want to measure it against interest.

Now let's look at Profit and Loss and Performance Measures

P&L vs Balance Sheet

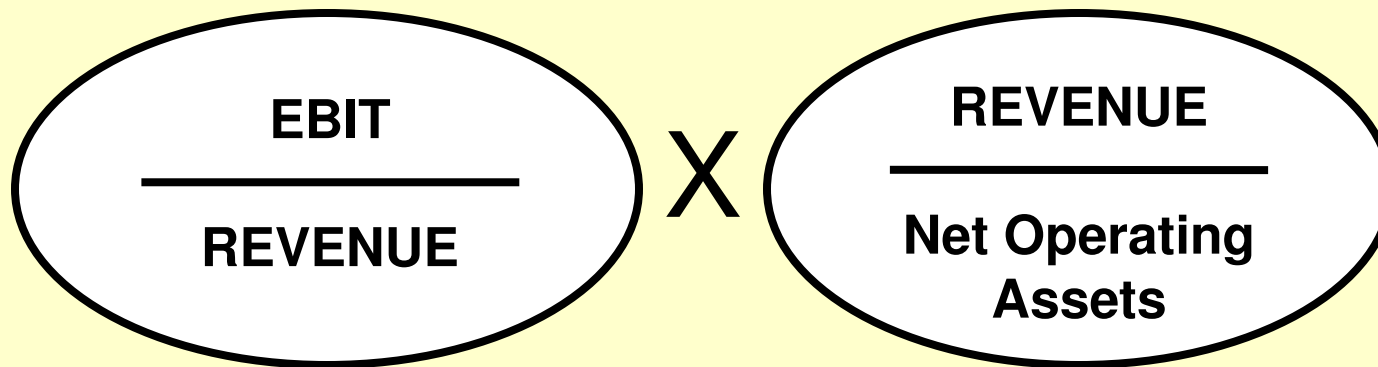
What is more important in a business?

Profit & Loss Management?

OR

Balance Sheet Management?

ROCE



Profitability Management

Activity or Balance Sheet Efficiency

For Example:

