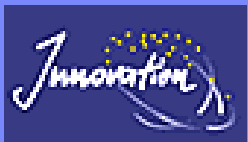


## *Task 2.3*

*Design methodologies and tools regarding financial services procedures*

### **D10: SECTION “BUSINESS PLAN”**

Version: 1.0  
Contributing partners: IE  
Preparation date: 2006-12-01



*A budget tool is being made in order to provide a comprehensive tool that help the entrepreneur to develop the financial study and feasibility analysis of the project.*

The budget tool includes the list of planned revenues and costs that have been considered in the **business plan** allowing to estimate:

- Financial Statements: P&L and Balance sheets
- Free Cash Flow
- Wacc estimations
- Valuation method of Discounted cash flows

The budget tool should also be used to calculate different scenarios, and measure impacts of changes in key variables such as price, volumes, costs, etc.

# The excel file

The budget spreadsheet contains five worksheets:

- ❑ **“Revenues”**: Describes the expected revenues during the time of analysis. Contains prices, volumes, sales discounts and other income that the project could generate.
- ❑ **“Investments and costs”**: Explains the cost of investments, operation and others that have to be carried out to make the project.
- ❑ **“Loans”**: Describes the short and long term loans of the company as well as their costs
- ❑ **“Initial Balance & Capital Structure”**: If the project has been started this worksheet must contain the initial financial statements of it.
- ❑ **“Financial Statements and Valuation”**: This worksheet calculates the estimated financial statements, cash flows, discount rate (Wacc) and finally assesses the project using the discount cash flow method.

# How does it work?

- The spreadsheet is being made for 10 years, but it could be extended to more years simply inserting more columns between, for example, years 5 and 6. (Please notice that Year 10 is used for perpetuity estimations)

	A	B	C	D	E	F
62						
63	<b>Equity and Liabilities</b>	<b>Starting point</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
64						
65	Short-Term Loans	-				
66	Suppliers and Other Trade Accounts Payables		-	-	-	-
67						
68	<b>Total Current Liabilities</b>	-	-	-	-	-
69						
70	Long-Term Loans	-				
71	Other Liabilities and Expenses		-	-	-	-
72						
73	<b>Total Non-Current Liabilities</b>	-	-	-	-	-
74						
75	<b>Capital and Reserves</b>					
76	Share Capital	-				
77	Reserves	-	-	-	-	-
78	Current net income		-	-	-	-
79	<b>Total Equity</b>	-	-	-	-	-
80						
81	<b>Total Equity and Liabilities</b>	-	-	-	-	-
82						
83						
84	<b>Control ( Assets = Equity and Liabilities)</b>	-	-	-	-	-
85						
86						
87	<b>Liquidity (Cash)</b>	<b>Starting point</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>

- The entrepreneur only should fill in blue cells.
- The remaining cells are protected.

- There are some control cells that ensure that calculations have been correctly done.
- It also includes a cash calculator that automatically allows that assets = equity and liabilities

# Assumptions

- The entrepreneur will have to include some data “assumptions” which are in blue cells at the beginning of the “**Financial Statements and Valuation**” worksheet:

*Example*

## Assumptions

Taxes (% of earnings before taxes)	35%
Clients and receivables (% of net revenue)	10%
Inventories (% of net revenue)	2%
Payables (% of raw materials )	60%
Cost of capital	12%
Expected annual growth rate in Cash Flow in perpetuity	5%

# Outputs

Once the project data has been correctly included, the budget tool will provide estimations, for the time of study, of the following:

- ❑ P&L and dividends flow
- ❑ Balance sheet
- ❑ Valuation analysis
  - WACC
  - Discounted free cash flows, including perpetuity value
    - ✓ IRR
    - ✓ NPV calculated using WACC

Example

# 1. P&L output

P&L	Starting Point	Year 1	Year 2	Year 3	...	Year 10
Net revenue		7.500	7.500	7.500	....	7.500
Other operating income		-	-	-	....	-
Variation in inventories		150	-	-	....	-
Raw materials expenses		750	750	750	....	750
Personnel Costs		100	100	100	....	100
Other operating expenses		28	28	28	....	28
<b>EBITDA</b>		<b>6.472</b>	<b>6.622</b>	<b>6.622</b>	....	<b>6.622</b>
<i>EBITDA (% of revenue)</i>		<i>86,3%</i>	<i>88,3%</i>	<i>88,3%</i>	....	<i>88,3%</i>
Depreciation and Amortization		1.600	1.600	1.670	....	1.670
<b>EBIT</b>		<b>4.872</b>	<b>5.022</b>	<b>4.952</b>	....	<b>4.952</b>
<i>EBIT (% of revenue)</i>		<i>65,0%</i>	<i>67,0%</i>	<i>66,0%</i>	....	<i>66,0%</i>
Financial income						
Interest expenses		890	970	955	....	850
<b>Profit Before Taxes</b>		<b>3.982</b>	<b>4.052</b>	<b>3.997</b>	....	<b>4.102</b>
<i>PBT (% of revenue)</i>		<i>53,1%</i>	<i>54,0%</i>	<i>53,3%</i>	....	<i>54,7%</i>
Taxes		1.394	1.418	1.399	....	1.436
<b>Profit after tax</b>		<b>2.588</b>	<b>2.634</b>	<b>2.598</b>	....	<b>2.666</b>
% Dividends		50%	50%	50%	....	50%
Dividends of current period (to be paid next year)		1.294	1.317	1.299	....	1.333

