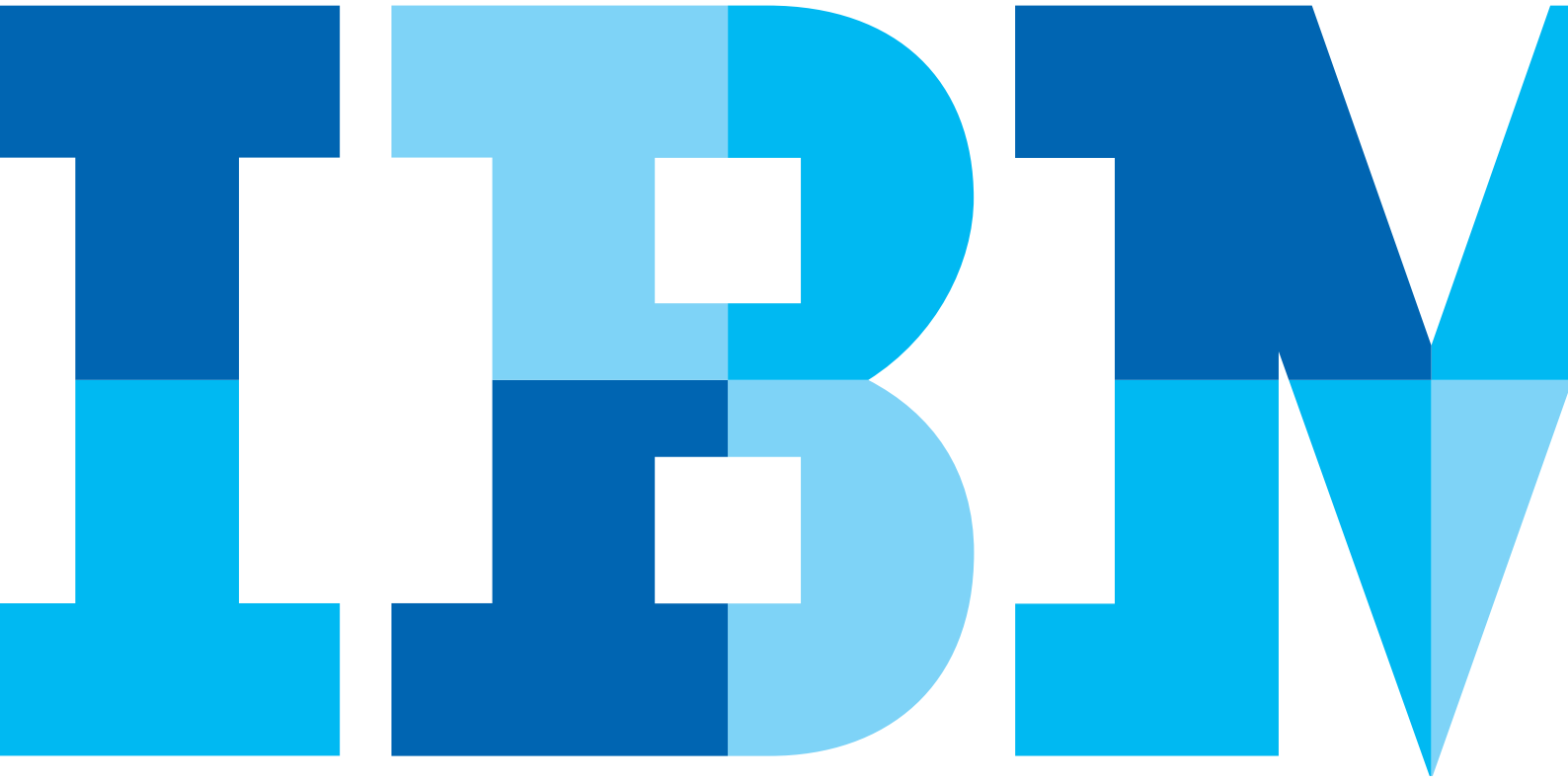
Strategic Finance Performance Blueprint



IBM

Overview

The goals of strategic planning include maximizing shareholder value, achieving growth, and meeting other financial objectives defined by the board of directors. Strategic planning is usually the start- and end-point for the planning process in an organization; as such, defining and articulating such goals requires a logical and consistent approach. The *IBM Cognos Strategic Finance Performance Blueprint Powered by TM1* provides a complete performance management framework that enables users to identify and measure organizational objectives clearly.

While strategic planning is typically performed by a small group or even an individual, outcomes have major significance to the entire organization and its stakeholders. Performance management systems help express strategic goals and provide a measurement process, so that the goals can be tracked to ensure that long-term objectives will be met. This application brief demonstrates how this *Blueprint*, a Web-based process for defining and analyzing long-term objectives, is set up and how it works.

The model and processes described in this document are generic for most North American companies, but can be configured to support alternative model requirements and to accommodate planning in any country.

Blueprint objectives

Determining how best to develop a strategic plan requires a reasonable standard approach. Typically, this process is performed in the "back office" using spreadsheets that can change from year to year. The major objective of this *Blueprint* is to allow users to evaluate how successful they have been in meeting goals over a number of years with a reliable, consistent modeling tool. The *Strategic Finance Blueprint Powered by TM1* meets this objective and:

- Evaluates the impact of multiple strategies
- Allows for comparison and analysis of what-if growth scenarios
- Provides a means of evaluating internal or external growth opportunities
- Provides for merger and acquisition planning
- Provides an assessment of the current portfolio —allowing for analysis and impact of divestitures
- Includes tax and credit rating impacts

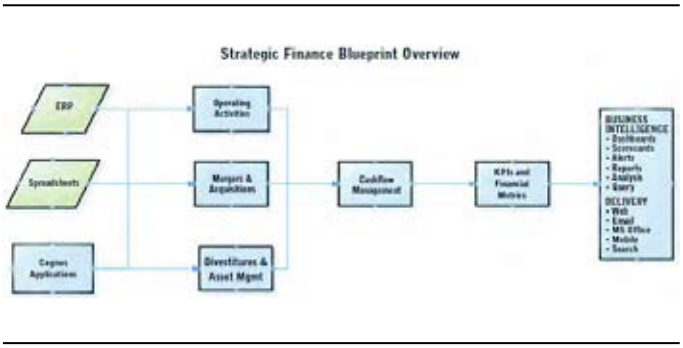
It also contains a full set of consolidated financial statements with distinct views for base growth, acquisitions and divestitures.

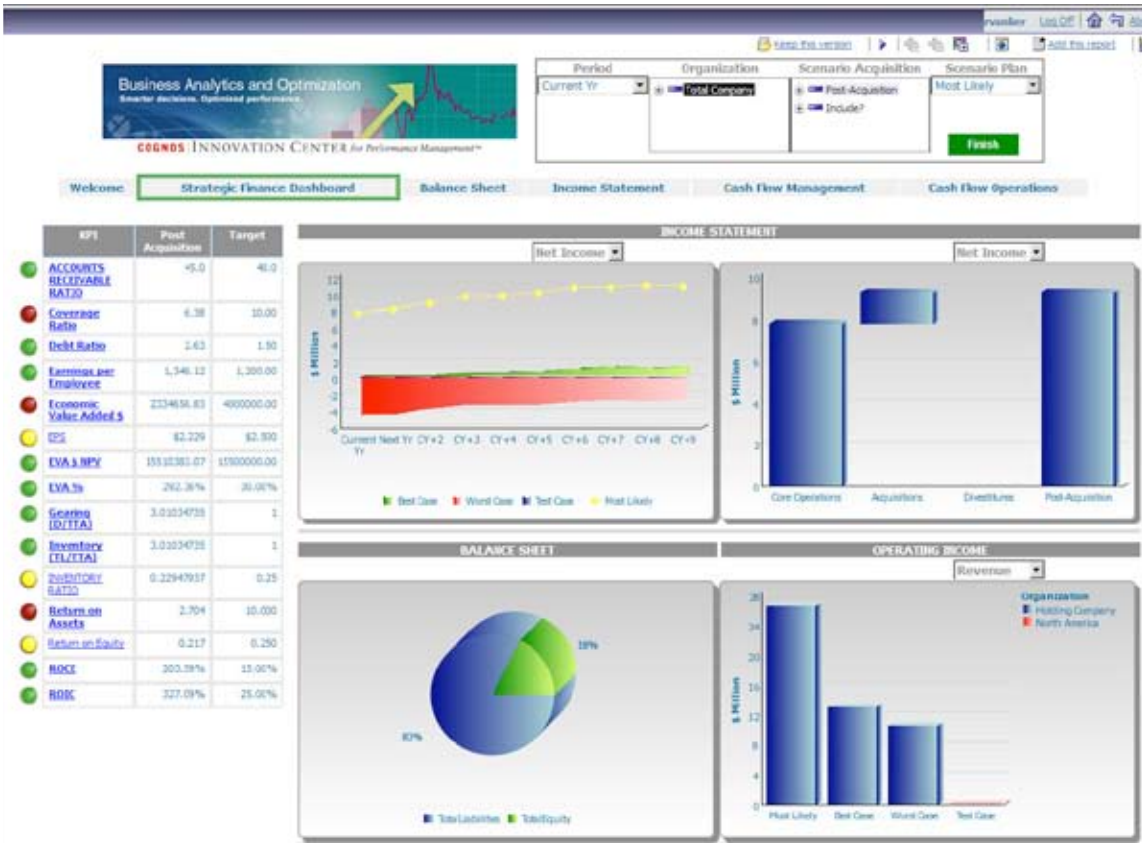
This *Blueprint* provides a methodology for long-range strategic planning over a ten-year period. It is assumed that this type of application will typically be used by a small group of strategic planners, among whom company-wide decisions are made. Other contributors may include legal entities or divisions. The key premise is that cash is generated (or used) by the core operations, and strategic decisions regarding investment and divestiture strategies are largely driven by the cash position of the base company.

This *Blueprint* contains three tabs for merger and acquisition planning. These tabs, along with the Cash Management and Divestiture tabs, represent the key areas for the corporate strategic planning decision maker. In addition to providing a full set of financials for these acquisition scenarios, the *Blueprint* provides additional what-if scenarios for comparison. The resulting process will give the planners insight into various key economic indicators and shareholder results.

Model design overview

This flowchart represents a high level overview of the *Blueprint* model design.





Representative workflow

The following sections of this application guide describe how a strategic planner might use this planning tool.

Strategic Finance Portal

Logging into the Strategic Finance Portal offers users a number of key metrics with indicators that show performance versus target. Users can select from various what-if scenarios for comparison.

To the right of the metrics, we can see a graph showing the Income Statement outcomes for various scenarios: best case, most likely, and worst case. This graphic is invaluable when making the type of what-if decisions required in most organizations. The top-right graphic lets the user view the incremental impact of Acquisitions and Divestitures for the Income Statement. This is demonstrated in the form of a waterfall chart.

The pie graph shows the split between Debt and Equity in a pre- and post-acquisition situation for any selected year and scenario.

The bar chart in the lower right allows the user to see various metrics for the indicated scenarios. These include Revenue, Volume, COGS and Margin.

