GROWING TOGETHER IN THE AMERICAS

DIGITAL TRANSFORMATION CHALLENGE FOR INTERNATIONALIZATION

BID
Banco Interamericano de Desarrollo

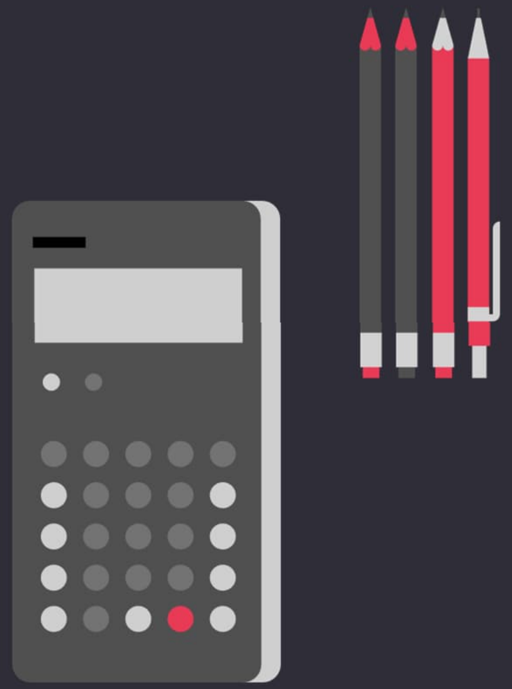
Today we start with a new topic:
Finance

Objective: To develop concepts to create multiple business opportunities among small and medium-sized enterprises to access sources of finance.

Classes:

1. **Leveling:** Financial strategy — We are here - **Tuesday, 14 June**

2. **Innovation:** How to prepare a pitch and model for a business roundtable



Agenda

1. Important announcements
2. Business plan
3. Financial strategy
4. Q&A

Important announcements

mujeres connectamericas

‘Divergent and Convergent Experimental Method' individual challenge submission date is approaching - June 24th

Our next Inspiration Session is this Thursday 16 June, so don't miss it!

If you have any problems, please contact us at: creciendojuntas@connectamericas.com

Remember that in ConnectAmericas Academy in the section Topic 5, class 1 this material is available in English, Spanish and Portuguese.

This is a learning environment, we come to learn, to make mistakes, to reflect, to change our minds, and it's all good!

Mateo De Los Ríos

Executive Director – Business Consulting

Mateo is an Economist and Business Administrator with a Master in Applied Finance.

He has more than 15 years of experience in consulting, project structuring, public-private partnerships, investment banking and financial risks.

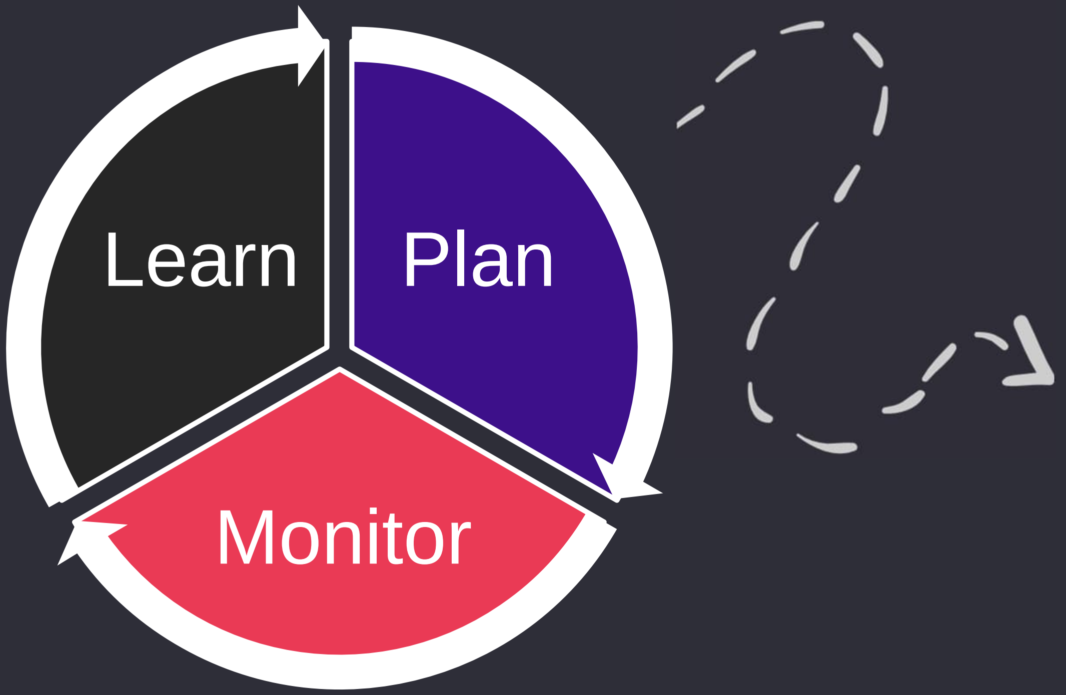
He has held senior management positions in the private and public sector.