10

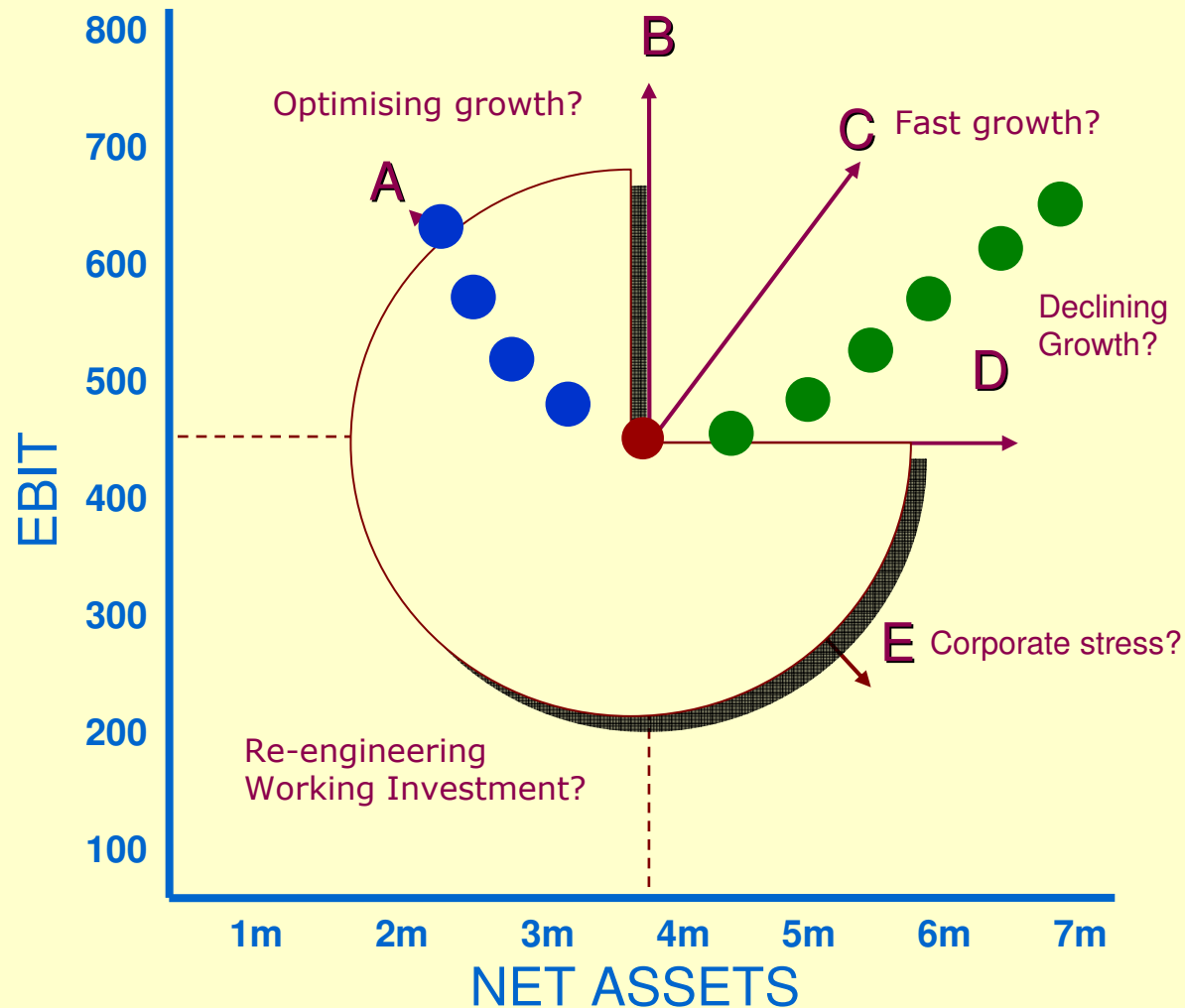
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30% ROCE

Optimizing Growth



KEY POINTS

- ⌘ Clear understanding of what the business is doing
- ⌘ Which quadrant is the business in now, **where** is it heading and **why**?
- ⌘ What are the **opportunities** for the business?
- ⌘ What will the **outcomes** be for the business
- ⌘ There are options and the answer is "it depends"
- ⌘ This provides a powerful partnership tool

Life Cycle Stages

- **Seed**
- **Start-up**
- **Expansion**
- **Pre-Initial Public Offering**

Finance

- Need**
 - How much?
 - For what – Fixed Assets
 - Working Capital
- Security**
 - What?
- Structure**
 - Equity or Debt
- Control**
 - How much – willing to give up

Equity Finance

A Prospective Investor will look at:

Management

Opportunities

Valuation

Exit Strategy

ROI

Is your Company a **MOVER?**

Debt

Bank Measures:

- **Interest Cover**
- **Debt Service Coverage**
- **Leverage**
- **Debt Payback**

