



Universidad del Desarrollo
Universidad de Excelencia

Finance I

Fall 2012

Session 19:

Short Term Financial Planning



► Videos:

- Who used them to study?
- Who thinks they were helpful?
- I don't
- Very good grades, but not so good results
- Next video will have a guided format. All team members must appear on camera (visually or audibly) and will answer specific questions relating to the chapters assigned.
- Next delivery, June 25th

► Quiz dates:

- June 6th (next week)
- June 13th
- June 20th

2. Short term financial planning

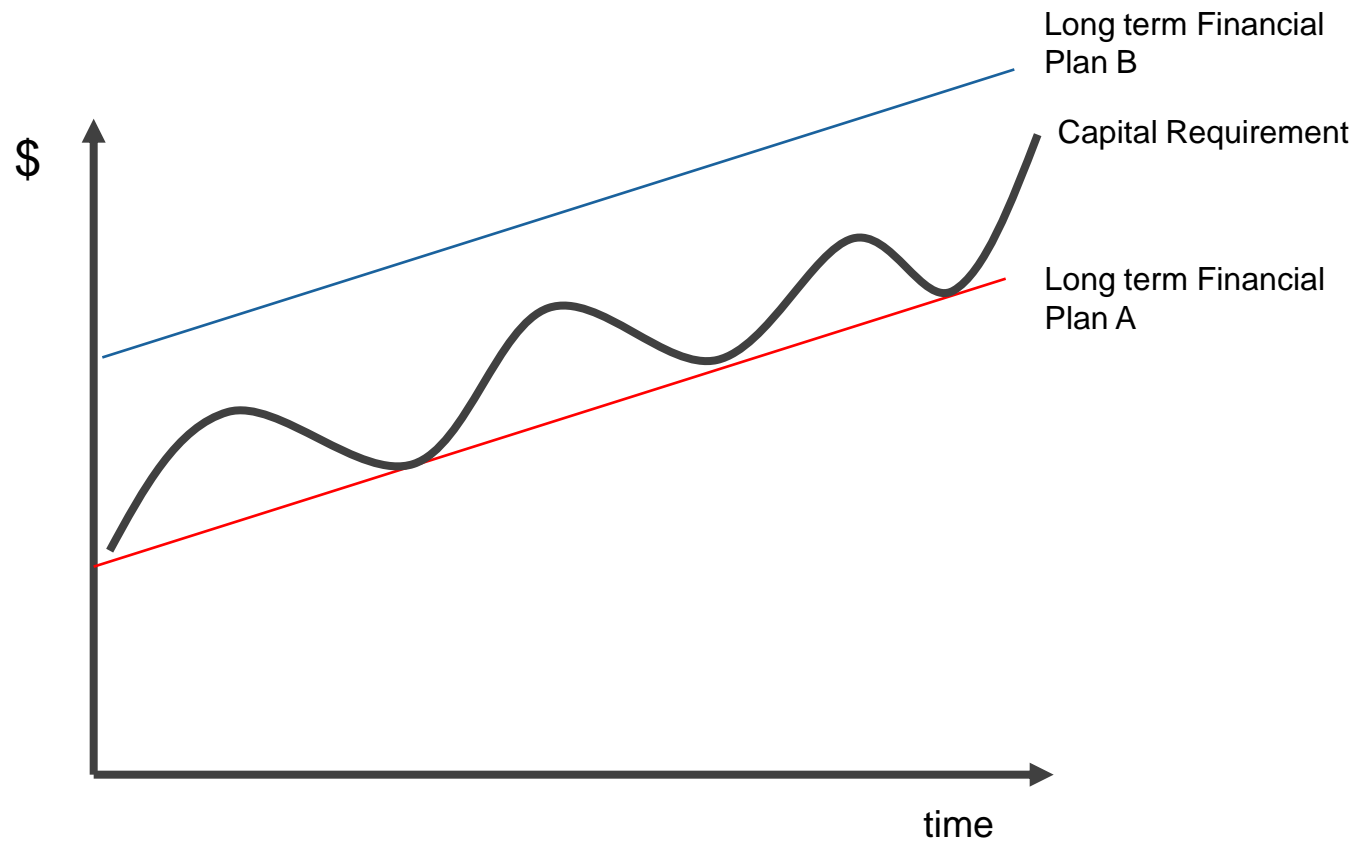
- ▶ **Is short term planning different from long term planning?**
 - Do you make decisions on a daily basis similarly to decisions for next year?

- ▶ **In a company, the long term plan represents the goal to be achieved given a set of assumptions regarding the business plan.**

- ▶ **The short term plan is the way to modify small pieces of the long term plan given the real parameters (instead of assumptions)**

- ▶ **So, what would a simplified explanation of short term financial planning?**

2. Short term financial planning



2. Short term financial planning

- ▶ **How do you plan?**

- ▶ **Start from today's position and simulate the future position of all accounts based on the business plan**
 - Assets (what the company will own)
 - Liabilities and Equity (what the company will owe)

- ▶ **Some accounts are easier to “forecast” since they are decided by the management or defined by accounting rules**
 - Fixed assets (investments in plant, property, machinery, etc) and depreciation
 - Inventories
 - Long term debt / short term debt
 - Cash

2. Short term financial planning

- ▶ **Other accounts are more difficult to “forecast” since they depend on the behavior of clients, suppliers, markets, etc.**
 - Net income (therefore revenues and costs)
 - Accounts payables
 - Accounts receivables
 - Best practices include building ranges of possible outcomes or scenarios

