



IBCC – Excel at your financials

IB CASE COMPETITION



6 February 2020

FIH PARTNERS
STRATEGIC FINANCIAL ADVISORY

Today's presenters from FIH Partners



Alexander From

Associate

Experience:
+1 year

Education:
M.Sc. Finance @
Aarhus University (2019)

Select case experience

1 Winner, CBS Finance
Competition 2018



2 Winner, BSS Master Case
Competition 2017



Daniel Ellegaard Bechmann

Associate

Experience:
+1 year

Education:
M.Sc. Applied Economics and
Finance @ CBS (2019)

Select case experience

1 Writer, CBS Finance
Competition 2018



2 Member, CBS
international case teams



Today's agenda

Brief introduction to FIH Partners

Workshop: Excel at your financials

Part 1 – Building a business case

Part 2 – Excel: Tips and Tricks

Break

Part 3 – Working in Excel

Wrap-up and Q&A

Networking @ Nexus

FIH Partners at a glance

+250

Transactions completed

EUR +100bn

Deal value

~45

Professionals

Based in CPH & NYC



CPH office



NYC office



Divestments



Infrastructure projects



Acquisitions



IPO and ECM advisory

Select examples



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Focus of today's workshop

1



Building a business case

- ✓ Identifying key financial value drivers in a business
- ✓ Creating financial forecasts based on revenue, cost and cash flow drivers

2



Excel: Best practice

- ✓ Best practice for building dynamic and efficient Excel models
- ✓ Key functions and tools in Excel relevant for case competitions

3



Working in Excel

- ✓ Practical part of workshop going through a retail expansion case
- ✓ Using the tools and functions of the workshop to measure impact

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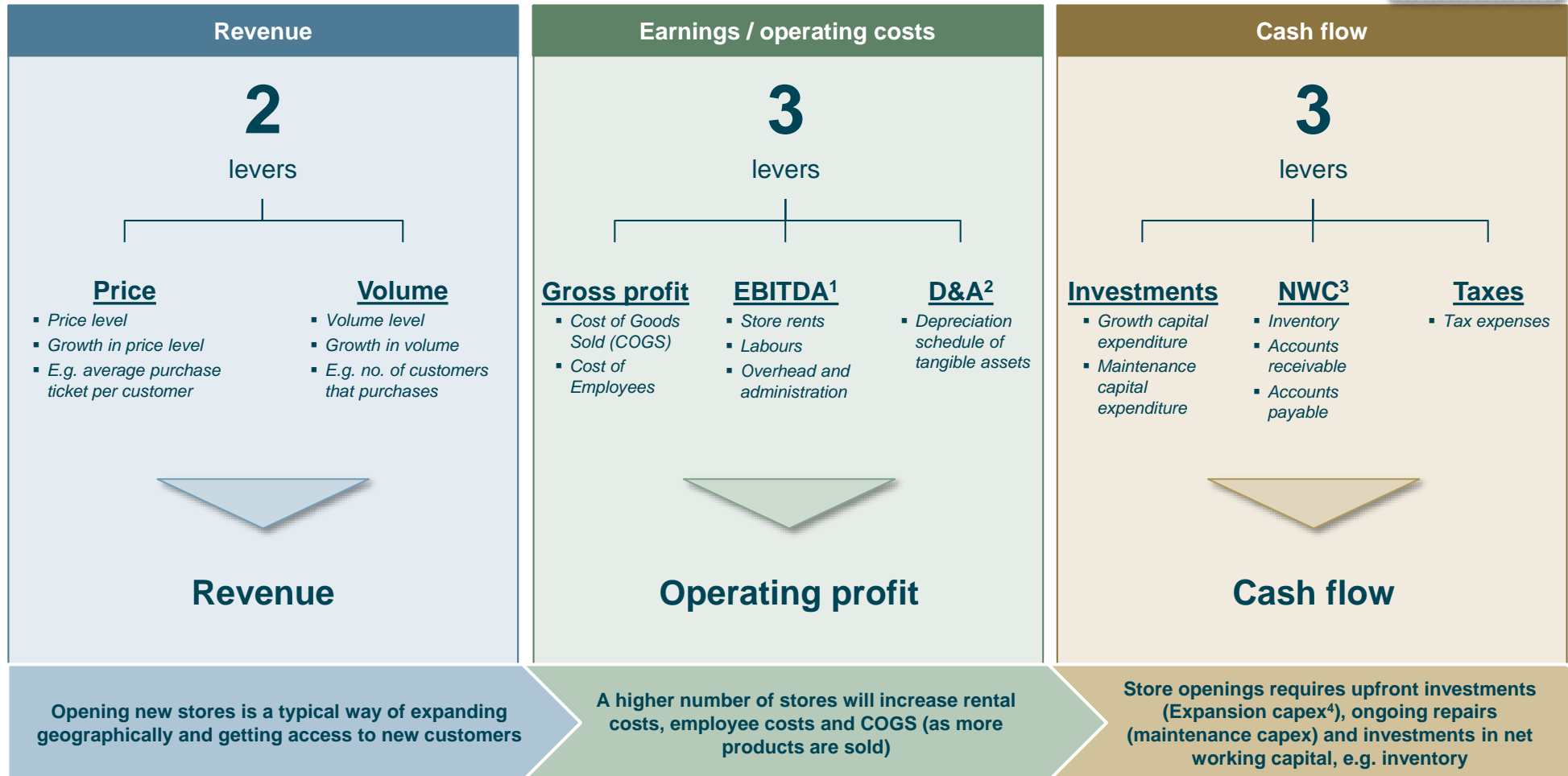
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1 Introduction to different levels of value drivers