Short term Funding

Purpose

Short term finance

**Debtors, stock, raw materials
and other general working
capital requirements**

Long term finance

**Business acquisitions, fixed assets,
property, motor vehicles**

Method

**Overdrafts
Creditors
Factoring**

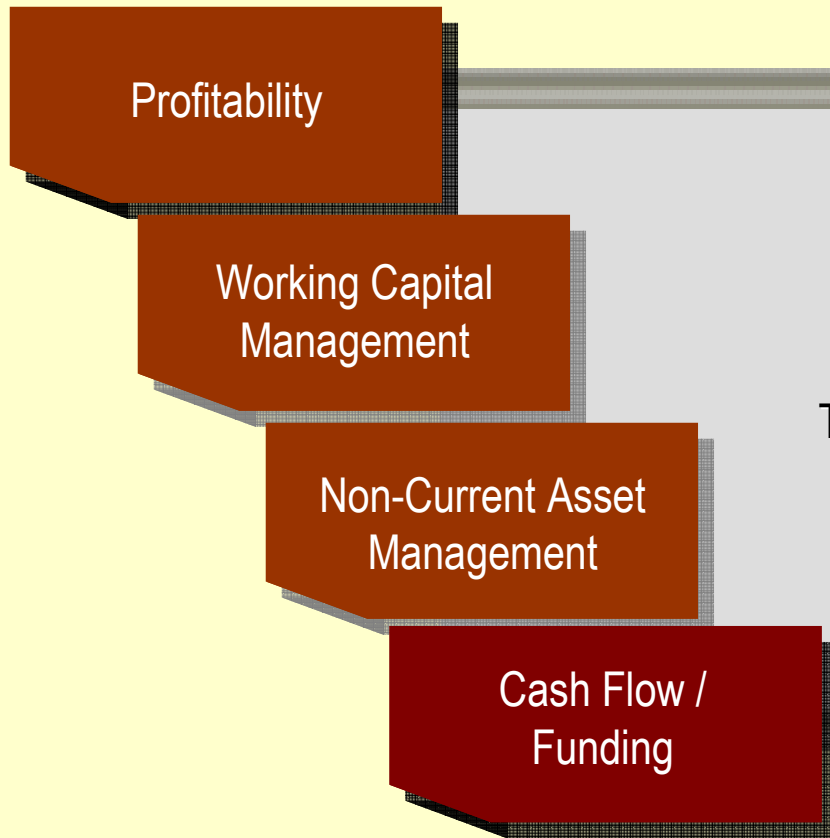
**Loans (medium/long)
Hire purchase, leases
Equity/venture capital**