Income Statement

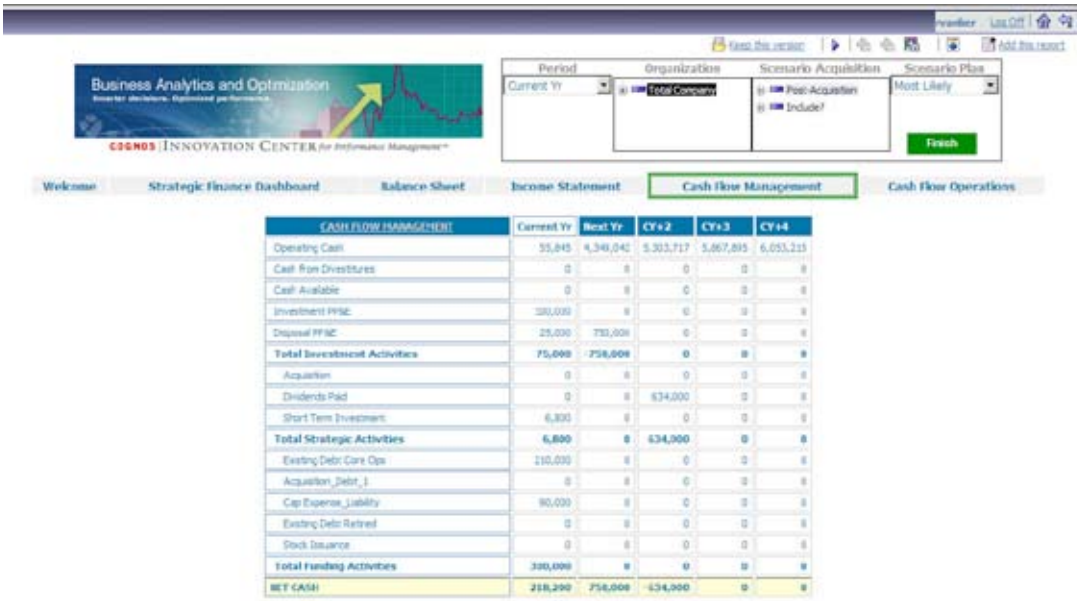
You might want to see the detail numbers behind these graphs and charts. These are available in the form of reports for the income statement, balance sheet and cash flow. Some of these reports also contain related graphics so you can quickly assess the impact on financials.

BALANCE SHEET	Current Yr	Next Yr	CY+2	CY+3	CY+4
CURRENT ASSETS					
Cash	218,200	968,200	334,200	334,200	334,200
Receivables	2,264,696	2,460,482	2,536,211	2,681,656	2,688,295
Inventories	2,281,098	2,278,983	2,353,081	2,419,875	2,457,328
TOTAL CURRENT ASSETS	**5,773,994**	**6,707,665**	**6,223,493**	**6,435,731**	**6,489,822**
NON CURRENT ASSETS					
Property, Plant & Equipment-cost	5,075,000	4,325,000	4,325,000	4,325,000	4,325,000
Accumulated depreciation	1,019,000	943,000	965,333	987,333	1,009,333
Property, plant and equipment - net	4,056,000	3,382,000	3,359,667	3,337,667	3,315,667
Deferred Tax Assets	0	0	0	0	0
Investment other Companies	6,800	6,800	6,800	6,800	6,800
Goodwill	0	0	0	0	0
Other Non Current Financial Assets	0	0	0	0	0
Other Non Current Assets	12,371	1,559	192	24	3
TOTAL NON CURRENT ASSETS	**4,075,171**	**3,390,359**	**3,366,658**	**3,344,490**	**3,322,470**
TOTAL ASSETS	**9,849,164**	**10,098,024**	**9,590,151**	**9,780,221**	**9,812,292**
CURRENT LIABILITIES					
Payables	1,481,105	2,623,337	3,828,180	5,081,973	6,336,860
Tax Liabilities	589,313	621,797	680,361	739,800	746,128
Other Current Liabilities	1,113,024	2,240,285	3,378,656	4,518,551	5,636,420
TOTAL CURRENT LIABILITIES	**3,183,443**	**5,484,419**	**7,887,197**	**10,340,324**	**12,739,408**
NON CURRENT LIABILITIES					
Long Term Debt	500,000	500,000	500,000	500,000	500,000
Deferred Tax Liabilities	1,011,000	838,000	829,167	810,667	812,167
Other Non Current Liabilities	2,400	4,800	7,193	9,593	11,993
TOTAL NON CURRENT LIABILITIES	**1,513,400**	**1,342,800**	**1,336,360**	**1,320,260**	**1,324,160**
TOTAL LIABILITIES	**4,696,843**	**6,827,219**	**9,223,557**	**11,670,584**	**14,063,568**
NET ASSETS	**5,152,321**	**3,270,804**	**366,594**	**(1,890,363)**	**(4,251,277)**
Equity	3,804,000	3,804,000	3,804,000	3,804,000	3,804,000
Additional Paid in Capital	0	0	0	0	0
Retained Earnings	1,404,186	3,071,691	6,271,198	9,882,137	13,574,437
TOTAL EQUITY	**5,208,186**	**7,675,691**	**10,075,198**	**13,686,137**	**17,378,437**
TOTAL EQUITY AND LIABILITIES	**9,905,009**	**14,502,910**	**19,298,755**	**25,356,721**	**31,442,006**

Balance Sheet

CASHFLOW FROM OPERATIONS	Current Yr	Next Yr	CY+2	CY+3	CY+4
Cash Receipts from Sales	23,448,947	27,292,386	28,665,456	29,716,874	29,980,639
Payments to Employees	5,671,902	5,451,684	1,428,312	1,483,303	5,523,082
Payments Inventory	7,549,286	5,750,428	6,146,797	6,373,241	6,379,220
Payments other Expense	5,421,039	5,691,769	1,726,333	1,701,101	5,677,089
Income Tax Paid	4,830,044	5,029,465	6,045,857	6,284,701	6,521,234
Interest Expense	26,000	26,000	26,007	26,000	26,000
NET CASH FROM OPERATING ACTIVITIES	**55,845**	**4,349,042**	**5,303,717**	**5,867,895**	**6,053,215**
Net Income	**1,404,166**	**2,467,524**	**3,033,507**	**3,610,939**	**3,692,301**
Depreciation and amortization	19,000	-76,000	21,333	22,000	22,000
(Increase)/decrease in receivables	-5,274,696	-165,788	-75,729	-145,444	-16,639
(Increase)/decrease in inventory	-2,221,098	-17,881	-74,099	-66,794	-37,452
(Increase)/decrease in Other Assets	-12,371	18,812	1,367	168	21
Increase/(decrease) in payables	1,485,155	1,131,230	1,201,843	1,253,752	1,254,928
Increase/(decrease) in accrued expenses	1,103,024	1,137,271	1,138,361	1,139,935	1,137,829
Increase/(decrease) in interest payable	2,400	2,400	2,393	2,400	2,400
Increase/(decrease) in income taxes payable	369,313	22,474	16,374	19,439	8,327
Increase/(decrease) in deferred taxes payable	1,011,000	173,000	-6,833	6,500	-8,500
Total adjustments	-1,367,321	1,967,317	1,247,877	2,234,986	2,338,914
NET CASH OPERATIONS Indirect	**55,845**	**4,349,042**	**5,303,717**	**5,867,895**	**6,053,215**

Cash Flow from Operations



CASH FLOW MANAGEMENT	Current Yr	Next Yr	CY+2	CY+3	CY+4
Operating Cash	55,845	4,349,042	5,303,717	5,867,895	6,053,215
Cash from Divestitures	0	0	0	0	0
Cash Available	0	0	0	0	0
Investment PP&E	100,000	0	0	0	0
Disposal PP&E	25,000	750,000	0	0	0
Total Investment Activities	**75,000**	**750,000**	**0**	**0**	**0**
Acquisition	0	0	0	0	0
Dividends Paid	0	0	634,000	0	0
Short Term Investment	6,800	0	0	0	0
Total Strategic Activities	**6,800**	**0**	**634,000**	**0**	**0**
Existing Debt Core Ops	210,000	0	0	0	0
Acquisition_Debt_1	0	0	0	0	0
Cap Expense_Liability	90,000	0	0	0	0
Existing Debt Retired	0	0	0	0	0
Stock Issuance	0	0	0	0	0
Total Funding Activities	**300,000**	**0**	**0**	**0**	**0**
NET CASH	**218,290**	**750,000**	**-634,000**	**0**	**0**

Cash Flow Management

Key Lists

Based on the above analysis, you can use the *Blueprint* to update the strategic plan in the Cognos TM1 interface. It is important to note the following key lists in this *Blueprint*:

Scenario – Plan

This list is used for what-if comparisons. You can customize this list to define your own scenarios or versions.

Scenario – Acquisition

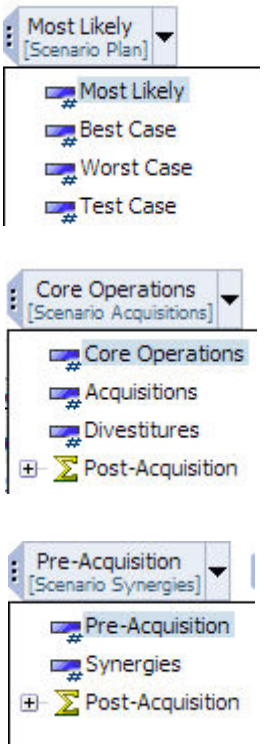
This list is used in most tabs including the key Financial Statements and other tabs. Core Operations represents the base organization. Note the calculation below.

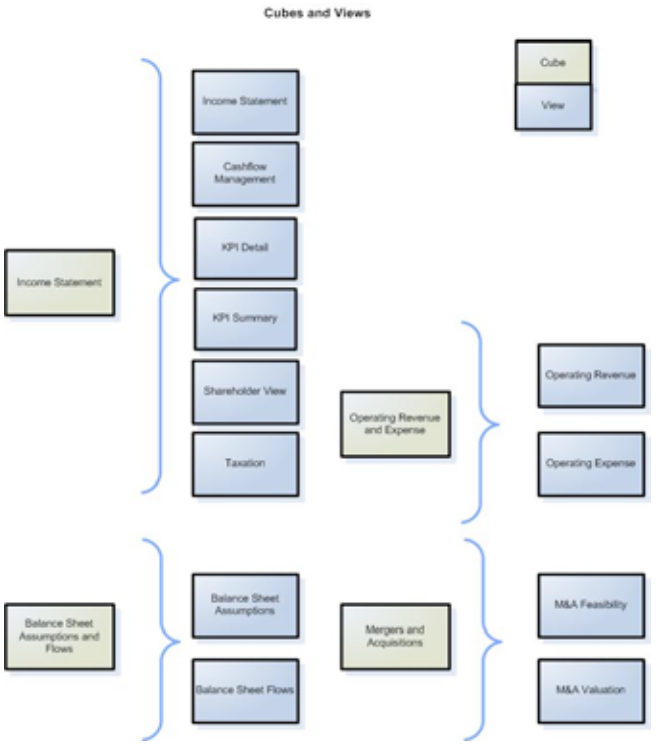
Post Acquisition =
Core Operations + Acquisitions - Divestitures

Scenario – Synergies

The data for pre-acquisition and synergies is input, while post-acquisition is calculated. This list is used in the M&A Synergies tab. Costs and expenses are input as a negative number to generate positive synergies in the form of cost savings, like a reduction in rents or maintenance.

