DOCENTI GLOBAL BUSINESS SCHOOL

BODHISASTRA UNIVERSITY

Seminar Presentation

Topic: AN OVERVIEW OF ADVANCED FINANCIAL MANAGEMENT

A GROUP 2 PRESENTATION:

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Outline

01 Introduction: what is advanced Financial Management?

02 Elements of Advanced Financial Management

03 Importance of Advanced Financial Management

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Introduction

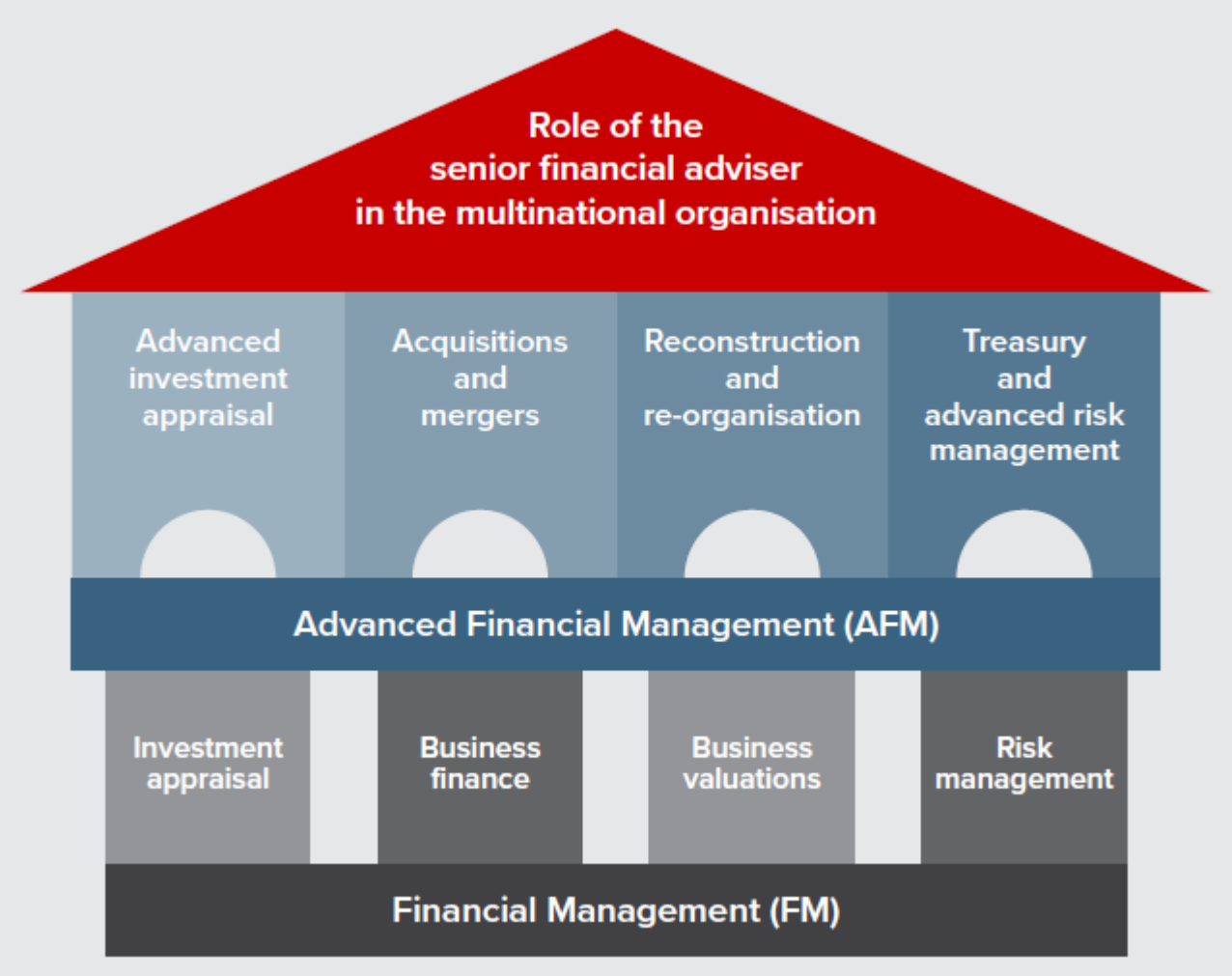
Introduction to Financial Management

- **Financial management** – it might sound intimidating, but it's essentially the art of planning, controlling, and using your money wisely to attain your financial goals. Financial management gives you the tools to make sustainable growth with your money.