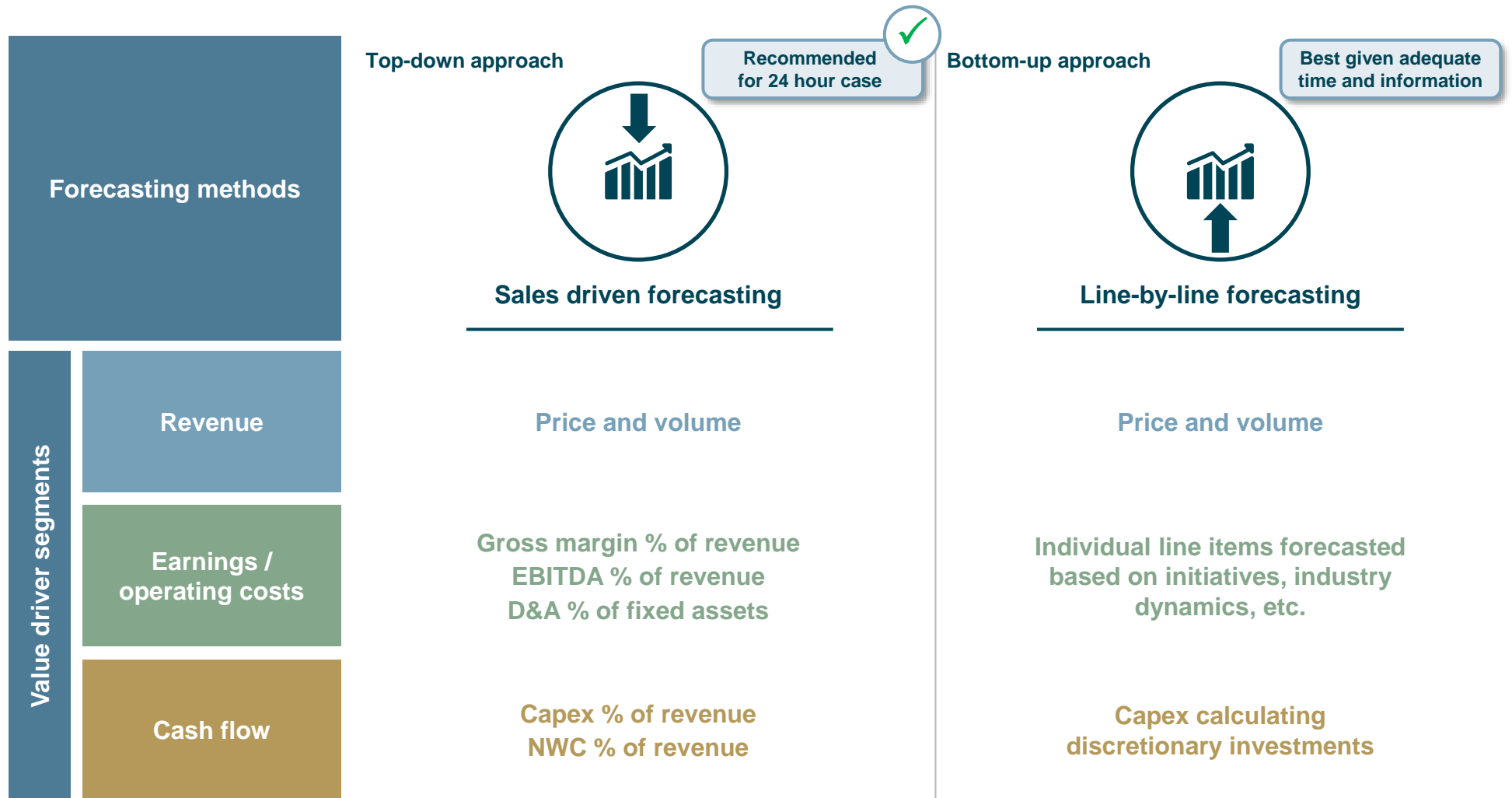
2 Identifying value drivers is the first step of forecasting