Post Acquisition = Pre-Acquisition + Synergies





Cubes and views

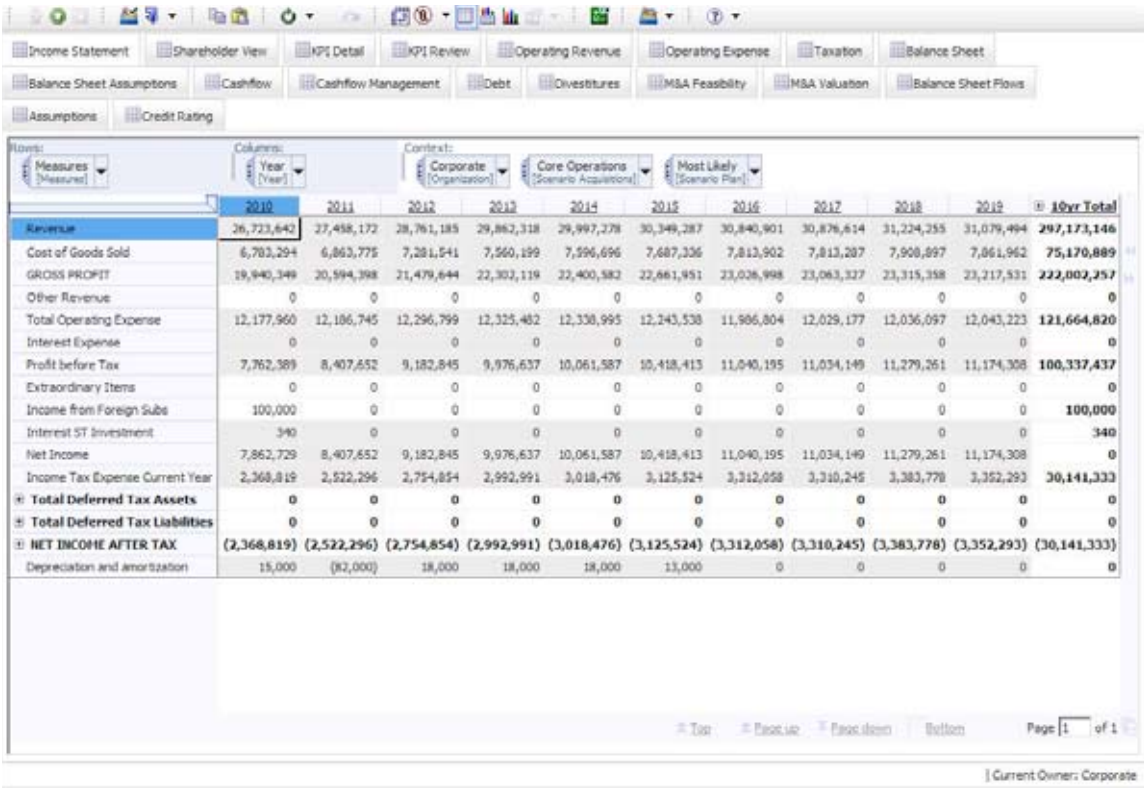
Many of the views shown in the TM1 model consist of a single cube as shown here.

Blueprint tabs

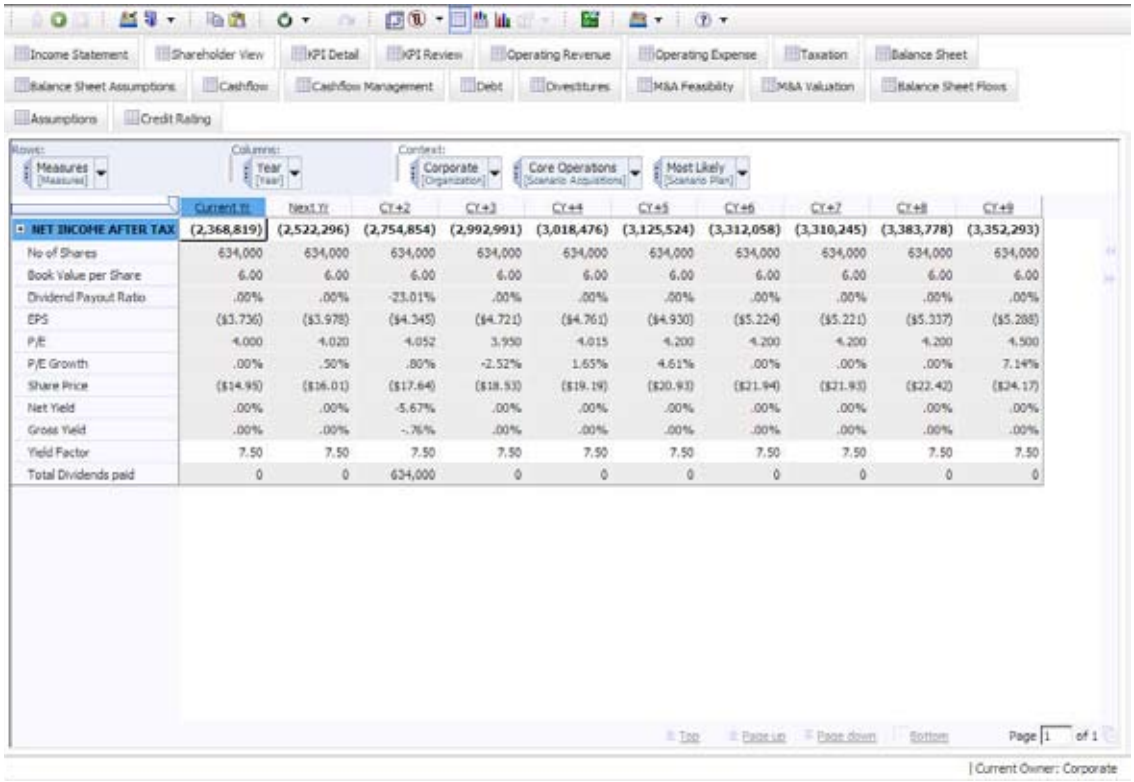
We will proceed through the *Blueprint* as a "Corporate" contributor. This node encompasses all of the tabs available to planners. In our representation, the legal entities have read/write privileges to only those tabs required for internal strategic decisions.

Income Statement

When you open the TM1 model. the first tab you see is the Income Statement. The only input required for this tab are core operations items including "Other Revenue," "Extraordinary Items" and "Income from Foreign Subs." Other data is linked from other tabs. The Operating Revenue and Operating Expense tabs are the main feeds for Core Operations, while the data for the Acquisition and Divestitures items come from the M&A tabs and the Divestitures tabs.

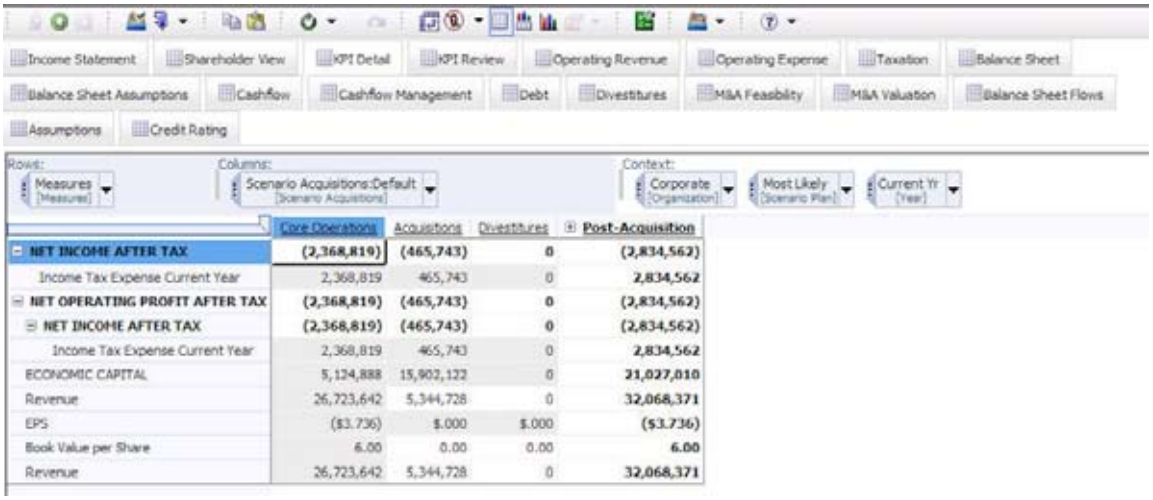


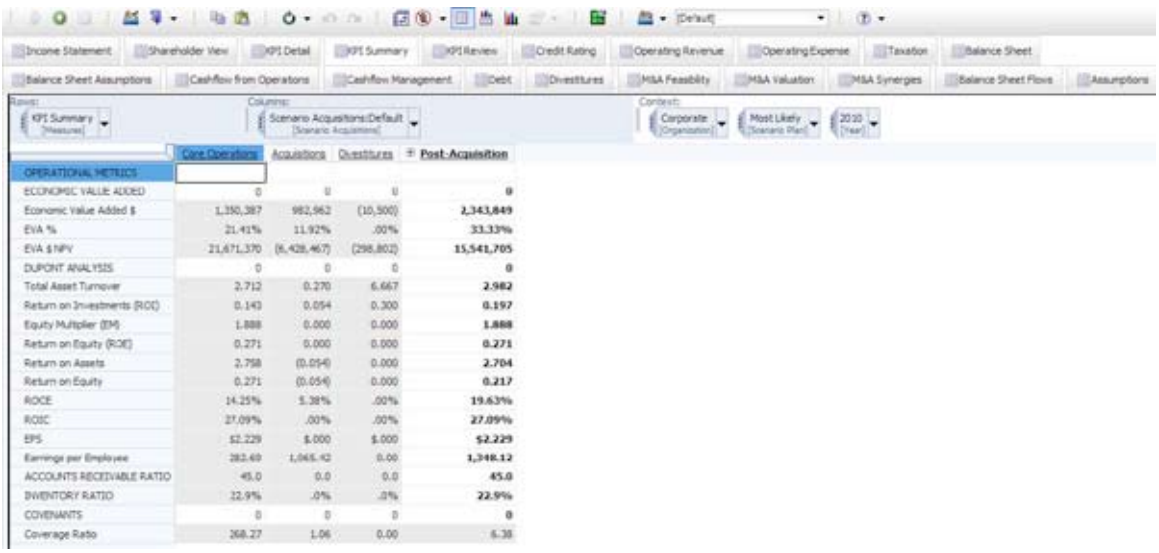
The following tabs do not require any input. They do, however provide the key metrics and measures that are critical to the strategic planning process. These tabs are also used in generating much of the business intelligence for this *Blueprint*.