- According to the Financial Experts Guthman and Dougal, 'Financial management is the activity concerned with **planning**, **raising**, **controlling** and **administering** of funds used in the business.'

- The sound knowledge of AFM prepares one to take the role of a senior Financial Executive or Advisor and be positioned to advise management and / or clients on complex strategic financial management issues facing an organisation.

Advanced Financial Management at a glance



This depicts the role of the senior financial adviser in a multinational organisation & the core areas of AFM…

Elements of Financial Management

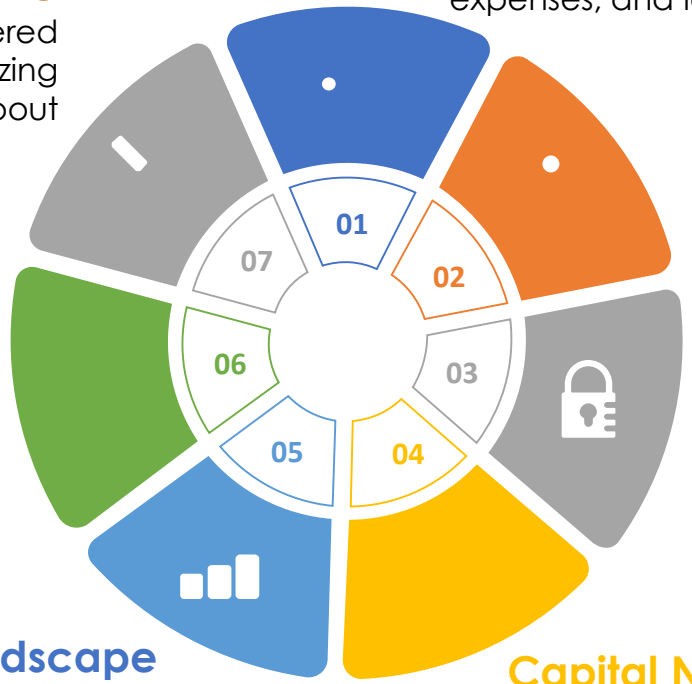
Elements of Financial Management

Financial Planning

It involves creating a budget, forecasting future income and expenses, and identifying potential risks.

Financial Decision Making

This is where you leverage the information gathered through planning and controlling. It involves analyzing investment opportunities, making sound choices about debt and equity, and allocating resources effectively.



Goal Setting

Do you have well-established, SMART business goals that define your success and guide resource allocation?

Financial Control

Think of this as the monitoring system. It ensures your spending aligns with your plan. This involves tracking expenses, managing cash flow, and implementing internal controls to minimize misuse of funds.

Long-Term Vision

What is your long-term brand strategy for the next 5, 10, or even 20 years? Financial plans need to consider your brand's future growth and evolution.

Regulatory Landscape

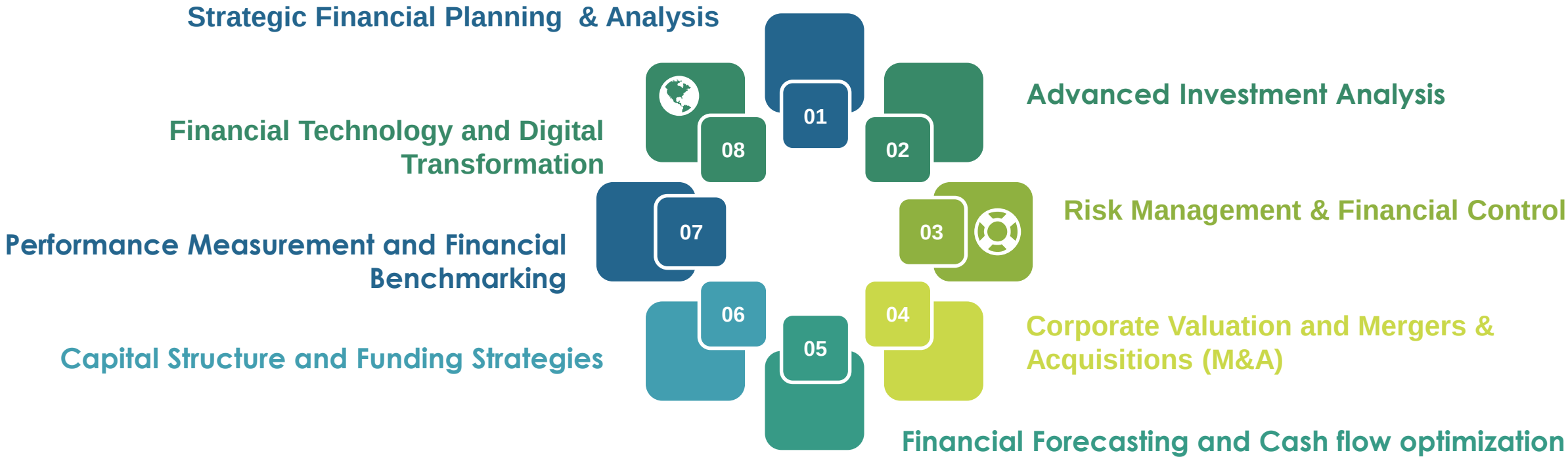
Are you familiar with the key policies and regulations (industry-specific, tax laws, labor laws)? These can impact your financial decisions and overall business operations.