## 2 .Assets.....

*Example*

Assets	Starting point	Year 1	Year 2	Year 3	....	Year 10
Cash	1.500	7.138	10.878	12.979	....	32.883
Clients and Other Receivables Accounts		750	750	750	....	750
Inventories		150	150	150	....	150
<b>Total Current Assets</b>	1.500	8.038	11.778	13.879	....	33.783
Tangible Fixed Assets	15.000	13.500	12.000	10.860	....	80
Tangible Fixed Assets	15.000	15.000	15.000	15.400	....	15.400
Depreciation	-	1.500	3.000	4.540	....	15.320
Intangible Assets	1.000	900	800	970	....	60
Intangible Fixed Assets	1.000	1.000	1.000	1.300	....	1.300
Depreciation	-	100	200	330	....	1.240
<b>Total Non-Current Assets</b>	16.000	14.400	12.800	11.830	....	140
<b>Total Assets</b>	<b>17.500</b>	<b>22.438</b>	<b>24.578</b>	<b>25.709</b>	<b>....</b>	<b>33.923</b>



Example

## 2. Equity & Liabilities

Equity and Liabilities	Starting point	Year 1	Year 2	Year 3	....	Year 10
Short-Term Loans	2.500	900	900	900	....	900
Suppliers and Other Trade Accounts Payables		450	450	450	....	450
<b>Total Current Liabilities</b>	2.500	1.350	1.350	1.350	....	1.350
Long-Term Loans	5.000	8.000	8.800	8.650	....	7.600
Other Liabilities and Expenses		-	-	-	....	-
<b>Total Non-Current Liabilities</b>	5.000	8.000	8.800	8.650	....	7.600
<b>Capital and Reserves</b>						
Share Capital	6.000	6.500	6.500	6.500	....	6.500
Reserves	4.000	4.000	5.294	6.611	....	15.807
Current net income		2.588	2.634	2.598	....	2.666
<b>Total Equity</b>	10.000	13.088	14.428	15.709	....	24.973
<b>Total Equity and Liabilities</b>	<b>17.500</b>	<b>22.438</b>	<b>24.578</b>	<b>25.709</b>	<b>....</b>	<b>33.923</b>
Control ( Assets = Equity and Liabilites)	-	-	-	-	....	-

### 3. Valuation analysis: WACC estimations

*Example*

WACC estimation	Year 1	Year 2	Year 3	....	Year 10
% Debt	40,5%	40,2%	37,8%	....	25,4%
% Equity	59,5%	59,8%	62,2%	....	74,6%
Debt Cost	10,9%	10,4%	9,9%	....	9,9%
Capital Cost	12%	12%	12%	....	12%
% taxes	35%	35%	35%	....	35%
<b>WACC</b>	<b>10,0%</b>	<b>9,9%</b>	<b>9,9%</b>	....	<b>10,6%</b>
Discount factor	0,91	0,83	0,75	....	0,37

# 3. Valuation Analysis... Discounted free cash flows

*Example*

Free Cash Flow Evaluation	Initial Investment	Year 1	Year 2	Year 3	...	Year 10	Perpetuity Value
EBIT		4.872	5.022	4.952	....	4.952	↓
- Cash taxes on EBIT		1.705	1.758	1.733	....	1.733	
= Non operating profit less adjusted taxes		3.167	3.264	3.219	....	3.219	
+ Depreciation and Amortization		1.600	1.600	1.670	....	1.670	
= Gross Cash Flow		4.767	4.864	4.889	....	4.889	
- Change in working capital		450	-	-	....	-	
- Change in capital expenditures		-	-	700	....	-	
= Operating Free Cash Flow		4.317	4.864	4.189	....	4.889	
+ After tax financial income		-	-	-	....	-	
<b>= Free Cash Flow</b>	<b>- 16.000</b>	<b>4.317</b>	<b>4.864</b>	<b>4.189</b>	<b>....</b>	<b>4.889</b>	
<b>Discounted Free Cash Flow</b>	<b>- 16.000</b>	<b>3.924</b>	<b>4.027</b>	<b>3.156</b>	<b>....</b>	<b>1.787</b>	<b>24.236</b>

IRR	<b>34%</b>
NPV <sub>(WACC)</sub>	<b>36.861 €</b>