Shareholder View

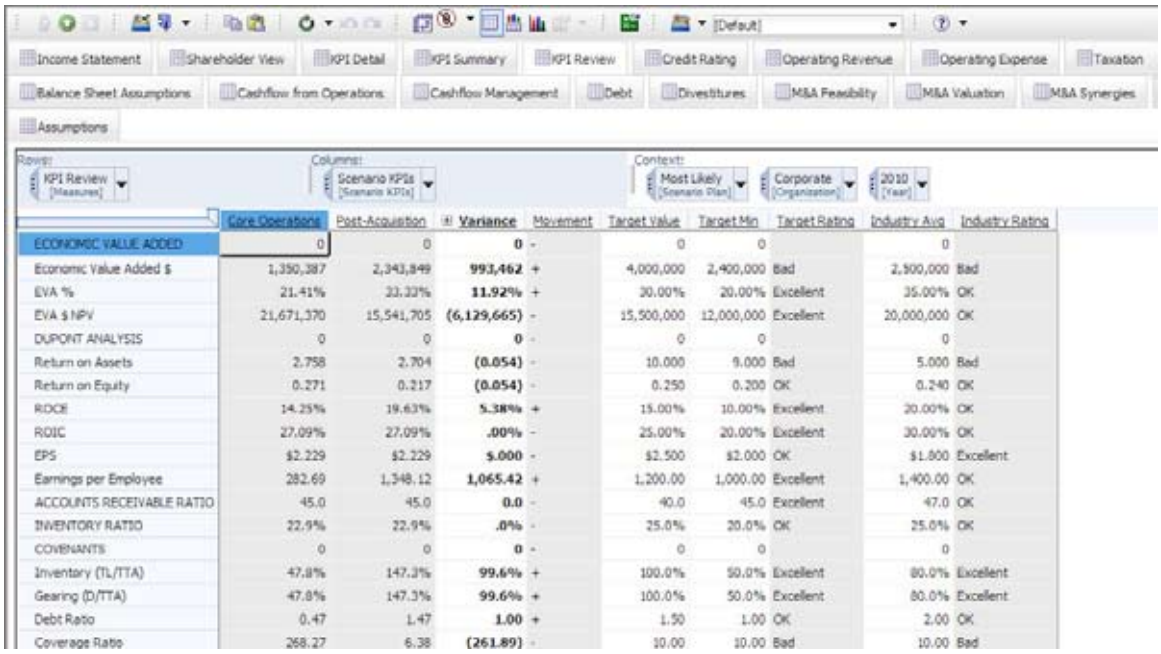
This tab highlights key data for shareholders. There is no input required. It communicates the anticipated future growth plans of the company and the potential impact this will have on the market share price.





KPI Detail and KPI Summary

These tabs, like the Shareholder View above, do not require any input. The key metrics available are displayed in two views: summary and detail. The detail view contains the calculated KPIs and the input elements used to generate them. The Summary view shows only the calculated KPIs.



	Core Operations	Post-Acquisition	Variance		Movement	Target Value	Target Min	Target Rating	Industry Avg	Industry Rating
ECONOMIC VALUE ADDED	0	0	0	-		0	0		0	
Economic Value Added $	1,350,387	2,343,849	993,462	+		4,000,000	2,400,000	Bad	2,500,000	Bad
EVA %	21.41%	33.33%	11.92%	+		30.00%	20.00%	Excellent	25.00%	OK
EVA $ NPV	21,671,370	15,541,705	(6,129,665)	-		15,500,000	12,000,000	Excellent	20,000,000	OK
DUPONT ANALYSIS	0	0	0	-		0	0		0	
Return on Assets	2.758	2.704	(0.054)	-		10.000	9.000	Bad	5.000	Bad
Return on Equity	0.271	0.217	(0.054)	-		0.250	0.200	OK	0.240	OK
ROCE	14.25%	19.63%	5.38%	+		15.00%	10.00%	Excellent	20.00%	OK
ROIC	27.09%	27.09%	.00%	-		25.00%	20.00%	Excellent	30.00%	OK
EPS	$2.229	$2.229	$.000	-		$2.500	$2.000	OK	$1.800	Excellent
Earnings per Employee	282.69	1,348.12	1,065.42	+		1,200.00	1,000.00	Excellent	1,400.00	OK
ACCOUNTS RECEIVABLE RATIO	45.0	45.0	0.0	-		40.0	45.0	Excellent	47.0	OK
INVENTORY RATIO	22.9%	22.9%	.0%	-		25.0%	20.0%	OK	25.0%	OK
COVENANTS	0	0	0	-		0	0		0	
Inventory (TL/TTA)	47.8%	147.3%	99.6%	+		100.0%	50.0%	Excellent	80.0%	Excellent
Gearing (D/TTA)	47.8%	147.3%	99.6%	+		100.0%	50.0%	Excellent	80.0%	Excellent
Debt Ratio	0.47	1.47	1.00	+		1.50	1.00	OK	2.00	OK
Coverage Ratio	268.27	6.38	(261.89)	-		10.00	10.00	Bad	10.00	Bad

KPI Review

Data in this tab is linked from the KPI views. Note, however, that this tab does require additional input. The user should enter target values, target minimums and industry averages for the defined KPIs. Based on the standards provided, target ratings are calculated for each KPI.

The ratings include:

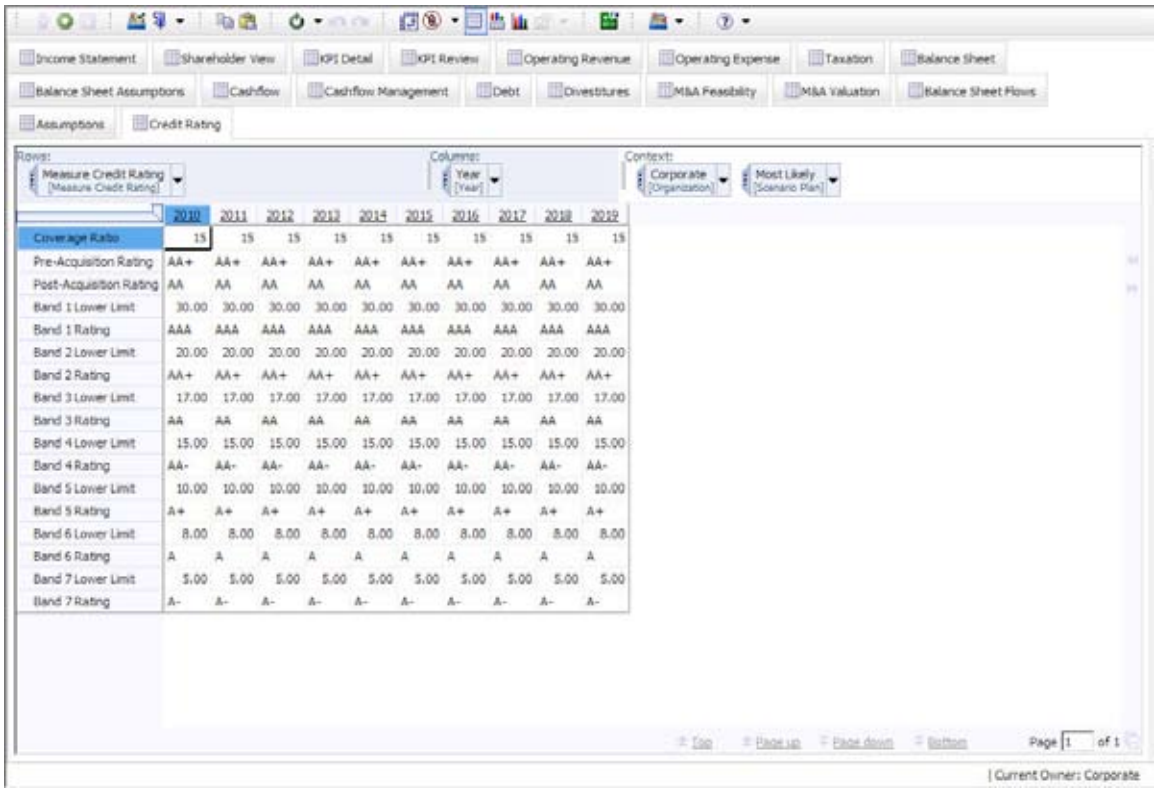
- Excellent
- OK
- Bad

The calculation for the Target Rating is a conditional statement:

IF {Post-Acquisition} >= {Target Value} THEN “Excellent”
IF {Post-Acquisition} >= {Target Min} THEN “OK”
IF {Post-Acquisition} < {Target Min} THEN “Bad”

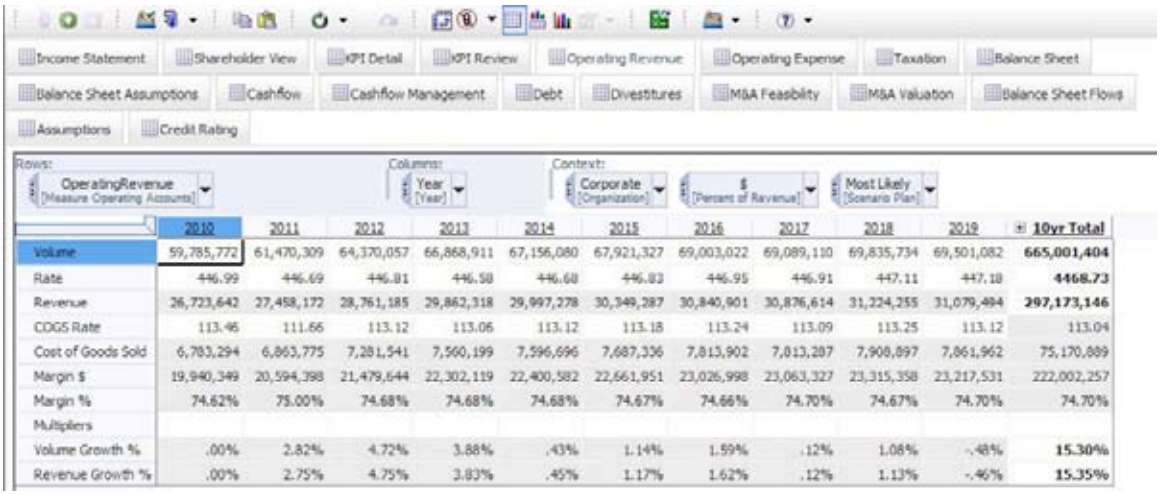
The calculation for the Industry Rating is:

IF {Post-Acquisition} >= {Industry Avg} THEN “Excellent”
IF {Post-Acquisition} < {Industry Avg} AND {Post-Acquisition} > {Target Min} THEN “OK”
IF {Post-Acquisition} < {Industry Avg} THEN “Bad”