He is characterised by his commercial skills, emphasis on detail and entrepreneurial spirit.

Business plan

“A business plan is a document that describes the vision you have for your business, what its activities will consist of, what its objectives are and the strategies you will implement to achieve them.” - Microsoft 365 Team

Good business planning is a three-step process:



Plan, review your progress and learn from experience so that necessary adjustments can be made to the business plan.

Business plan

¿Why design it?

Obtaining financing

+

Take control

+

Setting priorities

=

Success

Steps to design a business plan

1. VISION

2. OBJECTIVES

3. VALUE PROPOSITION

4. MARKET ANALYSIS

5. CUSTOMERS

6. MARKETING

7.FINANCIAL STRATEGY

Time: 10 minutes

Financial strategy

Go to www.menti.com, and enter the following access code: 2317 4358

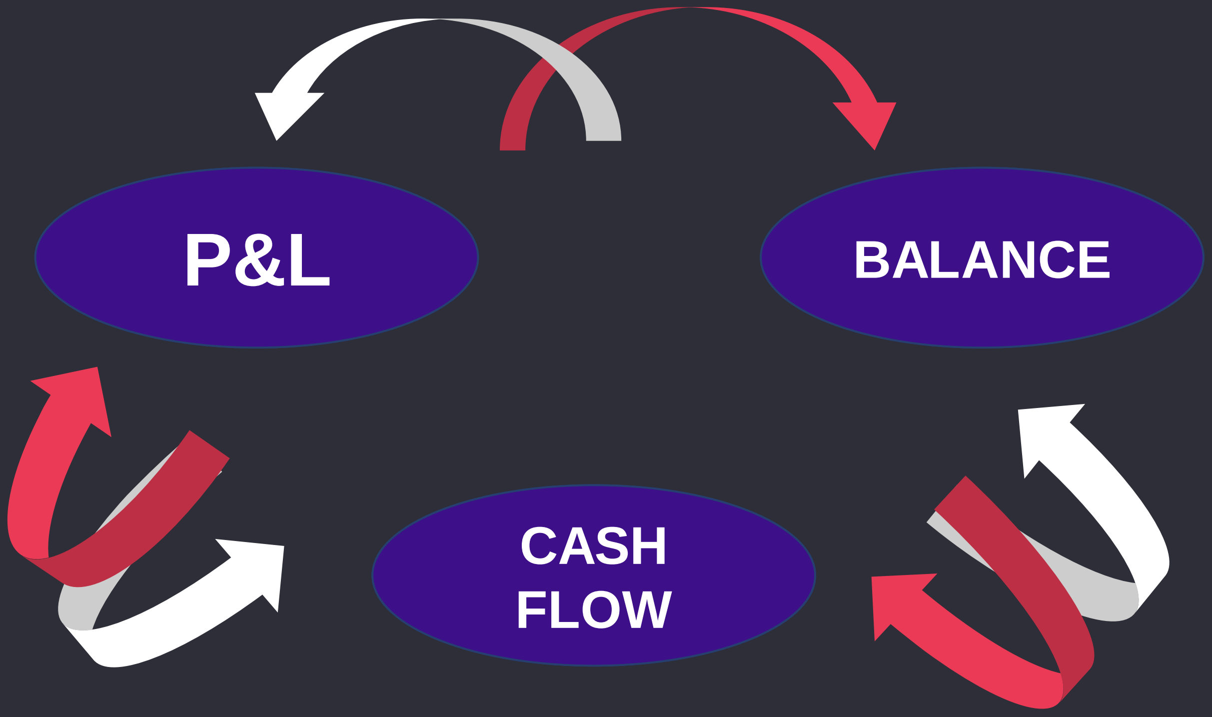
Or scan this **QR code**

And answer the proposed questions

Financial strategy

This refers to the financial instruments that the company must use to finance itself, in the short and long term.

For the design of the **financial strategy**, the first thing we do is to carry out an **economic and financial analysis**, to determine the financial needs of the business and to know how it evolves, for this we need to project the **financial statements**.



Balance sheet

CURRENT ASSETS:
Cash
Short-term debtors
Inventories
Advances and prepayments

FIXED ASSETS:
Property, Plant and Equipment
Investments

ASSETS

LIABILITIES

STOCKHOLDERS' EQUITY

LONG TERM LIABILITIES:
Financial Obligations

CURRENT LIABILITIES:
Suppliers
Advance Receipts

STOCKHOLDERS' EQUITY:
Contributed Capital
Retained earnings
Profit for the year
Revaluations

P&L or income statement

- It shows in detail all revenues, expenses, as well as the profit or loss generated in a company over a given period of time (e.g. a quarter or a year).
- It is the best tool to know if your business is profitable.

(+) Net revenue (-) COGS
(=) Gross income
(-) General and administrative expenses (-) Selling expenses
(=) EBITDA (Operational income)
(-) Depreciation (-) Amortization
(=) EBIT
(+) Other income (-) Other expenses
(=) Income before taxes
(-) Income taxes
(=) Net income