Capital Needs

How much capital does your organization require to operate and sustain itself in the long run? This includes factoring in daily expenses, potential growth initiatives, and necessary reserves.

Key Elements of AFM

Advanced Financial Management (AFM) builds upon the foundational principles of financial management and delves into more complex and strategic decision-making. Its key elements encompass:



1. Strategic Financial Planning and Analysis

- Developing long-term financial goals and strategies aligned with the overall corporate objectives.
- Advanced budgeting and forecasting techniques, including scenario planning and sensitivity analysis.
- In-depth analysis of financial statements to assess performance, identify trends, and make strategic recommendations.
- Evaluating key performance indicators (KPIs) to monitor financial health and progress towards strategic goals

2. Advanced Investment Analysis

- Rigorous evaluation of complex investment opportunities, considering risk-return trade-offs.
- Application of sophisticated capital budgeting techniques, including real options analysis.
- Portfolio management strategies for corporations, including asset allocation and diversification.
- Analysis of financial markets, instruments (bonds, equities, derivatives), and economic indicators to inform investment decisions.

3. Risk Management and Financial Controls

Identification, assessment, and measurement of various financial risks (market, credit, liquidity, operational, currency, interest rate).

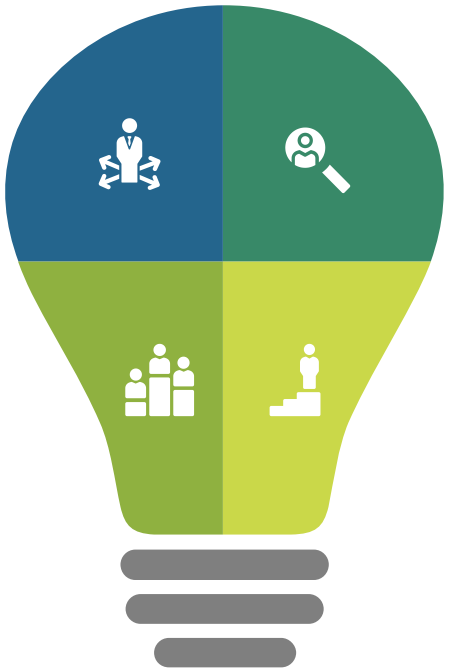
Development and implementation of comprehensive risk management strategies and policies, including hedging techniques.

Establishing and monitoring robust internal financial controls to safeguard assets and prevent fraud.

Ensuring compliance with financial regulations and reporting standards.

4. Corporate Valuation and Mergers & Acquisitions (M&A)

Use case of: Bankly by C-One Ventures 2025



- Applying various valuation methodologies (discounted cash flow, relative valuation, asset-based valuation) to determine the intrinsic value of a company.
- Analyzing the strategic rationale, financial implications, and potential synergies of M&A transactions.
- Performing due diligence to assess the target company's financial health and identify potential risks.
- Structuring and financing M&A deals, and managing post-merger integration.

5. Financial Forecasting and Cash Flow Optimization

i. Employing advanced forecasting techniques to predict future financial performance and cash flows under various scenarios.

ii. Managing working capital efficiently to optimize liquidity and operational efficiency.

iii. Developing strategies for cost reduction and revenue enhancement to improve cash flow.

iv. Understanding the key drivers of cash flow and implementing measures to optimize them.