Credit Rating

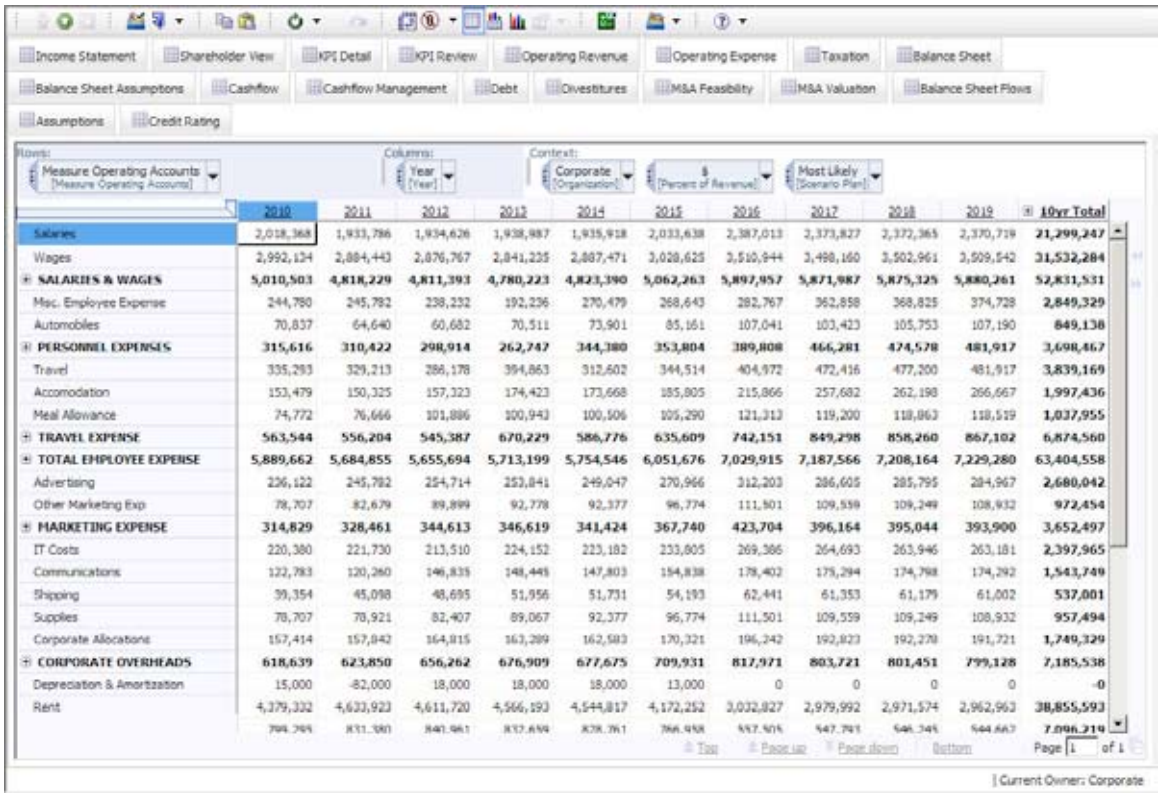
This tab does require input of credit bands to calculate Credit Ratings. It is assumed this information is available by Industry from various credit service bureaus such as Moody's.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10yr Total
Volume	59,785,772	61,470,309	64,370,057	66,868,911	67,156,080	67,921,327	69,003,022	69,089,110	69,835,734	69,501,082	**665,001,404**
Rate	446.99	446.69	446.81	446.58	446.68	446.83	446.95	446.91	447.11	447.18	**4468.73**
Revenue	26,723,642	27,458,172	28,761,185	29,862,318	29,997,278	30,349,287	30,840,901	30,876,614	31,224,255	31,079,484	**297,173,146**
COGS Rate	113.46	111.66	113.12	113.06	113.12	113.18	113.24	113.09	113.25	113.12	113.04
Cost of Goods Sold	6,783,294	6,863,775	7,281,541	7,560,199	7,596,696	7,687,336	7,813,902	7,813,287	7,908,897	7,861,962	75,170,889
Margin $	19,940,349	20,594,398	21,479,644	22,302,119	22,400,582	22,661,951	23,026,998	23,063,327	23,315,358	23,217,531	222,002,257
Margin %	74.62%	75.00%	74.68%	74.68%	74.68%	74.67%	74.66%	74.70%	74.67%	74.70%	74.70%
Multipliers											
Volume Growth %	.00%	2.82%	4.72%	3.88%	.43%	1.14%	1.59%	.12%	1.08%	-.48%	**15.30%**
Revenue Growth %	.00%	2.75%	4.75%	3.83%	.45%	1.17%	1.62%	.12%	1.13%	-.46%	**15.35%**

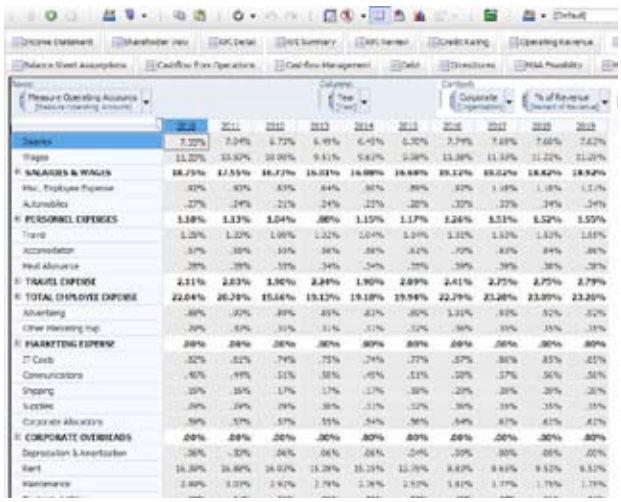
Operating Revenue

This data contained here may be linked from an existing application (such as the *Sales Planning Blueprint*) or input manually. Input required includes volume, rate, and COGS rate. Margins and growth rates are calculated. The data in this tab is linked to the Income Statement.

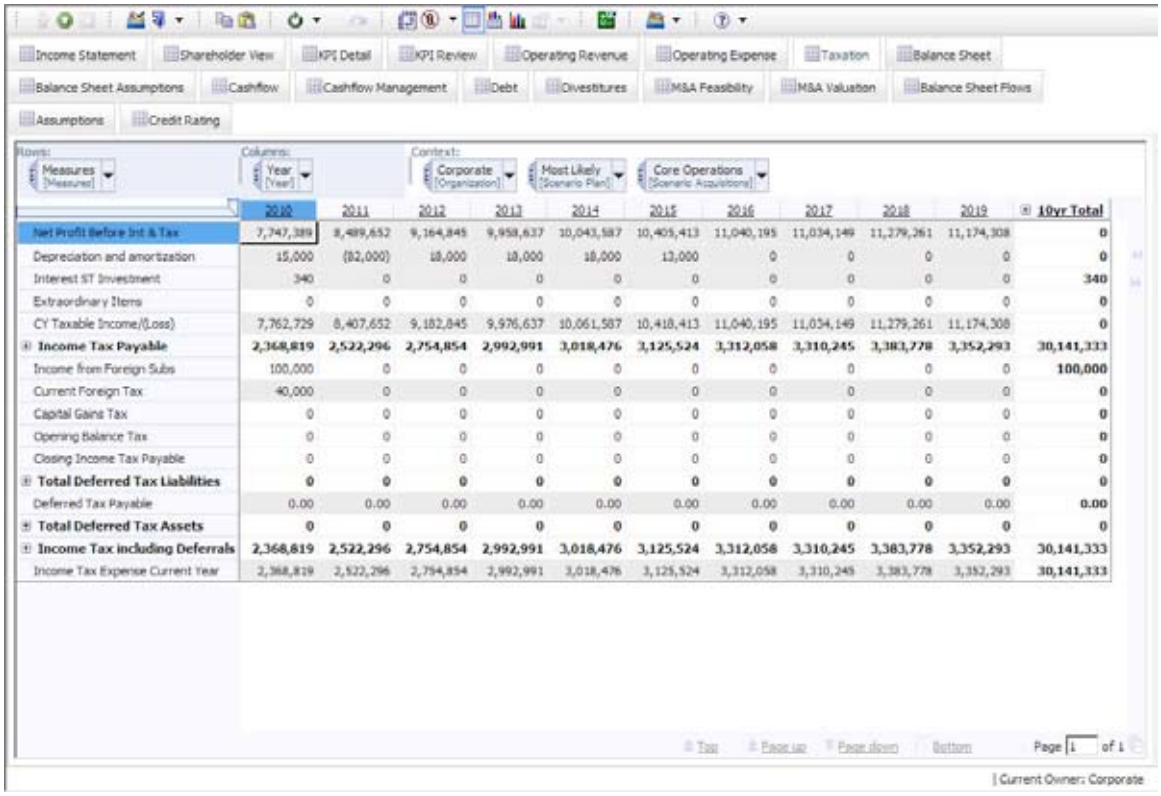


Operating Expense

This data in this tab may also be linked from an existing application (such as the *Expense Planning Blueprint Powered by TM1*) or it may be input manually. It contains typical expense items and can easily be modified to meet user needs. The items here can also be viewed as a percent of Revenue. This data is also linked to the Income Statement.



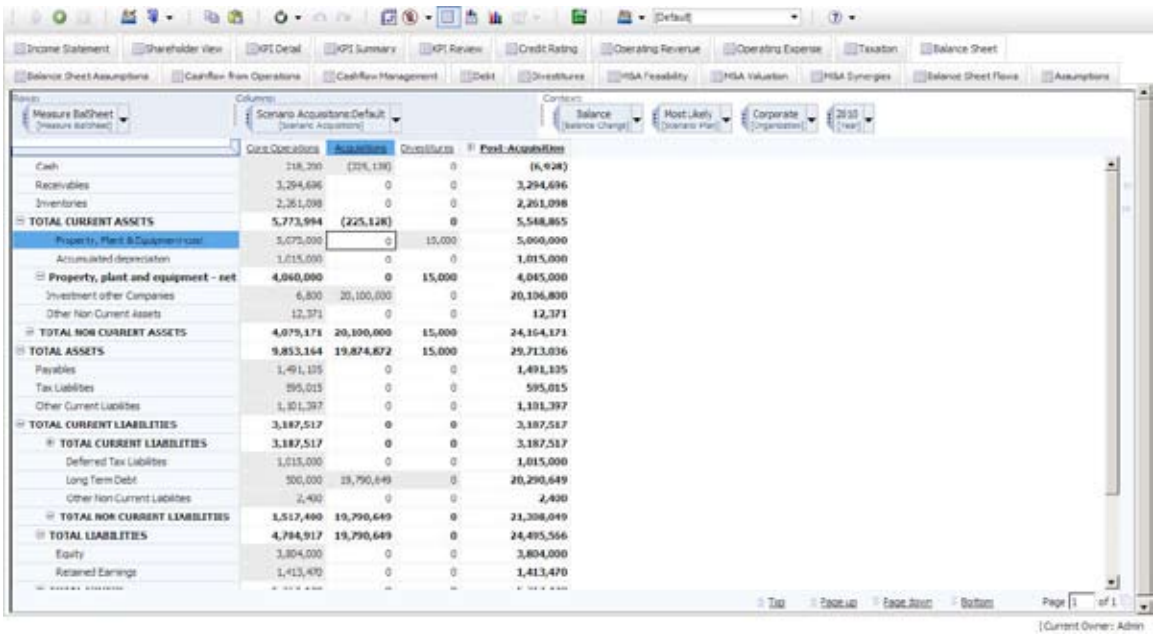
Here, the data is viewed as a percent of revenue.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10yr Total
Net Profit Before Int & Tax	7,747,389	8,489,652	9,164,845	9,958,637	10,043,587	10,405,413	11,040,195	11,034,149	11,279,261	11,174,308	0
Depreciation and amortization	15,000	(82,000)	18,000	18,000	18,000	13,000	0	0	0	0	0
Interest ST Investment	340	0	0	0	0	0	0	0	0	0	340
Extraordinary Items	0	0	0	0	0	0	0	0	0	0	0
CY Taxable Income/(Loss)	7,762,729	8,407,652	9,182,845	9,976,637	10,061,587	10,418,413	11,040,195	11,034,149	11,279,261	11,174,308	0
Income Tax Payable	**2,368,819**	**2,522,296**	**2,754,854**	**2,992,991**	**3,018,476**	**3,125,524**	**3,312,058**	**3,310,245**	**3,383,778**	**3,352,293**	**30,141,333**
Income from Foreign Subs	100,000	0	0	0	0	0	0	0	0	0	100,000
Current Foreign Tax	40,000	0	0	0	0	0	0	0	0	0	0
Capital Gains Tax	0	0	0	0	0	0	0	0	0	0	0
Opening Balance Tax	0	0	0	0	0	0	0	0	0	0	0
Closing Income Tax Payable	0	0	0	0	0	0	0	0	0	0	0
Total Deferred Tax Liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Deferred Tax Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Deferred Tax Assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income Tax including Deferrals	**2,368,819**	**2,522,296**	**2,754,854**	**2,992,991**	**3,018,476**	**3,125,524**	**3,312,058**	**3,310,245**	**3,383,778**	**3,352,293**	**30,141,333**
Income Tax Expense Current Year	2,368,819	2,522,296	2,754,854	2,992,991	3,018,476	3,125,524	3,312,058	3,310,245	3,383,778	3,352,293	30,141,333