Cashflow

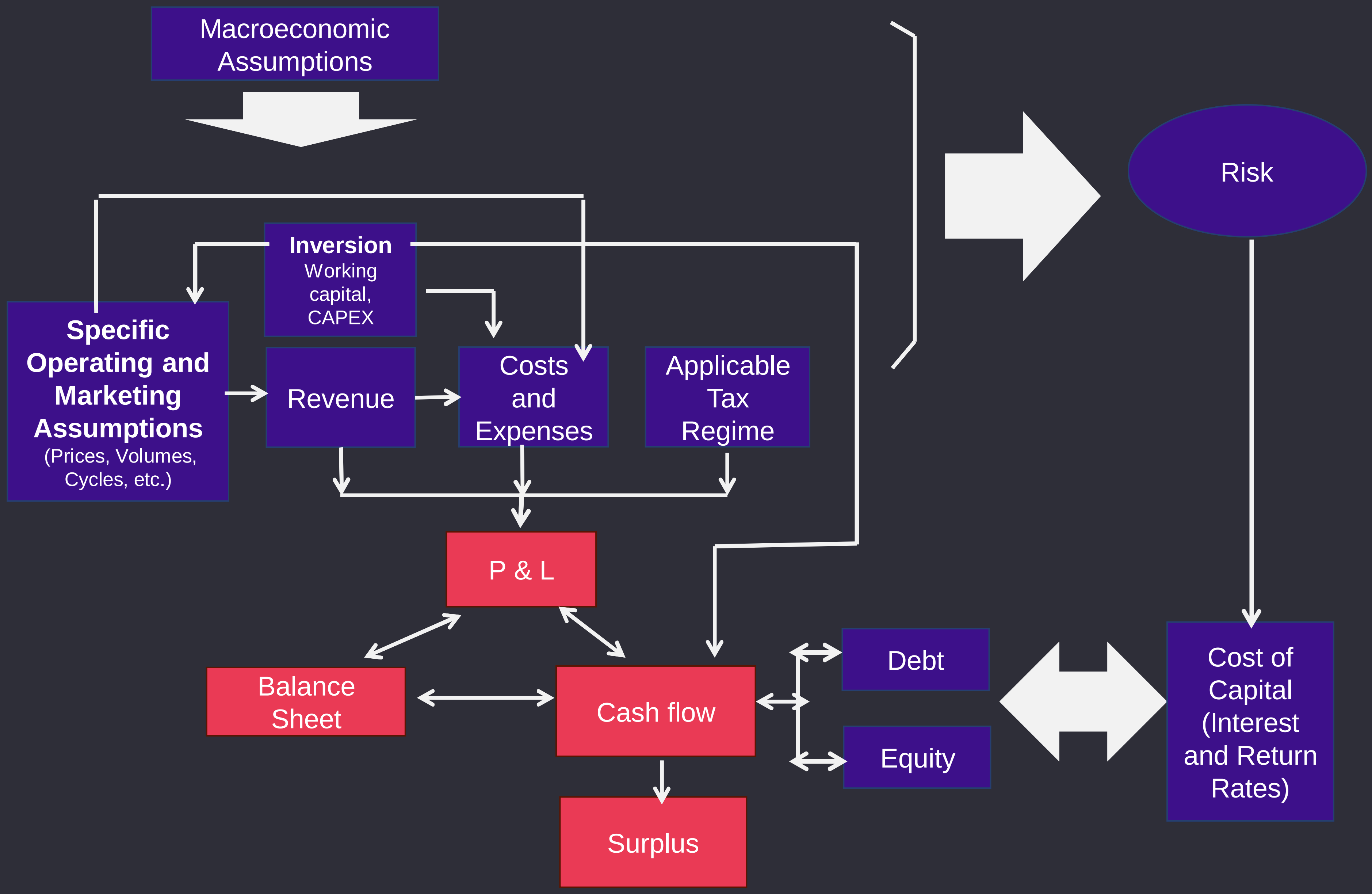
- Reflects cash movements during the period under analysis.
- It can be calculated by the indirect method or by the direct method.
- In the financial statements it is calculated by the indirect method.
- The direct cash flow is used to construct the projected cash flow and calculate the value of the company or project.

Indirect v. direct method

CASH FLOW	
(+) Net income	16
(+) Depreciations	2
(+) Amortizations	1
(=) Internal generation (A)	19
(+/-) Change in accounts receivables	-3
(+/-) Change in inventories	-2
(+/-) Change in suppliers	4
(+/-) Change in accounts payable	-1
(=) Subtotal operations (B)	-2
(+/-) Change in fixed assets	-5
(+/-) Change in investments	1
(=) Subtotal investments (C)	-4
(+/-) Change in short-term debt	8
(+/-) Change in long-term debt	0
(=) Subtotal financing (D)	8
Change (A+B+C+D)	21
Cash at the beginning of the period	5
Cash flow	26

CASH FLOW	
(+) Sales	100
(-) COGS	-57
(=) Gross income	43
(-) operational expenses	-20
(=) Internal generation (A)	23
(+/-) Change in accounts receivables	-3
(+/-) Change in inventories	-2
(+/-) Change in suppliers	4
(+/-) Change in accounts payable	-1
(+/-) Taxes paid	-2
(=) Subtotal operations (B)	-4
(+/-) Change in fixed assets	-5
(+/-) Change in investments	1
(=) Subtotal investments (C)	-4
(+/-) Change in short-term debt	8
(+/-) Change in long-term debt	0
(+/-) Other income/expenses	-2
(=) Subtotal financing (D)	6
Change (A+B+C+D)	21
Cash at the beginning of the period	5
Cash flow	26

Projections and budgeting



Free Cash Flow (FCF)

Concept:

- Modern finance theory has embraced the Free Cash Flow (FCF) approach as a methodology for **value creation analysis and valuation**.