	<u>Debt</u>	<u>Equity</u>
Cost	Low	High
Risk	High	Low
Control/Dilution	Low	High

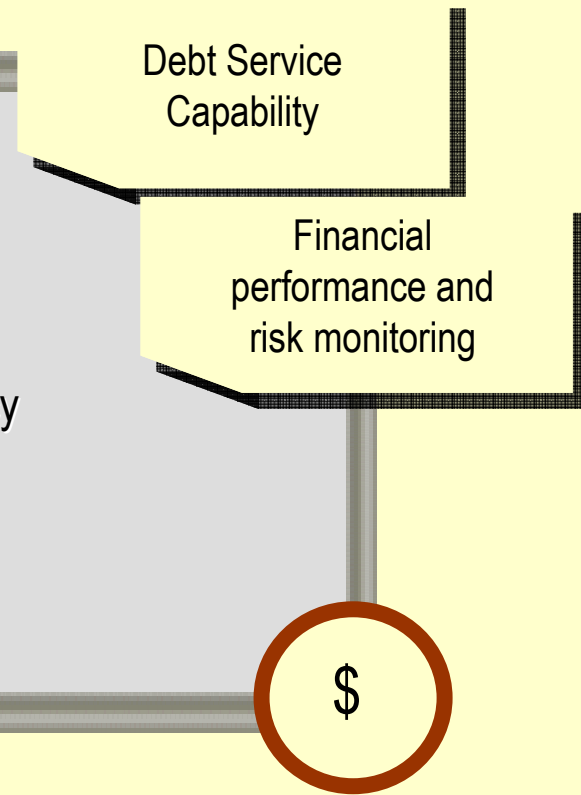
Financial Health Check

The Health Check

Business Perspective

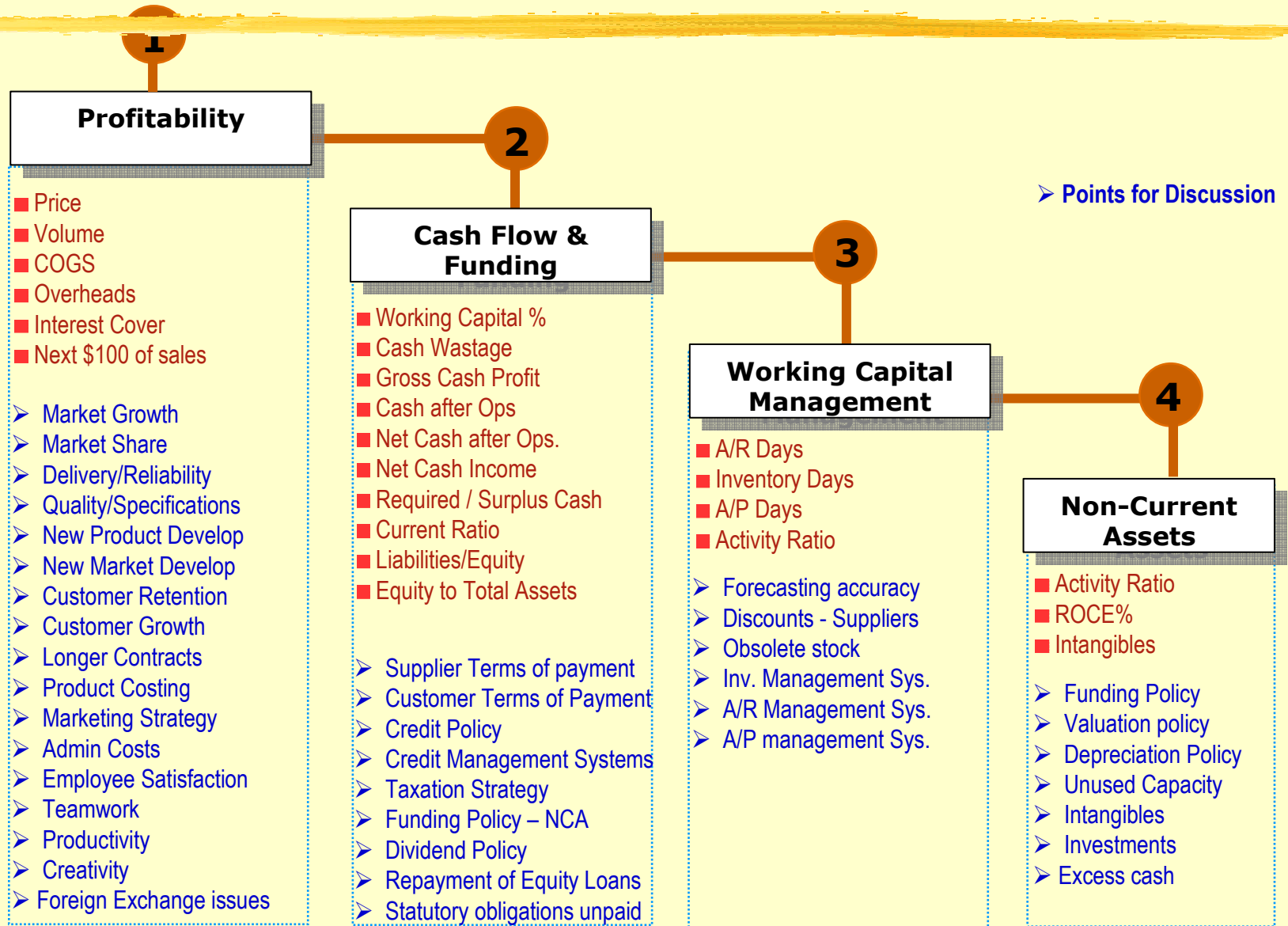


Bank Perspective



Transparency

Detailed Health Check



Best Financial Techniques

Attributes of Good Financial Management

- **What If**
- **Goal Seeking**
- **Graphics**
- **Variance Reporting**
- **Cash Wastage**
- **Cash Flow Analysis**
- **Board Report (Financial)**

Summary

Four Elements of the Health Check

- **Profitability**
- **Working Capital**
- **Non Current Asset Management**
- **Cash Flow & Funding**