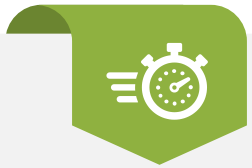
6. Capital Structure and Funding Strategies

- Determining the optimal mix of debt and equity financing to minimize the cost of capital and maximize firm value.
- Analyzing various sources of funding, including debt financing (bonds, loans), equity financing (stocks), and hybrid instruments.
- Evaluating the impact of capital structure decisions on financial risk and shareholder returns.
- Accessing and managing relationships with different capital providers (banks, investors, etc.).

7. Performance Measurement & Financial Benchmarking

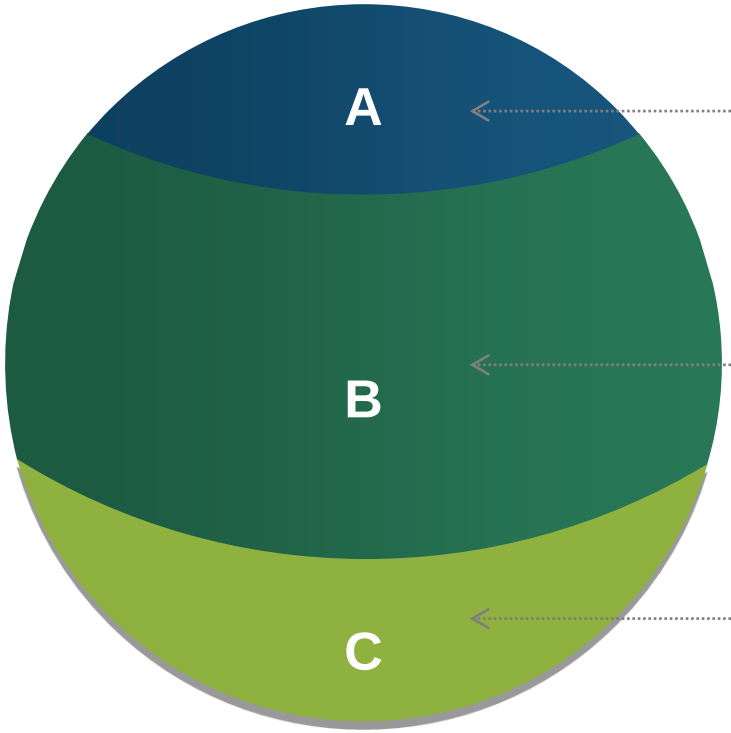
Utilizing advanced performance metrics and ratios to evaluate financial health, profitability, efficiency, and liquidity.

Benchmarking financial performance against industry peers and best practices to identify areas for improvement.



Developing and using financial dashboards and reporting systems for real-time performance monitoring.

8. Financial Technology & Digital Transformation



Understanding the role of financial technology (FinTech) in modern finance.

Leveraging data analytics, artificial intelligence (AI), and blockchain technology for financial decision-making and process automation.

Managing cybersecurity risks in financial operations.

Importance of AFM

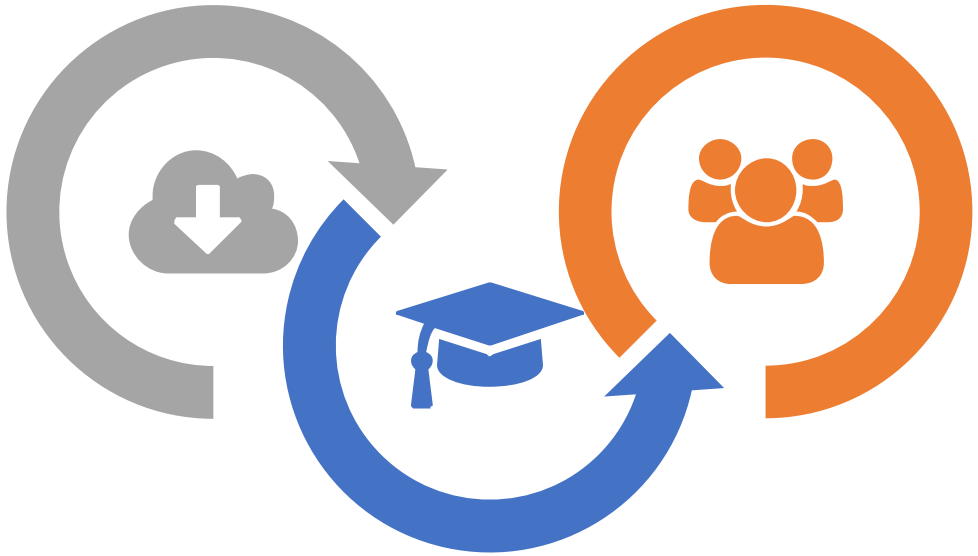
Importance of Advanced Financial Management

Advanced Financial Management is crucial for organizations operating in complex and dynamic environments. It provides the sophisticated knowledge and skills necessary to make strategic financial decisions that drive growth, manage risk, optimize resource allocation, and ultimately maximize long-term shareholder value and organizational success.