Example retail



Notes: 1) Earnings before Interest, Taxes, Depreciation & Amortisation; 2) Depreciation & Amortisation; 3) Net Working Capital; 4) Capital Expenditure

3 Two general approaches to building financial forecasts



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Getting the settings right will save you a lot of time



24 hour case



Limited time



Optimise time
where possible!

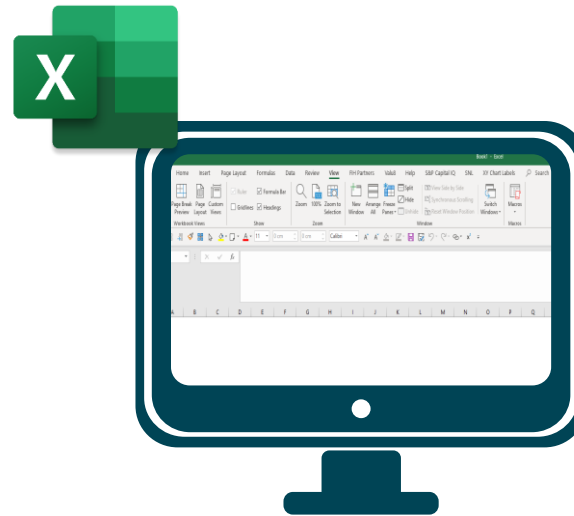


1 Setting up quick access toolbar and graph formatting

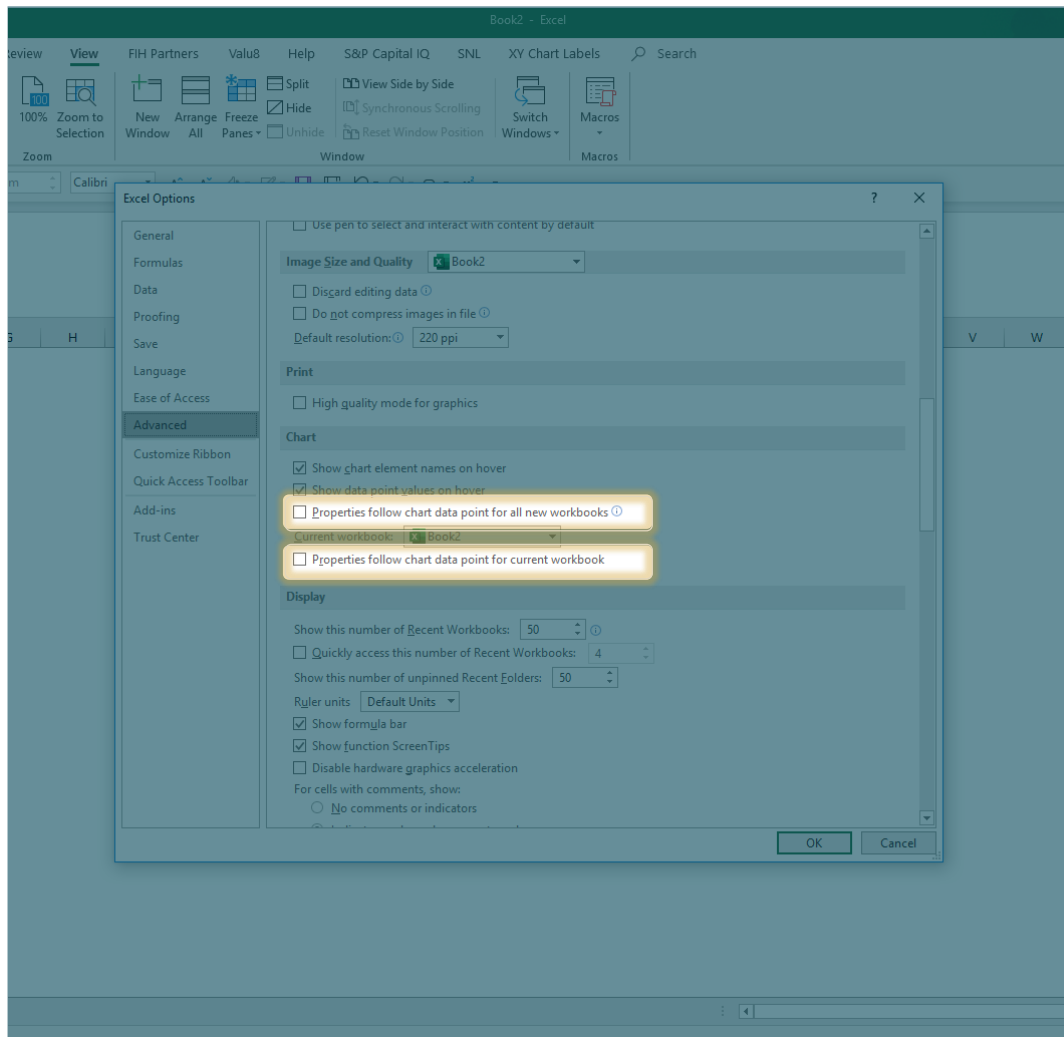
2 Learning best practices method of Working in Excel

3 Knowing the essential tools and functions in Excel

Time to open Excel



1 Setting up graph formatting to remain when changing input



Setup guide (Windows)