Taxation

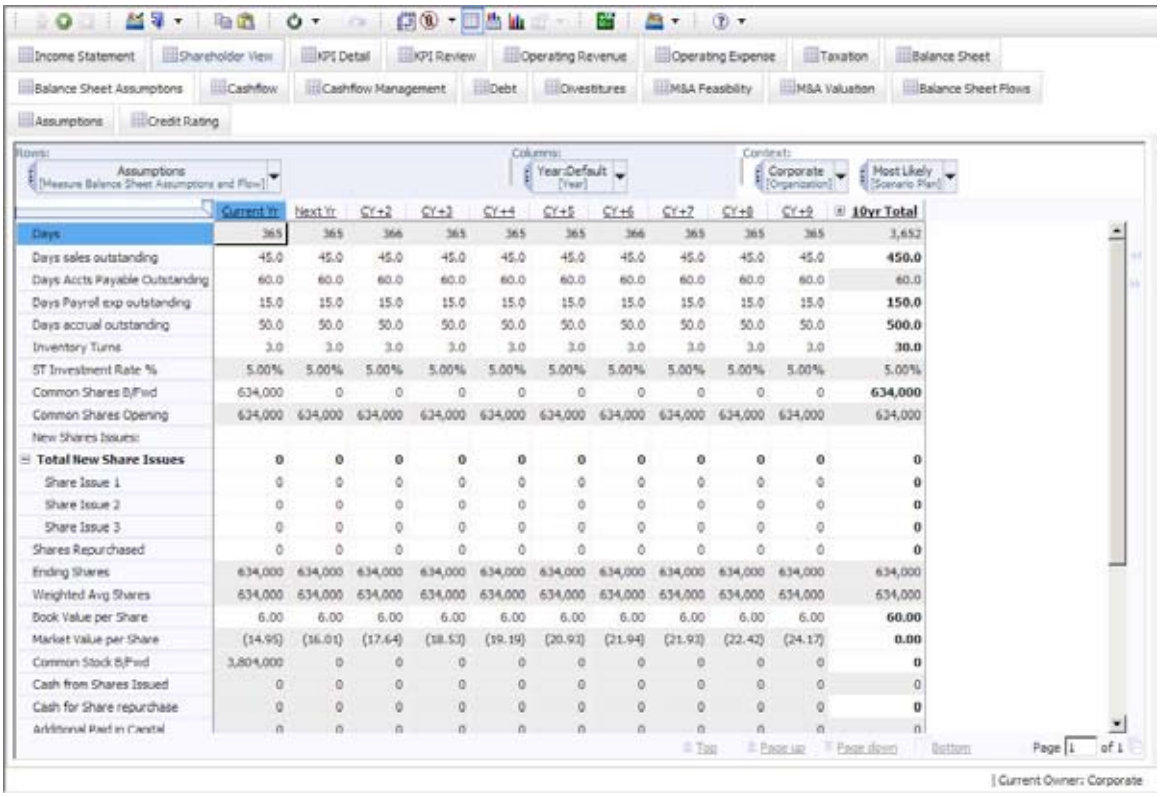
The key data here is linked from Income Statement and Balance Sheet. Optional data may be entered for deferred asset or liability taxes. As taxation varies greatly by tax domain, this tab is mainly included to provide a high-level view of tax impact as a result of the selected strategies. The information generated here does not represent an exact calculation of tax liability. It is expected that further understanding of tax implications will be handled outside of this application.



Balance Sheet

The data in this tab is fed primarily from the Balance Flow tab, which is a trial balance (explained in detail later). You should note the balance and change dimension items. This tab also includes data for the Acquisition/Divestiture scenarios. The last item, *Bal_check* should always be zero for post-acquisition. This indicates that the balance sheet is in balance.

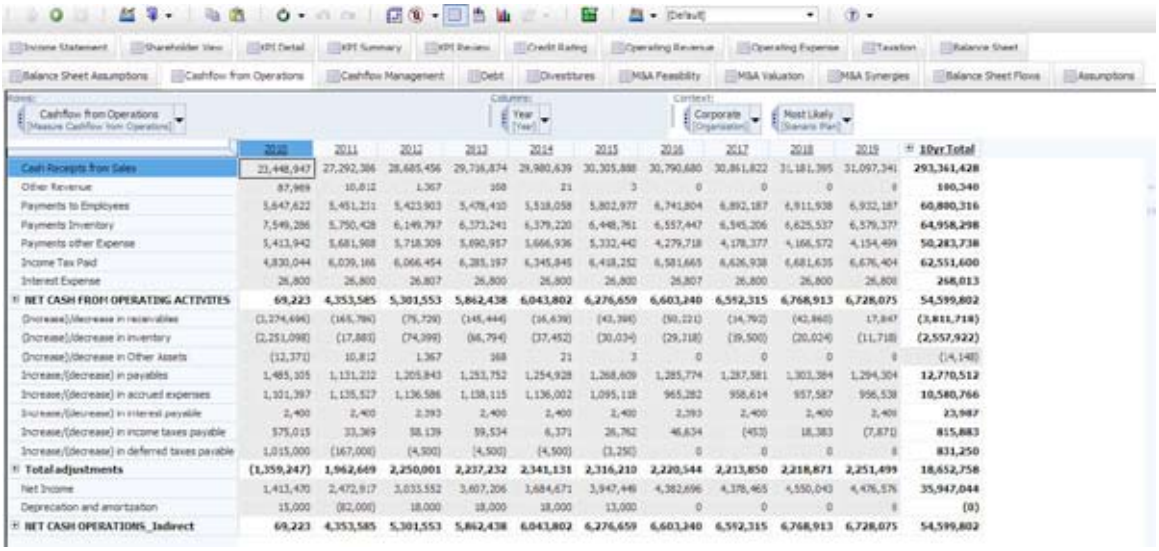
Currently, when an acquisition is selected for inclusion, the acquisition price is shown as a single line item on the Balance Sheet – Investment other Companies under the acquisition scenario. Changes to future periods in the Balance Sheet should be made as the acquisition is absorbed into the company.



Bal Sheet Assumptions

This is a very important tab that does require input. Most of the items here will be used to drive Balance Sheet calculations and key metrics. As shown below, input is required for days outstanding for receivables, days payables, inventory turns and so on.

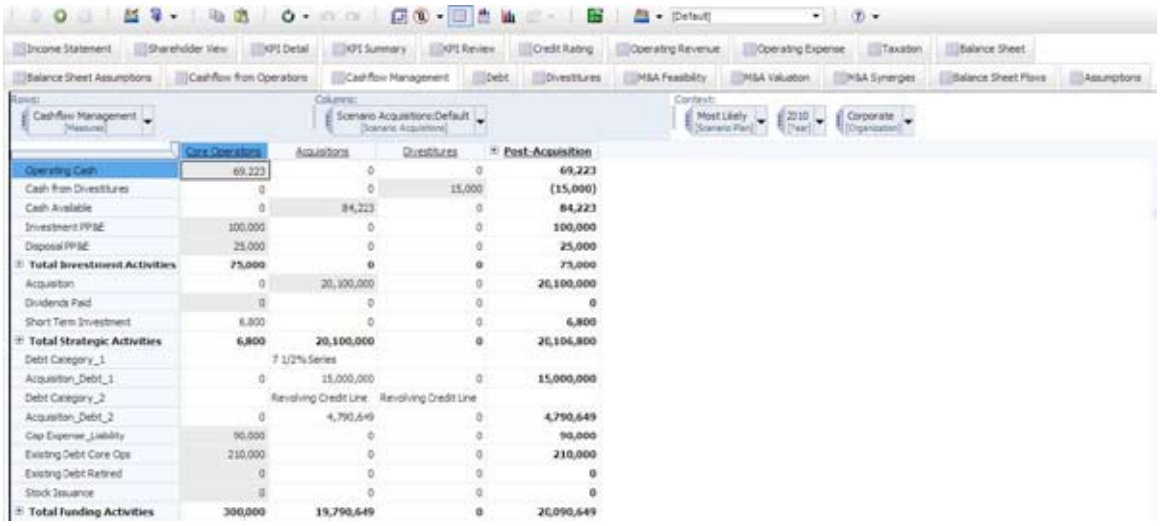
Also included in this tab is the option to provide for any dividend payments, share issuances and repurchases. P/E ratios are input here. This tab is also used to input shares issuance and/or share repurchases. The output of these numbers is used in various metrics in the KPI and Shareholder View tabs.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10yr Total
Cash Receipts from Sales	23,448,947	27,292,386	28,685,456	29,716,874	29,980,639	30,305,888	30,790,680	30,861,822	31,181,395	31,097,341	**293,361,428**
Other Revenue	87,989	10,812	1,367	168	21	3	0	0	0	0	**100,340**
Payments to Employees	5,647,622	5,451,211	5,423,903	5,478,410	5,518,058	5,802,977	6,741,804	6,892,187	6,911,938	6,932,187	**60,800,316**
Payments Inventory	7,549,286	5,750,428	6,149,797	6,373,241	6,379,220	6,448,761	6,557,447	6,545,206	6,625,537	6,579,377	**64,958,298**
Payments other Expense	5,413,942	5,681,908	5,718,309	5,690,957	5,666,936	5,332,442	4,279,718	4,178,377	4,166,572	4,154,499	**50,283,738**
Income Tax Paid	4,830,044	6,039,166	6,066,454	6,285,197	6,345,845	6,418,252	6,581,665	6,626,938	6,681,635	6,676,404	**62,551,600**
Interest Expense	26,800	26,800	26,807	26,800	26,800	26,800	26,807	26,800	26,800	26,800	**268,013**
NET CASH FROM OPERATING ACTIVITIES	**69,223**	**4,353,585**	**5,301,553**	**5,862,438**	**6,043,802**	**6,276,659**	**6,603,240**	**6,592,315**	**6,768,913**	**6,728,075**	**54,599,802**
(Increase)/decrease in receivables	(1,274,696)	(165,784)	(75,729)	(145,444)	(16,639)	(43,398)	(50,121)	(14,792)	(42,860)	17,847	**(3,811,718)**
(Increase)/decrease in inventory	(2,251,098)	(17,881)	(74,399)	(66,794)	(37,452)	(30,034)	(29,318)	(39,500)	(20,024)	(11,718)	**(2,557,922)**
(Increase)/decrease in Other Assets	(12,371)	10,812	1,367	168	21	3	0	0	0	0	(14,148)
Increase/(decrease) in payables	1,485,105	1,131,212	1,205,843	1,253,752	1,254,928	1,268,609	1,285,774	1,287,581	1,303,384	1,294,304	**12,770,512**
Increase/(decrease) in accrued expenses	1,101,397	1,135,527	1,136,586	1,138,115	1,136,002	1,095,118	965,282	958,614	957,587	956,538	**10,580,766**
Increase/(decrease) in interest payable	2,400	2,400	2,393	2,400	2,400	2,400	2,393	2,400	2,400	2,400	**23,987**
Increase/(decrease) in income taxes payable	575,015	33,369	38,139	39,534	6,371	26,762	46,634	(453)	18,383	(7,871)	**815,883**
Increase/(decrease) in deferred taxes payable	1,015,000	(167,000)	(4,500)	(4,500)	(4,500)	(3,250)	0	0	0	0	**831,250**
Total adjustments	**(1,359,247)**	**1,962,669**	**2,250,001**	**2,237,232**	**2,341,131**	**2,316,210**	**2,220,544**	**2,213,850**	**2,218,871**	**2,251,499**	**18,652,758**
Net Income	1,413,470	2,472,917	3,033,552	3,607,206	3,684,671	3,947,448	4,382,696	4,378,465	4,550,043	4,476,576	**35,947,044**
Depreciation and amortization	15,000	(82,000)	18,000	18,000	18,000	13,000	0	0	0	0	**(0)**
NET CASH OPERATIONS_Indirect	**69,223**	**4,353,585**	**5,301,553**	**5,862,438**	**6,043,802**	**6,276,659**	**6,603,240**	**6,592,315**	**6,768,913**	**6,728,075**	**54,599,802**