1. Enhance Strategic Decision-Making

Long term Perspective

AFM equips managers with the tools and techniques to evaluate long-term investment opportunities, considering factors like risk, uncertainty, and strategic fit.



Informed Choices

By analyzing complex financial data and employing sophisticated models, AFM enables businesses to make well-informed decisions about mergers, acquisitions, divestitures, and international expansions.

Value Creation

The ultimate goal is to make strategic choices that maximize shareholder wealth and enhance the overall value of the organization.

2. Optimize Capital Structure

Cost Efficiency

AFM helps determine the ideal mix of debt and equity financing to minimize the cost of capital, thereby increasing profitability.

Risk Management

Understanding the implications of different capital structures on financial risk allows companies to make choices that balance returns with acceptable levels of risk.

Flexibility

AFM considers the need for financial flexibility to adapt to changing market conditions and pursue future opportunities.

3. Improve Risk Management

Identification & Quantification

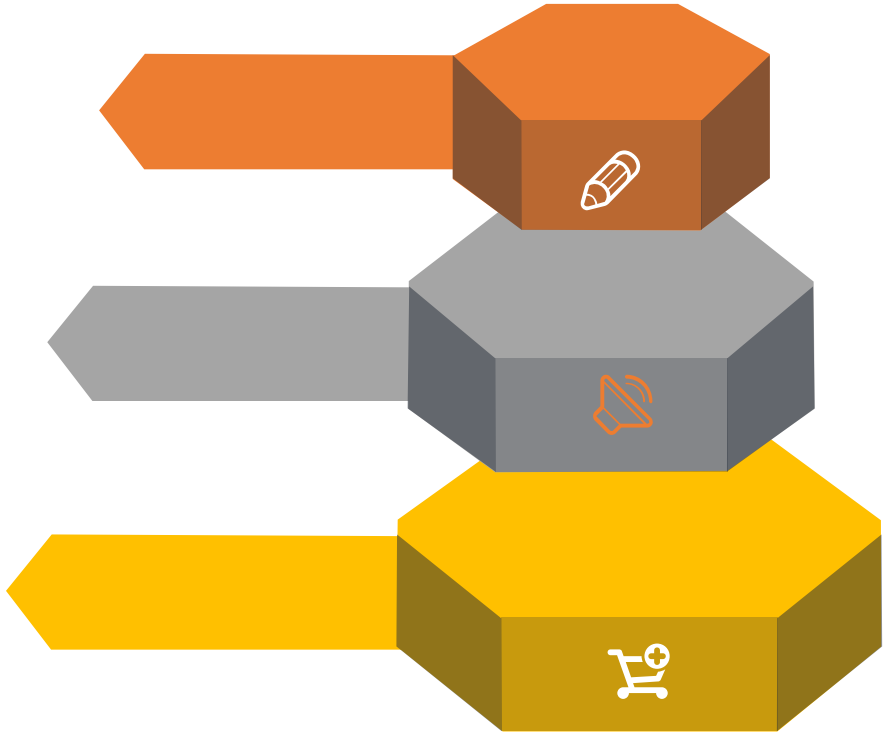
AFM provides frameworks for identifying, assessing, and quantifying various financial risks, including market risk, credit risk, interest rate risk, and currency risk.

Hedging Strategies

It equips managers with the knowledge of derivative instruments and hedging techniques to mitigate potential losses from these risks.