The FCF method is based on the following premise:

"Any company operates on a cash basis and not on a profit basis".

Justification: debts, payroll and dividends **are paid out of cash and not out of profits.**

- The focus has shifted from the Balance Sheet and Income Statement to the Operating Cash Flow. Hence the importance of the FCF as a methodology.

Methodologies that require projections

Present Value of Earnings and Present Value of Dividend Flow:

- Determined by the future earnings of the company, brought to **present value at an appropriate discount rate.**
- They involve the simulation of the company under different scenarios of possible occurrence and at various future periods, while considering a **residual value** to recognise the fact that the company will last longer than the projected horizon.

Limitations:

1

Finding an appropriate dividend means assuming a dividend policy.

2

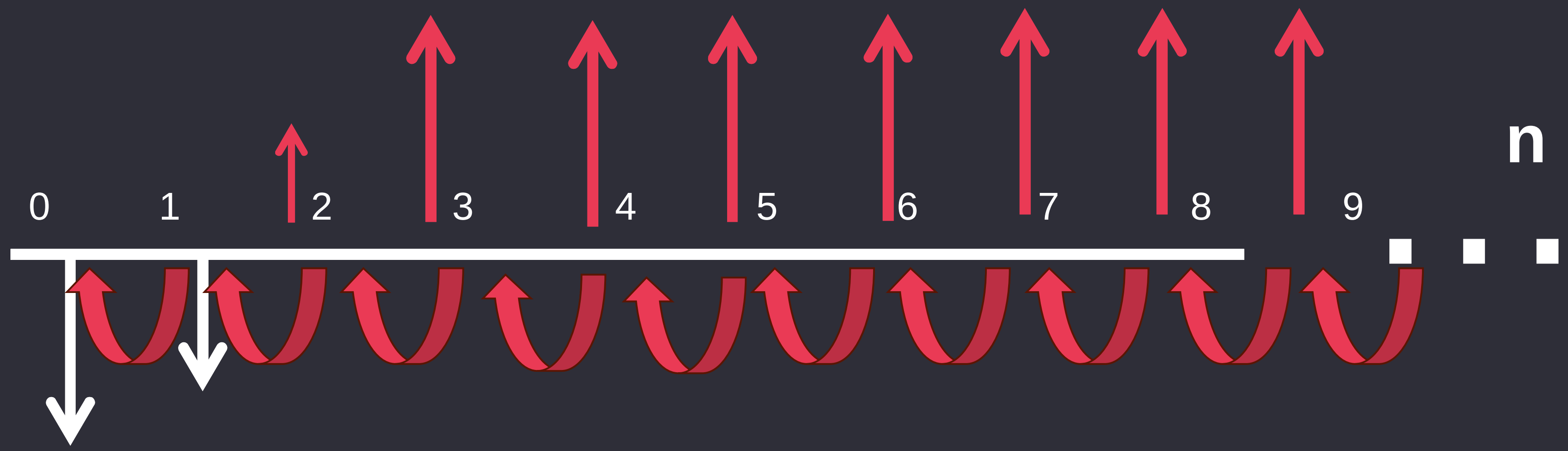
Different accounting methods and criteria affect profit levels.

3

It is used in the valuation of financial institutions because they face regulations to act on the FCF.