Cashflow from Operations

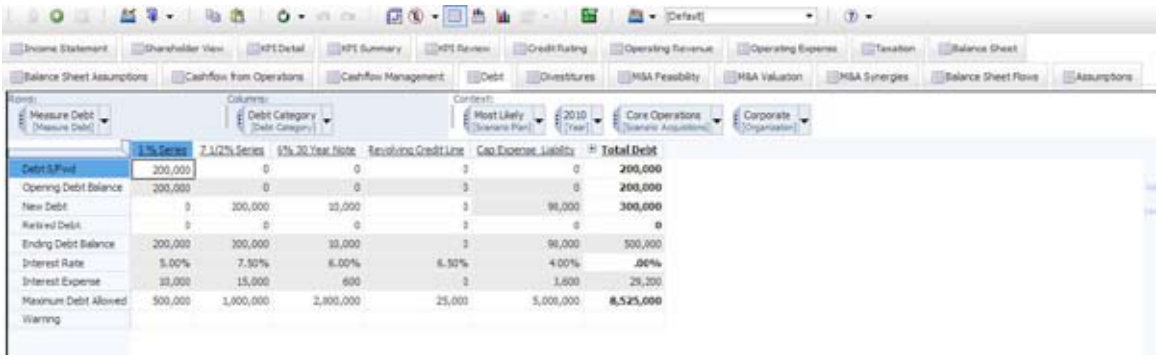
This tab contains two views of operational cash. No input is required. The top view shows the “Direct” changes to the cash accounts, while the bottom shows “Indirect” changes as they impact the Balance Sheet. Both Direct and Indirect net cash should be the same.



	Core Operations	Acquisitions	Divestitures	Post-Acquisition
Operating Cash	69,223	0	0	69,223
Cash from Divestitures	0	0	15,000	(15,000)
Cash Available	0	84,223	0	84,223
Investment PP&E	100,000	0	0	100,000
Disposal PP&E	25,000	0	0	25,000
Total Investment Activities	**75,000**	**0**	**0**	**75,000**
Acquisition	0	20,100,000	0	20,100,000
Dividends Paid	0	0	0	0
Short Term Investment	6,800	0	0	6,800
Total Strategic Activities	**6,800**	**20,100,000**	**0**	**20,106,800**
Debt Category_1		7 1/2% Series		
Acquisition_Debt_1	0	15,000,000	0	15,000,000
Debt Category_2		Revolving Credit Line	Revolving Credit Line	
Acquisition_Debt_2	0	4,790,649	0	4,790,649
Cap Expense_Liability	90,000	0	0	90,000
Existing Debt Core Ops	210,000	0	0	210,000
Existing Debt Retired	0	0	0	0
Stock Issuance	0	0	0	0
Total Funding Activities	**300,000**	**19,790,649**	**0**	**20,090,649**

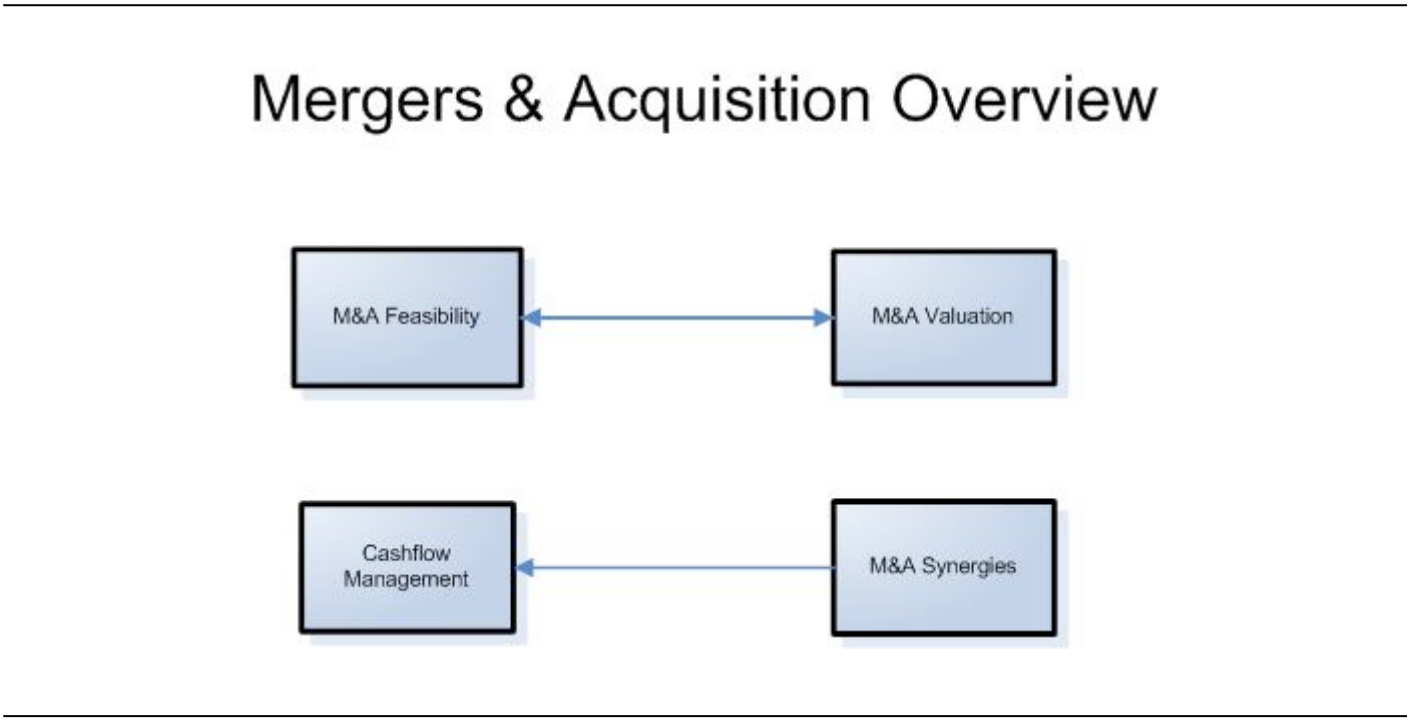
Cashflow Management

This is one of the main input tabs. You use it to plan and fund investments and other strategic activities. Cash from core represents the operating cash available for investment activity under the acquisition item. Any cash from divestitures would also result in additional cash for acquisitions. The cash planning is done in the Acquisitions scenario and it includes capital investment and disposal, along with Dividend payouts. It is assumed that at the end of this exercise, there is no remaining cash balance. Cash is either invested or borrowed to arrive at a zero balance.



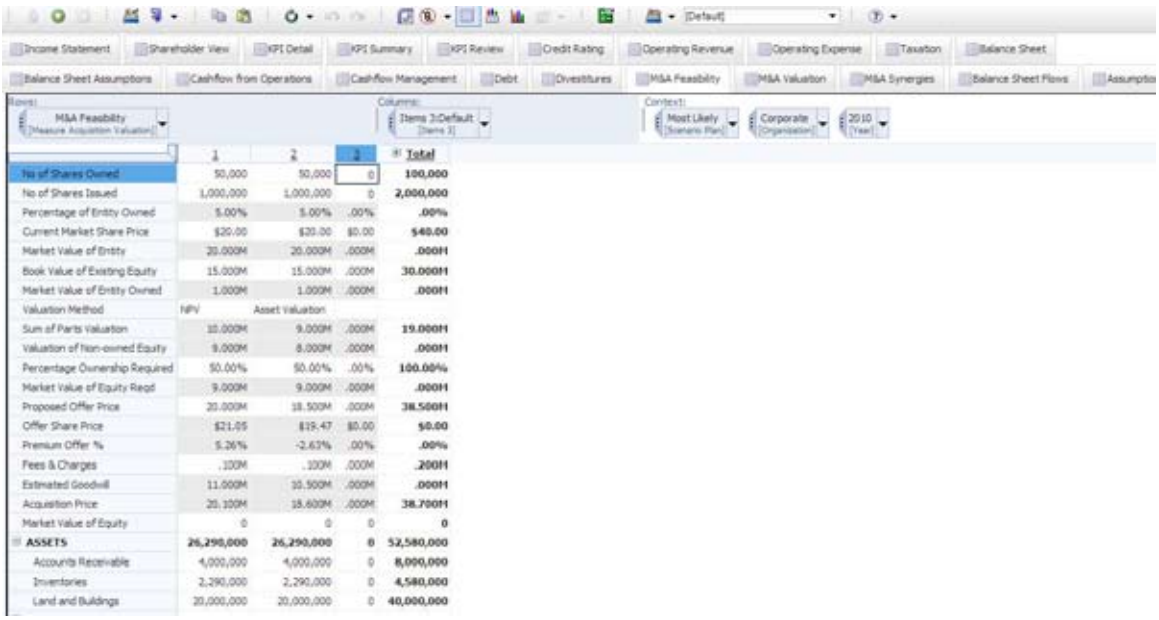
Debt

You can use this tab to plan debt for core operations. Debt planning for acquisitions is created in the Cashflow Management tab. For example, when you input the amount and type of debt to fund an acquisition, this debt is linked to the Debt cube and interest is calculated. You must also put in a maximum or upper limit of borrowing for each debt type. If this amount is exceeded, a warning appears.



Mergers and Acquisition Planning

M&A planning is an important part of this *Blueprint*. Because most companies plan for growth and profitability, acquisition planning is a critical component of the strategic planning process. The next section of this *Blueprint* outlines its M&A component as shown in the flowchart here.

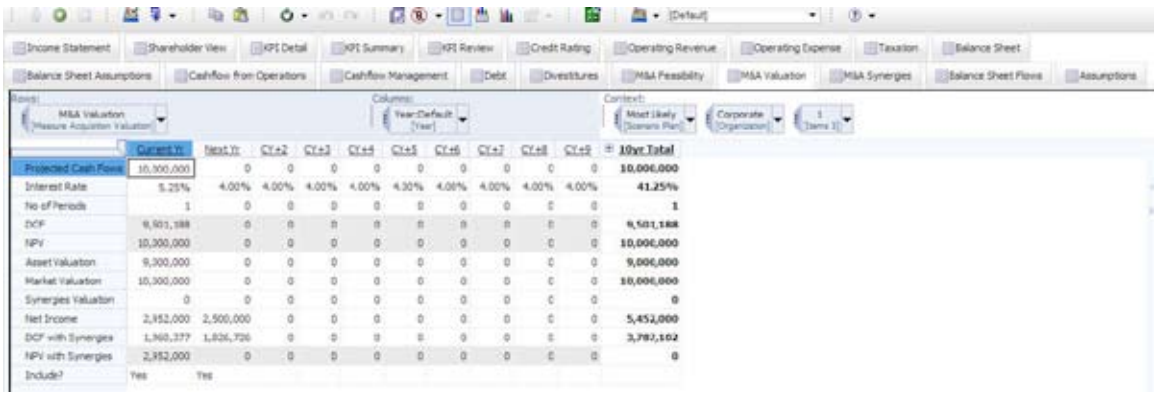


M&A Feasibility

The M&A Feasibility tab begins the initial M&A process. Required is some basic information about the purchase price, shares currently owned and percentage of ownership desired. The user must select a valuation method from the drop-down and most importantly, whether to include the acquisition from the drop-down "Include." Only by selecting "Yes" will users see the effect of this acquisition on all of the financials and metrics.