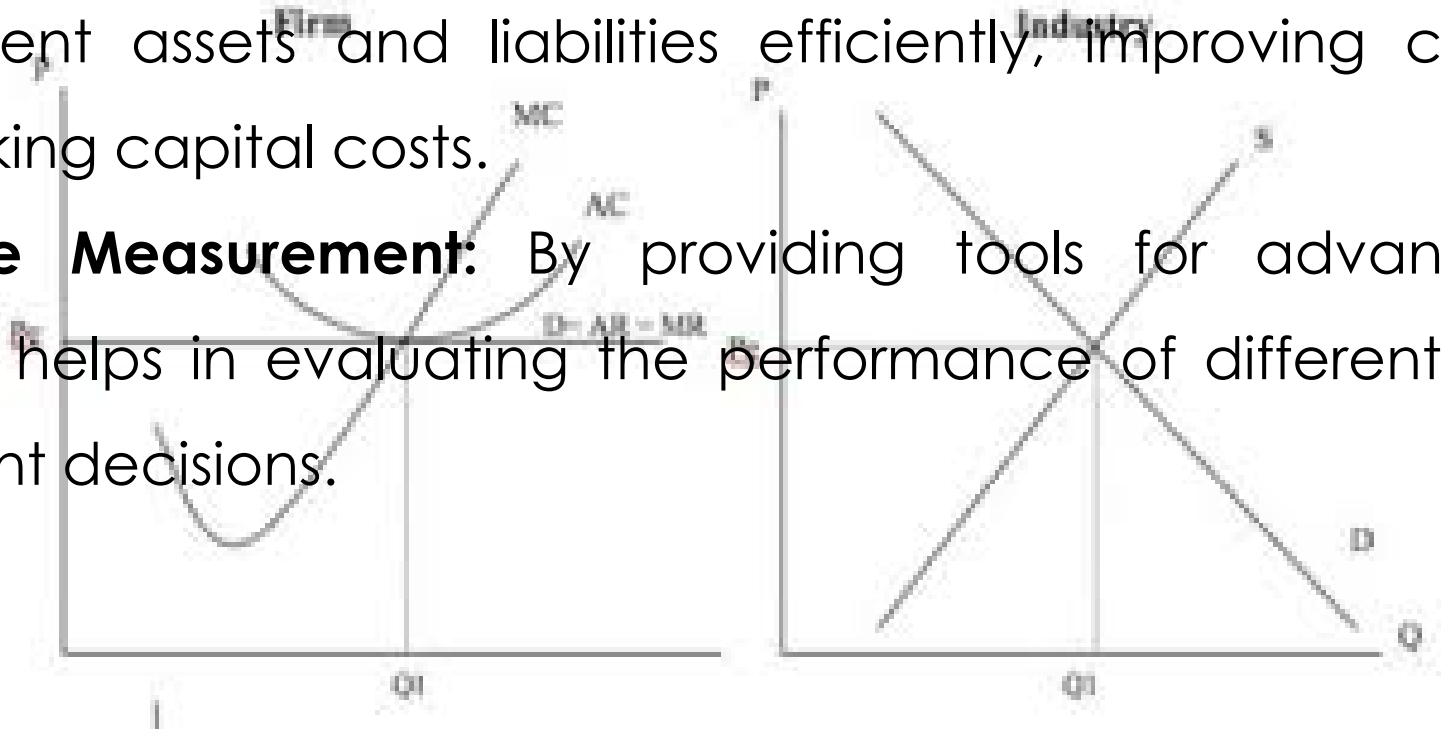
Protecting Value

Effective risk management safeguards the organization's assets, earnings, and overall value from adverse financial events.



4. Drive Efficient Resource Allocation

- **Investment Efficiency:** Advanced capital budgeting techniques ensure that capital is allocated to the most profitable and value-enhancing projects.
- **Working Capital Optimization:** AFM focuses on sophisticated methods to manage current assets and liabilities efficiently, improving cash flow and reducing working capital costs.
- **Performance Measurement:** By providing tools for advanced financial analysis, AFM helps in evaluating the performance of different business units and investment decisions.



Investment Appraisal & Capital Budgeting

AFM Calculations

We will highlight on some of the key calculation areas in advanced financial management. The specific formulas and techniques used can be quite detailed and often require a strong understanding of financial theory and quantitative methods. Financial software and spreadsheets are frequently used to perform these complex calculations.

Emphasis will be placed NPV and IRR.

Net Present Value

Net Present Value (NPV) is a fundamental tool in financial management used to determine the profitability of an investment or project. It calculates the present value of all expected future cash flows (both inflows and outflows) discounted back to the present using a specific discount rate.

Formula:

The formula for calculating NPV is:

$NPV = \Sigma [CFt / (1 + r)^t] - \text{Initial Investment}$

Where:

- **NPV** = Net Present Value
- **CFt** = Cash flow in period t (can be positive or negative)
- **r** = Discount rate (reflects the time value of money and risk)
- **t** = Time period
- **Σ** = Summation over the life of the investment

Advantages of NPV:

The NPV helps in making informed decisions about whether to undertake a project or choose between different investment opportunities.