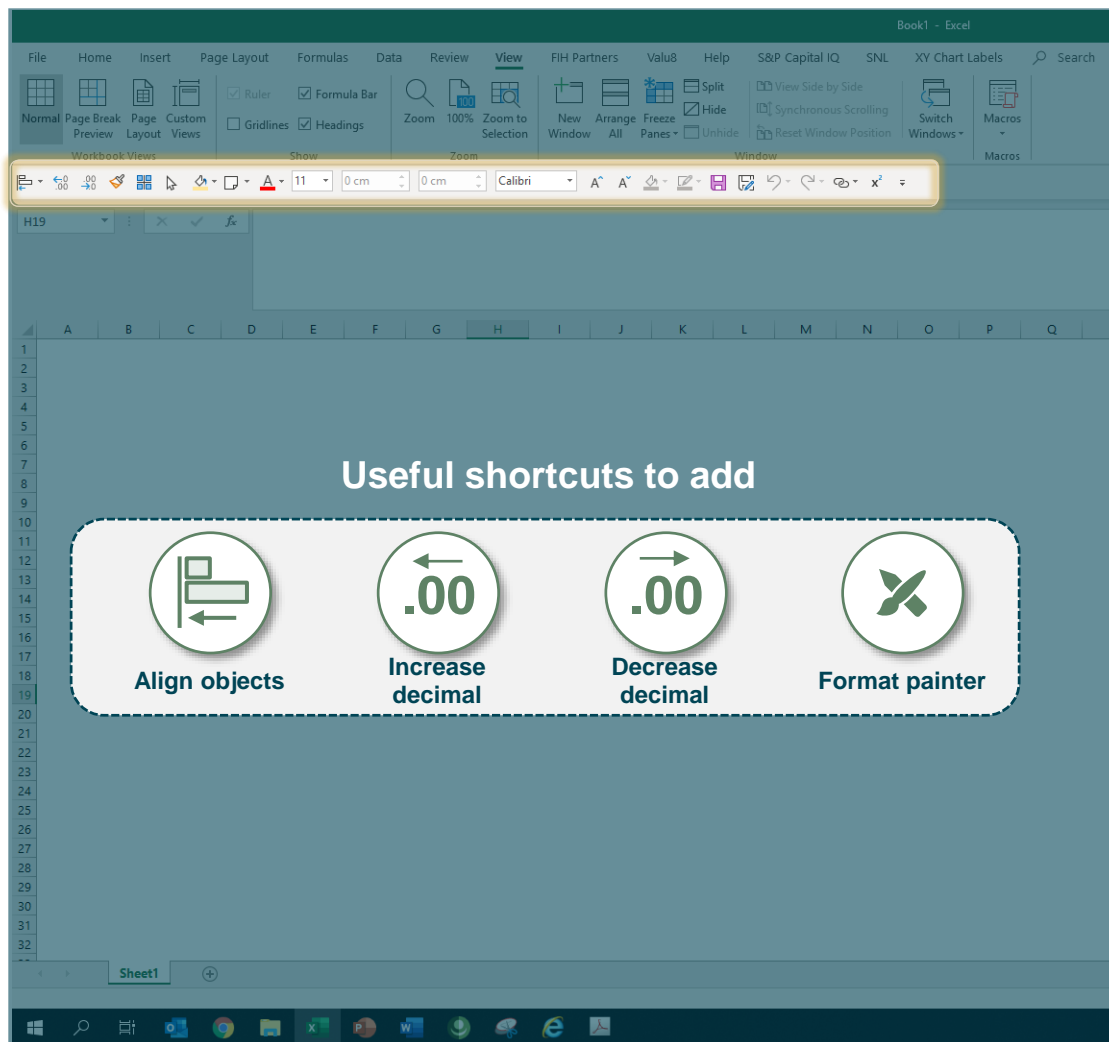
Step 1 – Go to “File” and click “Options” at the bottom

Step 2 – Click on “Advanced”

Step 3 – Scroll down to “Chart” and unclick the two tick marks as showed to the left



1 Setting up quick access toolbar with useful shortcuts

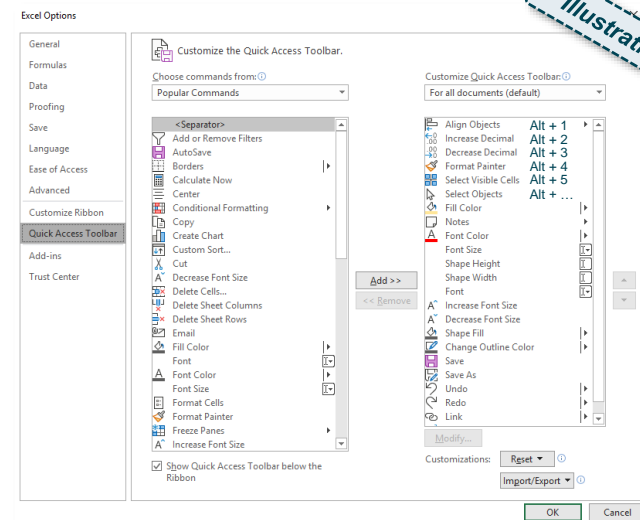


Setup guide (Windows)

