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Corporate Finance in a Day

Presented by:
Daniel Feiman, MBA, CMC®, Visiting Professor
Agenda

- Debt vs. Equity funding
- Basic Financial Analysis
- Legal Entities
- SBA Loan Programs
- Seven "Cs" of Credit
- 2X4 story
- Finance Success/Failure Stories
Debt vs. Equity funding

• Debt is borrowed money
  – Must be repaid
  – Carries a cost (interest)
  – Interest is tax deductible

• 3 types of debt capital
  – Loans
    □ RLOC
    □ Term
    □ Secured
    □ Unsecured
  – Bonds
    □ Debentures (unsecured)
    □ Secured (collateralized)
    □ Annuity
    □ Zero coupon
  – Leases
    □ Operating
    □ Capital (Finance)
Equity capital

• Ownership
  – Not repaid
  – Cash cost is dividends
  – Dividends are *after* tax

• Stock
  – Preferred stock
  – Common stock
  – Capital stock
  – Treasury stock
Question?

• Which costs more:
  – Debt or Equity?
  – Why?
Basic Financial Analysis

• Assessment of the firm’s past, present and future financial conditions
• Done to find firm’s financial strengths and weaknesses
• Primary Tools:
  – Financial Statements
  – Comparison of financial ratios to past, industry, sector and all firms
<table>
<thead>
<tr>
<th>Financial Metric</th>
<th>Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Present Value</td>
<td>NPV</td>
</tr>
<tr>
<td>Internal Rate of Return</td>
<td>IRR</td>
</tr>
<tr>
<td>Modified Internal Rate of Return</td>
<td>MIRR</td>
</tr>
<tr>
<td>Profitability Index</td>
<td>PI</td>
</tr>
<tr>
<td>Economic Value Added</td>
<td>EVA</td>
</tr>
<tr>
<td>Residual Income</td>
<td>RI</td>
</tr>
<tr>
<td>Net Operating Profit After Tax</td>
<td>NOPAT</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>ROE</td>
</tr>
<tr>
<td>Return On Assets</td>
<td>ROA</td>
</tr>
<tr>
<td>Return On Investment</td>
<td>ROI</td>
</tr>
</tbody>
</table>
Basic Financial Analysis

• Break even
• Variance analysis
• Growth rates
  – Internal Growth Rate (IGR)
  – Sustainable Growth Rate (SGR)
• Ratios
  – Liquidity - the ability of the firm to pay your short-term obligations on time
  – Turnover - related to working capital, the operating & cash cycles
  – Profitability - how profitable are you compared to goals
  – Leverage - Long-term debt to equity financing the firm
  – Market - value as established by the market
Liquidity ratios

- Current
- Quick
- Cash
- Working capital turnover
- Inventory to working capital
- Current debt to inventory
- Current debt to equity
Turnover ratios

- Accounts receivable turnover
- Average collection period
- Accounts payable turnover
- Inventory turnover
- Days sales in inventory
- Net working capital turnover
- Net worth turnover
- Fixed assets turnover
- Total asset turnover
- Capital intensity ratio
Profitability ratios

- Gross profit =
- Operating profit margin =
- Net profit margin =
- Return on total assets =
- Return on equity =
- Return on working capital
- % Operating return on net worth
- % Operating return on total assets
Leverage ratios

- Total Debt Ratio
- Leverage ratio
- Debt to Equity
- Equity Multiplier
- Long-term debt to net worth
- Fixed assets to equity
- Equity multiplier
- Long-term debt to working capital
Market ratios

- Earnings per share (EPS) =
- Price to earnings (PE) =
- Dividend Yield =
- Market to Book =
# Variance analysis

## Variance analysis report

<table>
<thead>
<tr>
<th>Item</th>
<th>This period</th>
<th>Difference</th>
<th>Cumulative</th>
<th>Cause</th>
<th>What is to be done</th>
<th>By whom</th>
<th>By when</th>
<th>Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Actual</td>
<td>$ % Units</td>
<td>Budget</td>
<td>Actual</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This period Difference Cumulative Cum diff What is to be done By whom By when Metric
Legal Entities

- Sole proprietorship
- Partnership
  - General
  - Limited
- Corporation
  - “S”
  - “C”
- Limited Liability Company (LLC)
- Limited Liability Partnership (LLP)
SBA Loan Programs

- 7(a) Loan Program
- Microloan Program
- CDC/504 Loan Program
Seven "Cs" of Credit, etc.

1. Cash flow
2. Credit
3. Collateral
4. Capacity
5. Character
6. Common sense
7. Compassion
2X4 story
## Finance Success/Failure Stories

### Successes
- Law firm
  - RLOC
  - Term
- Precision machine shop
  - Cash flow
  - Cell
- Insurance broker
  - Financial modeling

### Failures
- Tea distributor
  - Selling yourself broke
- Television station
  - No plan
- Online insurance
  - No cash flow
What have you learned today?

• A review
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Consultant, Trainer, Author, Publisher, Reviewer

Daniel Feiman, MBA, CMC®, Visiting Professor is the Founder & Managing Director of Build It Backwards, a consulting & training firm based in Redondo Beach, CA. He turns Roadblocks into Roadmaps® by teaching companies how to Assess, Achieve & Accelerate exceptional success; with measurable results in 90 days. His core competencies include: Strategy; Finance & Process. Mr. Feiman is an internationally recognized seminar facilitator; working with firms such as Apple, ADNOC (United Arab Emirates), ARAMCO (Saudi Arabia), California Institute of International Business & Economics, Credit Suisse, Hilton Hotels International, Institute for Supply Management (ISM), Mattel, PEMEX (México), Promigas (Colombia) Reliance (India), TRW, University of Manchester (UK), & others.

He is adjunct faculty at the University of California, Los Angeles (UCLA) Extension Department (since 1990) has taught at the University of Manchester (UK) & is the Visiting Professor at the Business School of the University of Huddersfield (UK).

He has consulted with firms in many industries including, manufacturing, distribution, financial services, oil & gas, education, healthcare, consumer products, legal, & hospitality. His diverse knowledge-base & world-wide contacts is leveraged to assist his clients in gaining advantages not available through other resources. (Please see www.BuildItBackwards.com for case studies and testimonials).

Mr. Feiman is a reviewer for the New York Journal of books (http://www.nyjournalofbooks.com/).

Build It Backwards Publishing (www.BuildItBackwards.com/Publishing) publishes business books with recognized expert authors targeting those who have decided to learn what they really need to know in the simplest straightforward way; without jargon. Mr. Feiman is the author of numerous articles and whitepapers, is a contributing author to several books as well as co-author of others. The next book in the series, (THE Book on…Business from A to Z: the 260 Most Important Answers You Need to Know) will be published this fall. He has been interviewed by television, radio & print resources.

Mr. Feiman has over 18 years’ experience in all facets of both the traditional & nontraditional commercial finance industry. These include lending, marketing, leasing, management and problem loan workouts.