Net Present Value Decision Rule

Once the NPV is calculated, the decision rule is straightforward:

- **If NPV > 0: Accept the project.** A positive NPV indicates that the present value of the expected future cash inflows is greater than the present value of the expected cash outflows (including the initial investment). This means the project is expected to add value to the company and increase shareholder wealth.

- **If NPV = 0: Indifferent.** An NPV of zero suggests that the project is expected to break even. The present value of cash inflows equals the present value of cash outflows. In this case, other factors might influence the final decision.

- **If NPV < 0: Reject the project.** A negative NPV indicates that the present value of the expected future cash inflows is less than the present value of the expected cash outflows. This means the project is expected to decrease the company's value and should not be undertaken based on financial considerations alone.

In summary, the core principle is to accept projects that have a positive NPV because they are expected to generate more value than their cost, considering the time value of money and risk.

Internal Rate of Return (IRR)

- **Internal Rate of Return (IRR):** Finding the discount rate at which the NPV of a project equals zero. This often requires iterative calculations or financial calculators/software.

- **Modified Internal Rate of Return (MIRR):** Addresses some limitations of IRR by assuming reinvestment of cash flows at the cost of capital and financing at the financing rate. Formula involves calculating the present value of cash outflows and the future value of cash inflows, then finding the discount rate that equates them.

- **Profitability Index (PI):** Calculating the ratio of the present value of future cash flows to the initial investment.
- Formula:

PI = \frac{\sum_{t=1}^{n} \frac{CF_t}{(1+r)^t}}{Initial Investment} = \frac{NPV + I

Internal Rate of Return (IRR) Decision Rule

Once the IRR is calculated, it is compared to a predetermined **required rate of return**, also known as the **hurdle rate** or the cost of capital. This hurdle rate represents the minimum return a company finds acceptable for an investment, considering its risk and opportunity cost.

The decision rule is as follows:

- **If IRR > Hurdle Rate: Accept the project.** If the IRR is higher than the company's required rate of return, the project is expected to generate a return that exceeds the cost of capital, thus adding value to the company.

- **If IRR = Hurdle Rate: Indifferent.** If the IRR equals the hurdle rate, the project is expected to break even on a present value basis. The decision in this case might depend on other qualitative factors.

- **If IRR < Hurdle Rate: Reject the project.** If the IRR is lower than the company's required rate of return, the project is not expected to generate sufficient return to compensate for the risk and cost of capital, thus potentially decreasing the company's value.

In essence, the IRR represents the project's expected rate of return. If this expected return exceeds the company's required return, the project is considered financially viable.

Real Options Valuation

- **Real Options Valuation:** Using option pricing models (like Black-Scholes or binomial trees) to value strategic options embedded in investment projects (e.g., the option to expand, abandon, or delay). These calculations are complex and involve estimating volatility, time to expiration, and other option-related parameters.
- **Sensitivity Analysis, Scenario Planning, and Simulation:** Quantifying the impact of changes in key variables (e.g., sales, costs, discount rate) on project profitability (NPV, IRR). This involves recalculating project outcomes under different assumptions.

Valuation

- **Relative Valuation:** Comparing a company's valuation multiples (e.g., Price-to-Earnings (P/E), Enterprise Value to EBITDA (EV/EBITDA), Price-to-Book (P/B)) to those of comparable companies or industry averages. This involves calculating these multiples for the target company and applying industry benchmarks.

- **Asset-Based Valuation:** Determining the value of a company based on the fair market value of its assets less its liabilities. This involves analyzing the balance sheet and potentially adjusting asset values.

- **Option Pricing Models (for Equity Valuation):** Using models like Black-Scholes to value equity in highly leveraged companies, where equity can be seen as a call option on the company's assets.

Capital Structure Decisions

- **Weighted Average Cost of Capital (WACC):** Calculating the average cost of a company's financing, considering the proportion of debt, equity, and other capital sources, and their respective costs (cost of debt, cost of equity, etc.), adjusted for tax benefits of debt.

Formula:

WACC = (E/V) * Re + (D/V) * Rd * (1 - Tc) + (P/V) * Rp

Where:

- E = Market value of equity
- D = Market value of debt
- P = Market [1] value of preferred stock

1. brainly.com

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- V = Total value of financing (E + D + P)
- Re = Cost of equity
- Rd = Cost of debt
- Rp = Cost of preferred stock
- Tc = Corporate tax rate

- **Cost of Equity Calculation:** Using models like the Capital Asset Pricing Model (CAPM), Dividend Discount Model (DDM), or bond yield plus risk premium approach.