Step 1 – Go to “File” and click “Options” at the bottom

Step 2 – Click on “Quick Access Toolbar”

Step 3 – You can now customise the toolbar at your own preference



**For Windows operating systems, you can now access the functions in the quick access toolbar without using the mouse by pressing “Alt”*

2 Learning best practices method of working in Excel

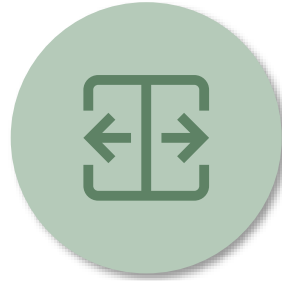


Use **formatting**

Input (hard typed): **Blue**

References: **Green**

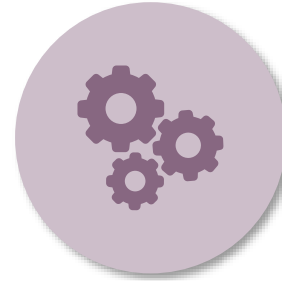
Calculations: **Regular black**



Separate input from output

Separating input cells from output cells will make your sheets a lot more manageable

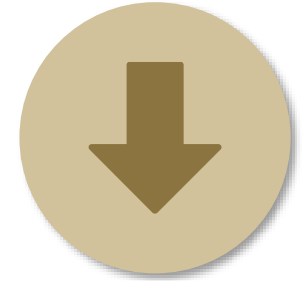
Show unit of measurement for clarity and to avoid mistakes



Keep formulas **simple**

Keep formulas simple and intuitive to understand

Nobody is impressed (or understands) 16 line formulas







Always **work vertically**

Work vertically as you will have unlimited rows to work with and

Write years horizontally

3 A few formulas will make your life easier in Excel

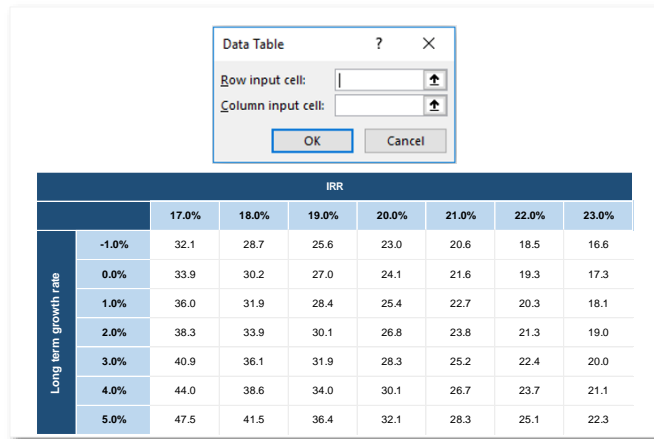
Formula name and description		Area of application
<p><u>CHOOSE</u> <i>CHOOSE(INDEX NUMBER, INDEXED VALUES)</i></p>		Useful for building various case scenarios of a financial forecast
<p><u>IF / IFERROR</u> <i>IF(LOGICAL CONDITION, IF TRUE, IF FALSE)</i></p>		Useful for returning specific values under certain conditions
<p><u>INDEX MATCH</u> <i>INDEX(RETURN ARRAY, MATCH(VALUE, MATCH ARRAY, 0))</i></p>		Useful for returning data from other sources by matching specific values in specific arrays
<p><u>SUMIFS / AVERAGEIFS / COUNTIFS</u> <i>SUMIFS(SUMRANGE, CRITERIA1, CRITERIA RANGE1,)</i></p>		Useful for summarising, averaging or counting cells by customised conditions

