1.4 INSIGHT

The seven drivers of value

1. Increase sales growth
2. Increase operating profit margin
3. Reduce cash tax rate
4. Reduce incremental investment in capital expenditure
5. Reduce investment in working capital
6. Increase time period of competitive advantage
7. Reduce cost of capital.

*** Financial strategy Steps – From Start To Finish

Step 1. Establish Clear Goals

the first crucial step is to establish crystal-clear goals.

Step 2. Gather and Organize Financial Information

Step 3. Analyzing Current Financial Situation

Step 4. Develop a Comprehensive Financial Plan

Proceeding forward, the subsequent step in the financial planning process entails crafting a comprehensive financial plan.

Step 5. Put Your Financial Plan into Action

With a clear roadmap of the necessary steps to construct your financial plan in hand, it’s time to take decisive action.

Step 6. Monitor Your Progress and Make Adjustments

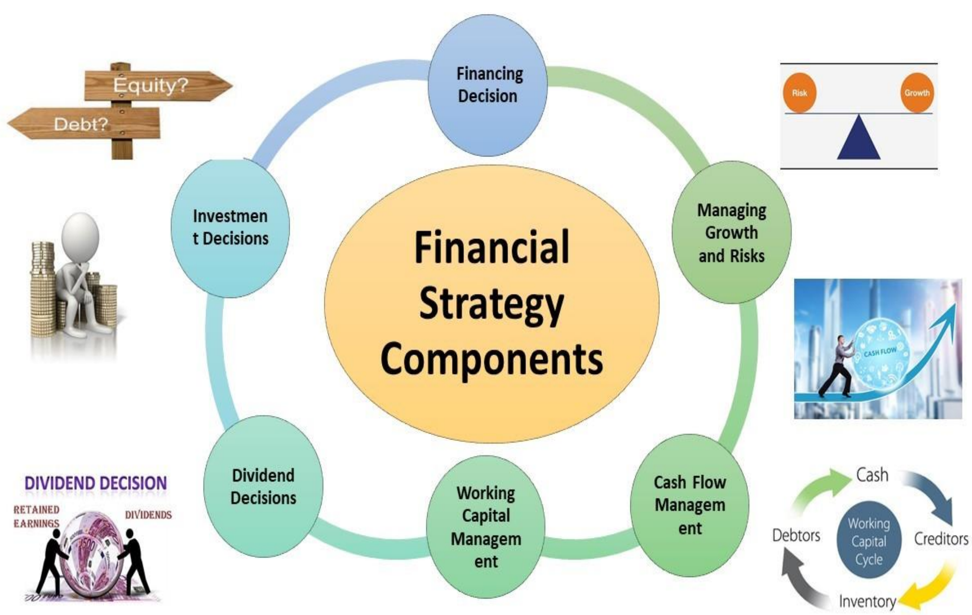
Step 7. Revise and Update Your Financial strategy Over Time

Continually revisiting and refining your financial plan is pivotal in preserving its relevance and efficacy.

***KEY MESSAGES

* Financial strategy concerns how companies raise and deploy their funds.
● The investors ’ required return can be mapped against their perceived risk. Delivering value for shareholders – which is the main objective of a company – means giving them an above-the-line return.
● A company can be valued by discounting its expected future cash flows at an appropriate cost of capital.

* Value arises from creating competitive advantage through successful business strategy, in combination with a successful financial strategy, to increase those cash flows and reduce the cost of capital.
● Agency theory, which discusses the difference in objectives between managers and owners, can be used to explain many aspects of corporate finance.
● Stakeholder management is an important part of long-term shareholder value creation.
● Although accounting results are not necessarily an indicator of shareholder value, companies spend much time and effort on ensuring that the accounting results look good, sometimes to the detriment of value



Example

Assuming the following information, the analyst applies the equation to get the WACC:

- E = 50,000
- Re = 60,000
- D = 80,000
- V = 130,000
- Rd = 90,000
- Tc = 20%

WACC = [(50,000/130,000) x 60,000] + [(80,000/130,000) x 90,000 x (1 - 0.2)] = (23,077) + (44,308) = 67,385This means the organization's weighted average cost of capital is $67,385.