- ▶ **Once all accounts have been forecasted, you can analyze whether the company will:**
 - generate cash and possibly distribute to shareholders
 - require cash and determine it's most convenient source

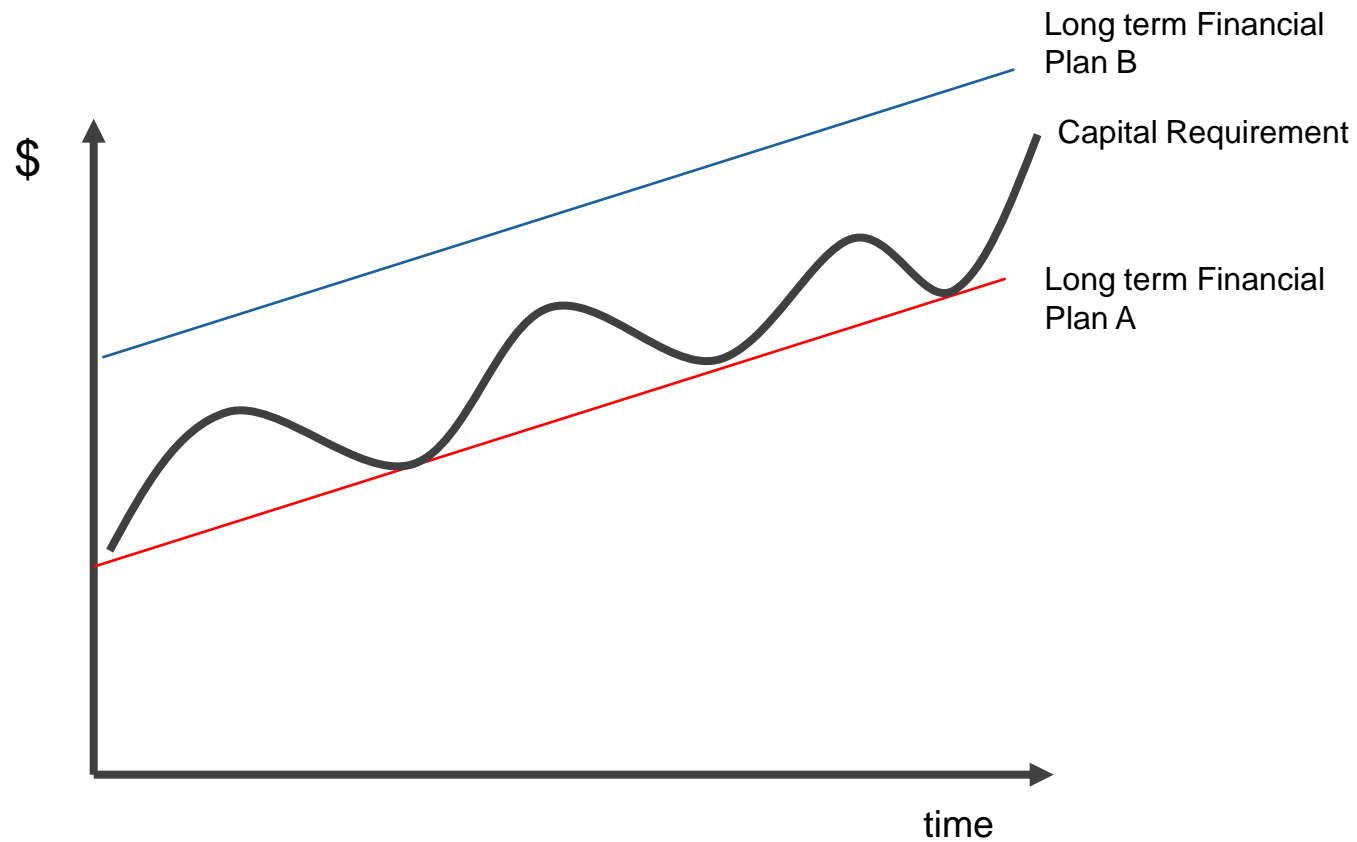
- ▶ **We will NOT construct cash flows. However, you need to know how each account's variation affects the cash flow (requires or generates)**

2. Short term financial planning

► Example:

- You expect to purchase a new machinery next year?
 - Require funding
- Clients delay their payments?
 - Require funding
- Net income increases due to higher profit margins?
 - If all equal (iaccounts receivable, inventories, account payables, etc.) Generates funds
- Delay on payment to suppliers
 - Generate funds
- Distribute dividends
 - Require funding
- Reduce dividends
 - Generate funds

2. Short term financial planning



2. Short term financial planning

- ▶ **What characteristics should be considered to decide the best short term borrowing option?**
 - Commitment (availability)
 - Maturity (Term)
 - Interest rate
 - Syndicated or not
 - Transferable or not
 - With collateral or not (asset that ensures payment OR dividing loan in tranches)
 - Insured or not

2. Short term financial planning

- ▶ **What types of instruments could be used for short term financial planning?**
- ▶ **Short term bank debt (Bank structures the transaction)**
- ▶ **Commercial papers (advisor structures the transaction)**
- ▶ **Medium term notes (advisor structures the transaction)**
- ▶ **Leasing**
- ▶ **Factoring**
- ▶ **Confirming**
- ▶ **Collateralized instruments**

- ▶ **Short term financial planning allows to bridge the gap of funds between short term capital requirements and long term financing**
 - The size of the gap (and sign + or -) depends on the industry and company decision

- ▶ **There are many factors to considerer when deciding the characteristics of the source of funding**

- ▶ **There are many financial instruments available**