3

Bridges and data tables are excellent tools in case competitions

Data tables

NPV sensitivity table



		IRR						
		17.0%	18.0%	19.0%	20.0%	21.0%	22.0%	23.0%
Long term growth rate	-1.0%	32.1	28.7	25.6	23.0	20.6	18.5	16.6
	0.0%	33.9	30.2	27.0	24.1	21.6	19.3	17.3
	1.0%	36.0	31.9	28.4	25.4	22.7	20.3	18.1
	2.0%	38.3	33.9	30.1	26.8	23.8	21.3	19.0
	3.0%	40.9	36.1	31.9	28.3	25.2	22.4	20.0
	4.0%	44.0	38.6	34.0	30.1	26.7	23.7	21.1
	5.0%	47.5	41.5	36.4	32.1	28.3	25.1	22.3

Pros

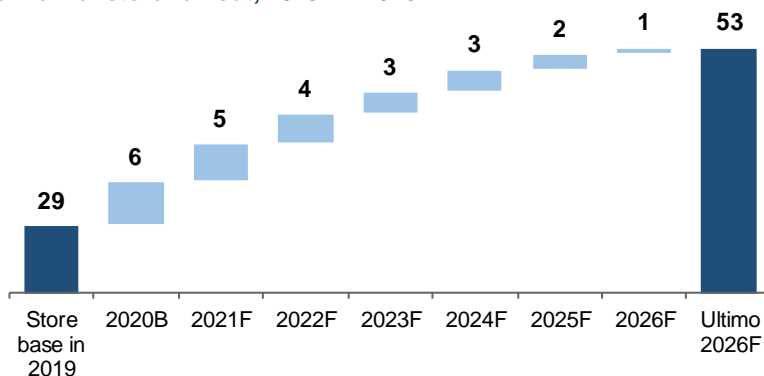
- ✓ Easy way of sensitising your results with several different assumptions
- ✓ Applicable for any type of input

Cons

- ÷ The iterative calculations slow down the Excel model significantly

Bridge graphs

Overview of store roll-out, 2019A – 2026F



Pros

- ✓ Easily communicated
- ✓ Enables ability to break down impact in separate initiatives
- ✓ Clearly illustrates if financial impact is feasible or seems too ambitious or unambitious

Cons

- ÷ Requires dynamic model to calculate the isolated effects
- ÷ Can take time to make without template

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1 Today's case



Case description

- 1) A national bakery chain called International Bakery (IB) established in 2011 in Aarhus by an extremely passionate founder
- 2) The company has achieved huge success in the regional market with sales of DKK ~140 million last fiscal year (LFY, 2019) and the founder is now ready to expand the business given the saturation in Jutland around the main city of Aarhus
- 3) To do so requires both significant capital and a more professional approach in expanding and managing large store networks
- 4) Therefore, the founder hired CBS M&A Advisors who provided sell-side advisory and helped the founder find the right investor, which led to a 55% sold equity stake to private equity fund, Sunshine Partners
- 5) Sunshine Partners and the founder have identified Copenhagen as the next step in their expansion strategy and see a large potential for opening a significant number of stores around this area