CAPM Formula:

$Re = Rf + \beta * (Rm - Rf)$

Where:

  - Rf = Risk-free rate
  - β = Beta coefficient
  - Rm = Market return

- **Optimal Capital Structure Analysis:** Determining the mix of debt and equity that minimizes the WACC and maximizes firm value. This often involves analyzing the impact of different leverage levels on WACC and Earnings Per Share (EPS), considering factors like interest tax shields and financial distress costs.

- **Break-Even Analysis (Financial Leverage):** Determining the level of EBIT at which different capital structures result in the same EPS.

Risk Management

- **Value at Risk (VaR):** Estimating the potential loss in portfolio value over a specific time horizon at a given confidence level. This involves statistical calculations based on historical data or simulations.

- **Expected Shortfall (ES) or Conditional Value at Risk (CVaR):** Estimating the expected loss given that the loss exceeds the VaR.

- **Sensitivity Analysis (for Market Risk):** Assessing the impact of changes in market variables (interest rates, exchange rates, commodity prices) on portfolio or firm value.

- **Hedging Calculations:** Determining the appropriate amounts and types of derivatives (futures, options, swaps) to hedge specific risks, and calculating the costs and benefits of hedging strategies. This involves understanding derivative pricing and payoff structures.

- **Credit Risk Modeling:** Quantifying the probability of default and potential loss given default for borrowers or counterparties.

International Financial Management

- **Exchange Rate Calculations:** Converting cash flows and financial statements across different currencies, understanding spot and forward rates, and calculating cross rates.

- **Hedging Foreign Exchange Risk:** Using forward contracts, currency options, and money market hedges to mitigate the impact of exchange rate fluctuations on international transactions and investments. Calculations involve determining hedge ratios and comparing the costs and benefits of different hedging instruments.

- **International Capital Budgeting:** Evaluating foreign investment projects, considering political risk, exchange rate risk, and differences in tax laws and regulations. This involves adjusting discount rates and cash flow forecasts for these factors.

- **Transfer Pricing Analysis:** Determining appropriate prices for transactions between related entities in different countries, considering tax implications and regulatory requirements.

Mergers & Acquisitions

- **Target Valuation:** Using various valuation techniques (DCF, relative valuation) to determine the fair value of a target company.

- **Merger Analysis:** Projecting the combined cash flows and profitability of the merged entity, and determining the impact of the merger on the acquirer's EPS and shareholder value. This involves analyzing synergies and integration costs.

- **Exchange Ratio Calculation:** Determining the number of acquirer's shares to be exchanged for each of the target's shares in a stock-for-stock acquisition.

- **Leveraged Buyout (LBO) Analysis:** Modeling the acquisition of a company financed primarily with debt, and analyzing the returns to the private equity investors. This involves complex calculations of debt repayment schedules and cash flow waterfalls.

Conclusion

- In concluding our discussion on Advanced Financial Management, it's clear that this field represents a critical evolution beyond basic corporate finance. It equips organizations with the sophisticated tools, frameworks, and perspectives necessary to navigate the complexities of today's global and dynamic business environment, especially here in Lagos, Nigeria, with its unique economic and regulatory landscape.
- Adopting these global best practices can help organizations enhance their financial performance, manage risks effectively, make sound strategic decisions, and create sustainable long-term value in an increasingly complex and interconnected world, while considering local nuances and regulations.

Recommendations

- Organizations should adopt a strategic perspective & **Align financial decisions with overall business strategy by** ensuring that all financial decisions support the long-term goals and objectives of the organization.
- **Integrate financial planning with strategic planning:** Develop financial plans that are directly linked to the strategic roadmap of the company.
- **Utilize advanced analytical techniques:** Employ sophisticated tools and models for investment appraisal, valuation, and risk management.
- **Develop a comprehensive risk management framework:** Identify, assess, measure, and monitor all relevant financial risks.
- **Maintain a strong internal control environment:** Implement robust controls to safeguard assets and ensure the integrity of financial information – leveraging AI and Blockchain technology.
- **Determine the optimal capital mix:** Balance the benefits and costs of debt and equity financing.
- **Leverage financial management software and tools:** Utilize technology to automate processes, improve accuracy, and enhance analysis.
- **Explore the use of data analytics and AI:** Apply advanced analytics to gain deeper insights from financial data.

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THANK YOU


Questions
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