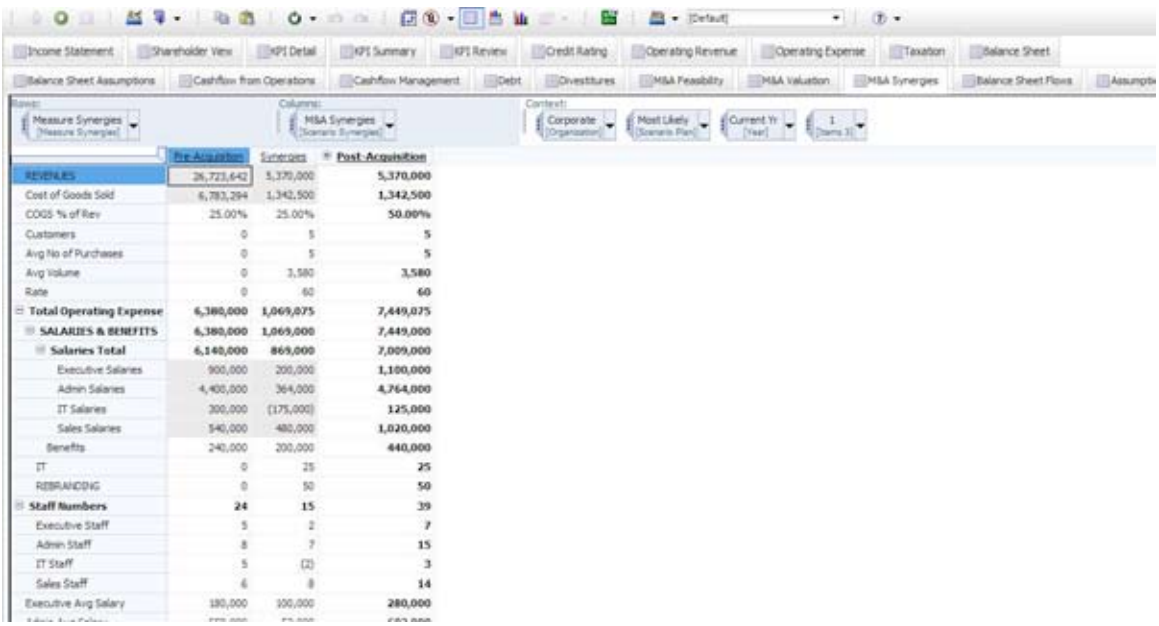
By indicating what price you are willing to pay in order to make the acquisition, you can immediately see the resulting Premium Offer %.

This tab allows the user to plan for up to three acquisition evaluations per year/scenario. Of course, this list can be expanded or modified to accommodate user needs. You may also want to input the acquisition with varying offer prices, and valuations via the Scenarios dimension. Additionally, the "Fair Market Value" of existing Assets and Liabilities must be entered to calculate goodwill.



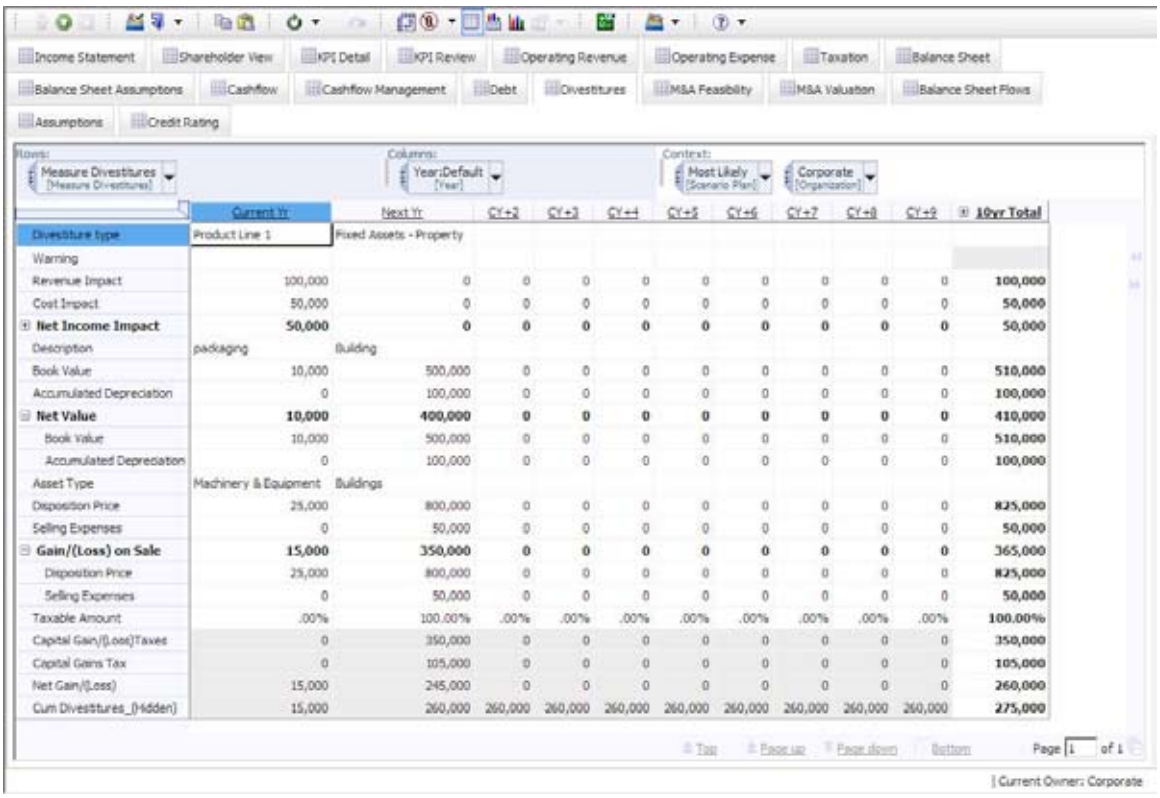
M&A Valuation

This tab is used to input the projected cash flows, asset valuation, market valuation, and interest rate for the acquisition. Based on the interest rate that is input, the valuation for net present value and discounted cash flow is calculated. Net Income is linked from the M&A Synergies tab to calculate the values for NPV and discounted cash flow with synergies.



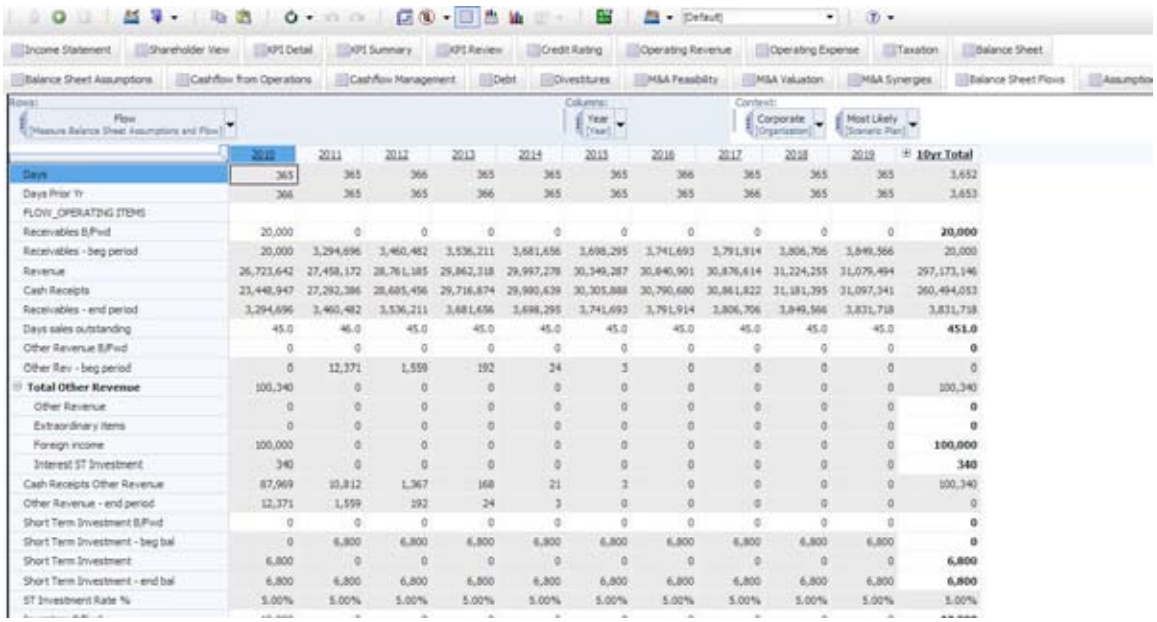
M&A Synergies

This tab is used to input projected synergies for the acquisition. The items in this tab represent key factors used to determine revenue and cost synergies. These include Customers; Average Purchases; and Volume, Headcount and Facilities. In our example, note that the anticipated synergies from this acquisition include a negative number for IT Staff and Floorspace indicating a reduction in this expense or positive synergy.



Divestitures

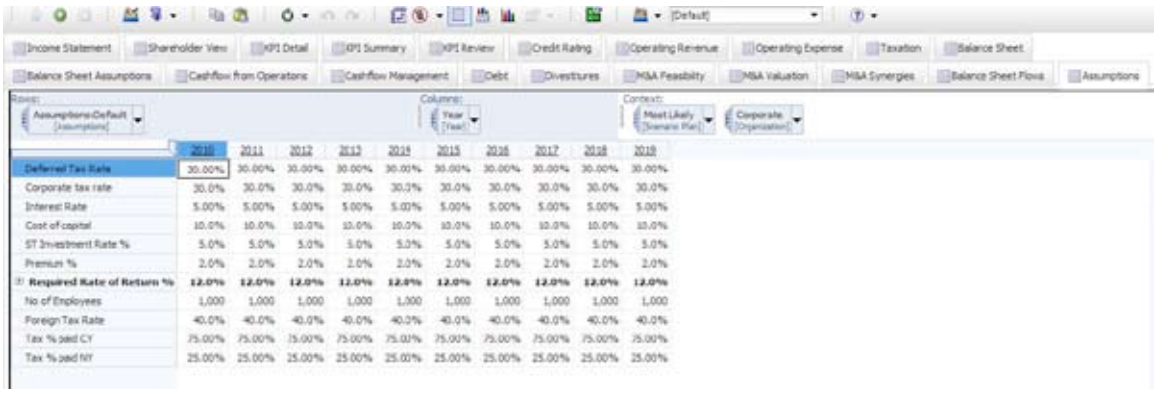
This tab requires input for divestitures. The drop-down list for divestiture type includes fixed assets, product lines, and entire divisions. Additionally, you should add data detailing the revenue and cost impact of the divestiture. The sales period must be included to capture the divestiture in the correct period. If you are divesting of a capital asset, you should also indicate the Disposition Price and any associated Selling Expense. The data in this tab is linked to the Cash Flow Management tab.



Balance Sheet Flows

This tab represents a trial balance. You may use this tab to input much of the same information that was input in the Balance Sheet Assumptions view, such as DSO.

It is important that the balance forward accounts are correct as these represent prior year actual data. To check this, make sure the "Bal_check" column for "Post Acquisition" in the Balance Sheet is zero. Balances for many of the accounts are calculated based on the input in the Bal Sheet Assumptions tab.



Assumptions

This tab includes corporate-provided data about interest and tax rates that is used in most of the financials. This tab would typically be read-only for non-corporate users.

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