Discounting of Flows

- Location of Flows over time
- Current dollars
- Location of the calculated NPV



Discount rates Cost of capital

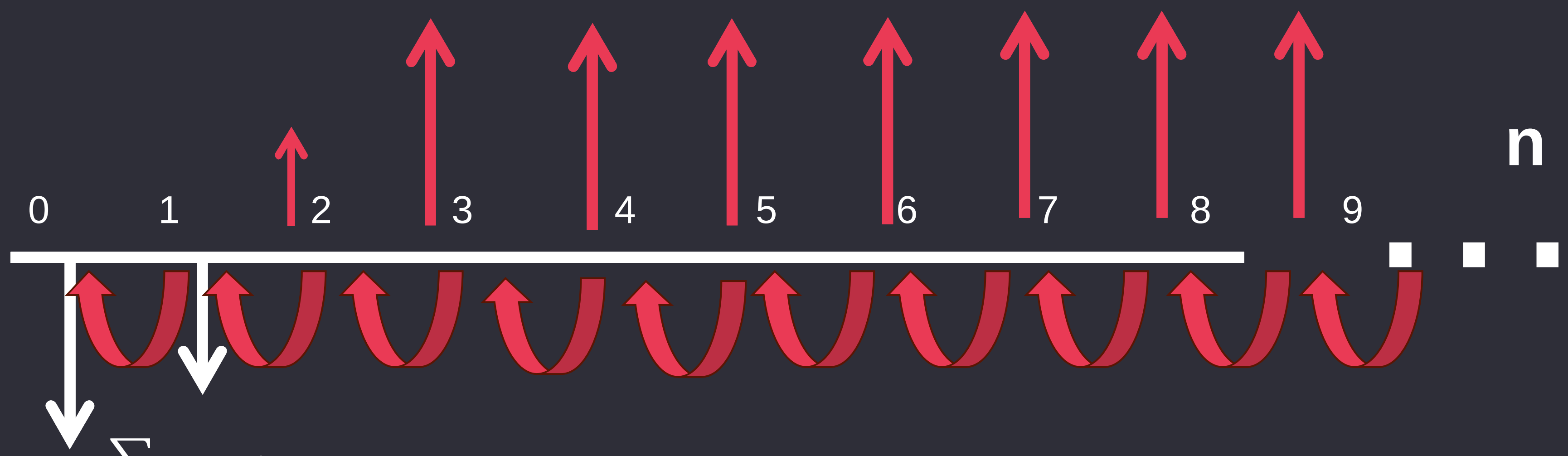
- The discount rate reflects the risk of the project. The higher the risk, the higher the rate.
- Since the free cash flow is the product of the operation of the product, an average between the financial resources and the shareholders' resources must be used.
- This average is the Weighted Average Cost of Capital.

(WACC: Weigthed Average Capital Cost)

Financial Resources Cost < Cost of Equity Capital

Financial Resources Cost	Cost of Equity Capital
Market rate: has associated with it the implicit risk perceived by financial creditors with respect to free cash flow.	Rate reflecting the risk associated with obtaining a cash flow available for distribution to shareholders.

NPV and IRR



$$\sum T = 0 \uparrow n \quad Flux$$

NPV

Net present value

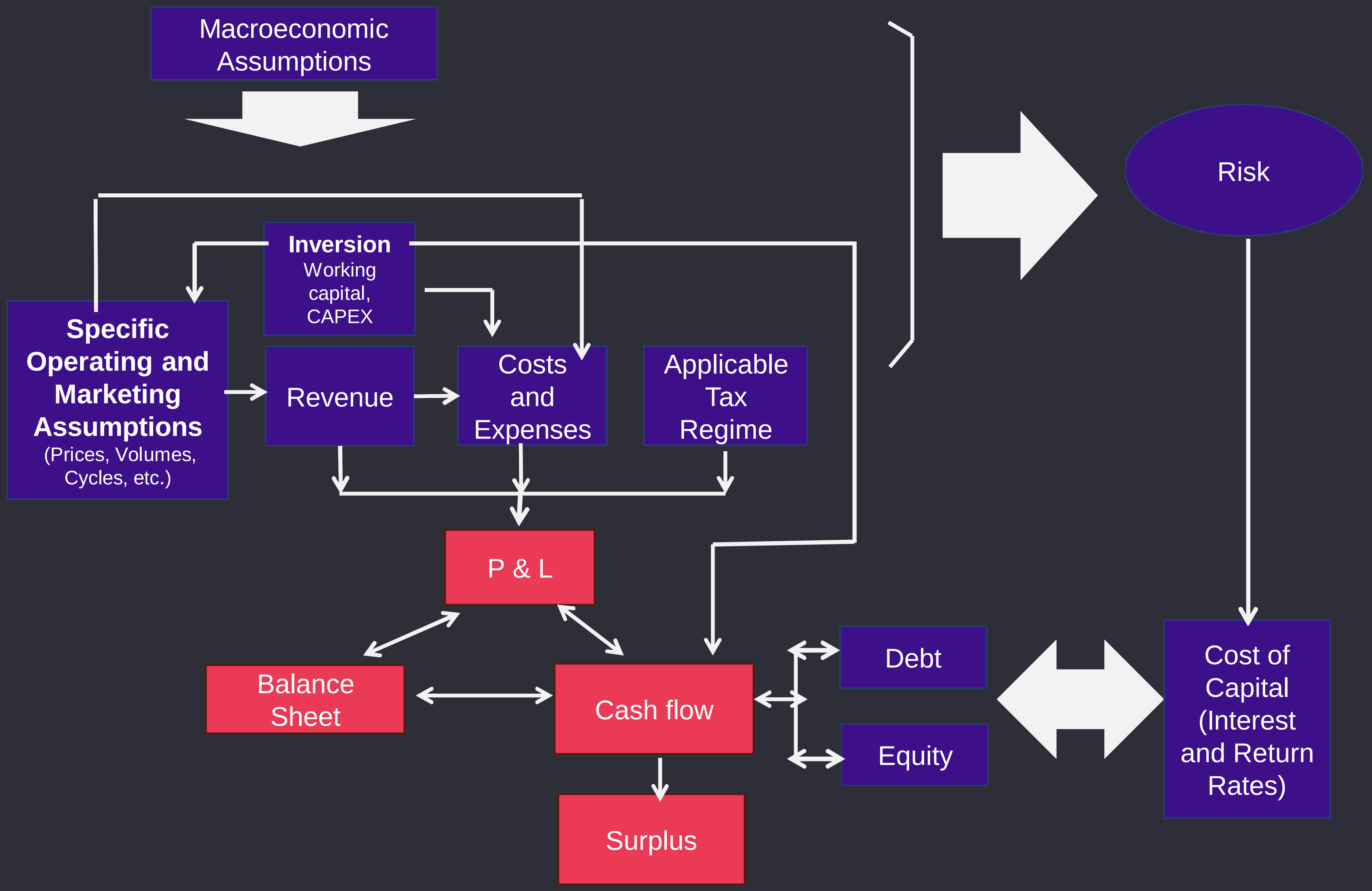
$$(1 + DR)^{\frac{t}{n}}$$

Opportunity Cost

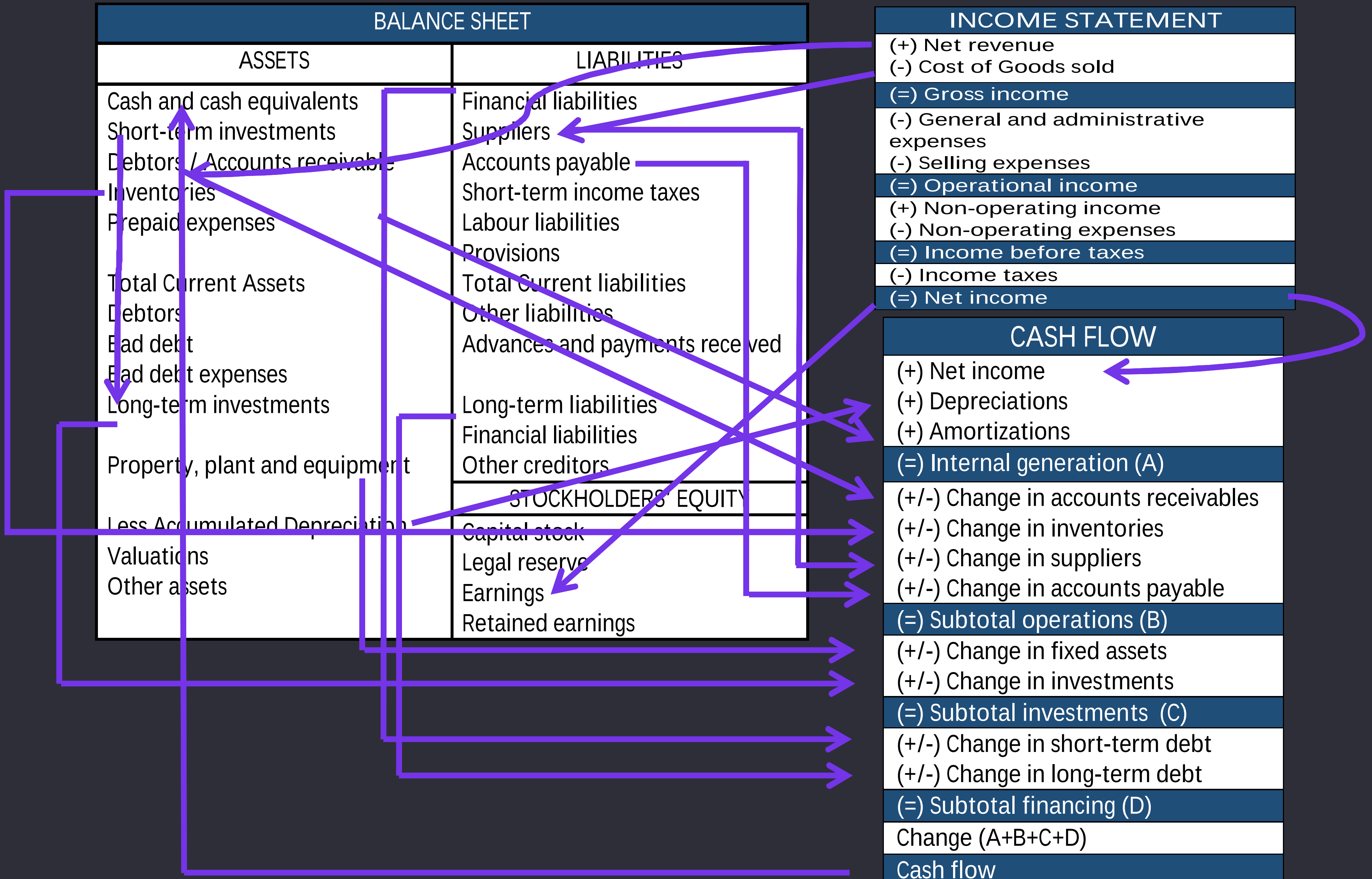
IRR= DR tal que NPV = 0

Internal Rate of Return

Financial Modelling



Interaction between the three financial statements



Let’s get to work!

Business financing

Equity financing: Invested funds that remain in the company. In most SMEs, equity comes from the owner or family savings and is often the only source of funds.

Debt financing: Borrowed funds that are repaid. The cost of debt financing is the interest paid to the lender.

Working capital: Money used to pay for the day-to-day operations of the business that are incurred in the short term, such as inventory and overheads.

Fixed asset financing: Used to purchase equipment, vehicles and real estate.

Common mistakes in financial strategies

- Living on a day to day basis
- Not choosing the right financial manager
- Financing long-term debts with short-term debts
- Failing to finance properly
- Accepting long payment terms
- Assuming and not analysing


Q & A

Thanks!

Please click on the link below and give us your feedback on today's lesson:

https://forms.office.com/r/pkUSrPtbuy

Your opinion is very important to us.