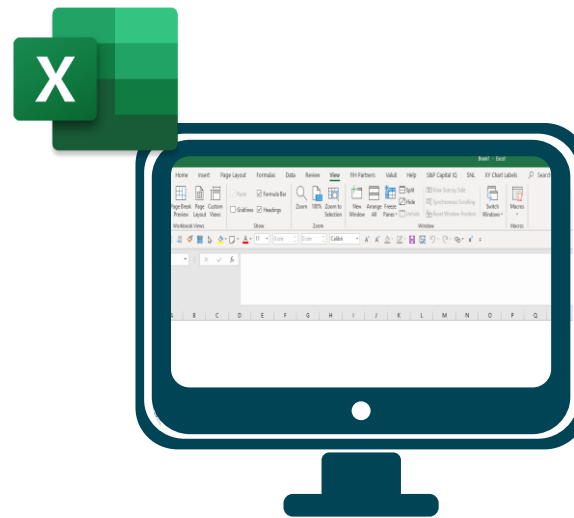
Questions



- 1) *What level of returns could IB expect from the expansion into the Copenhagen area?*
- 2) *Based on your conclusion, Sunshine would like you to back up your conclusion to expand in Copenhagen or not with a 6-year financial business plan (P&L, cash flow effects)*
- 3) *Perform sensitivity analysis for Sunshine to see the certainty of the business case when assumptions change*
- 4) *Are there any other factors, you would like to consider verifying the feasibility and attractiveness of the store roll-out?*



2 Time to work in Excel



4 An example of tables in case competition

Key assumptions underlying the DCF valuation



Transaction date: **Q1 2021**



First year of terminal period: **2029**



Value driver formula: 0% ROIC-spread and long-term growth rate of: **2.0%**

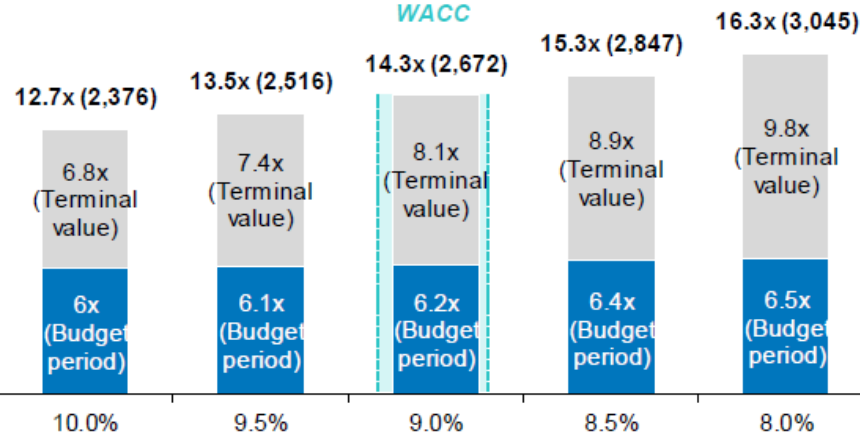


Tax rate applied: **22.0%**



Weighted average cost of capital: **9.0%**

Applied
WACC



Sensitivity analysis of DCF Enterprise Value and implied EV/EBITDA multiples¹

Deep dives on:

- WACC (p. 35)

		Parallel shift in EBITDA-%									
		-1.0%		-0.5%		0.0%		0.5%		1.0%	
LT growth (%)	2.5%	2,377	12.8x	2,535	10.2x	2,692	11.5x	2,850	12.2x	3,007	12.9x
	2.0%	2,360	12.7x	2,516	10.8x	2,672	11.4x	2,828	12.1x	2,984	12.8x
	1.5%	2,344	12.6x	2,498	10.7x	2,652	11.3x	2,806	12.0x	2,960	12.7x
WACC (%)	8.0%	2,683	14.4x	2,864	11.5x	3,045	13.0x	3,227	13.8x	3,408	14.6x
	8.5%	2,512	13.5x	2,680	11.5x	2,847	12.2x	3,015	12.9x	3,183	13.6x
	9.0%	2,360	12.7x	2,516	10.8x	2,672	11.4x	2,828	12.1x	2,984	12.8x
	9.5%	2,225	11.9x	2,371	9.5x	2,516	10.8x	2,661	11.4x	2,806	12.0x
	10.0%	2,104	11.3x	2,240	9.0x	2,376	10.2x	2,511	10.7x	2,647	11.3x
ΔCAPEX (%)	-1.0%	2,481	13.3x	2,637	11.3x	2,793	12.0x	2,949	12.6x	3,105	13.3x
	0.0%	2,360	12.7x	2,516	10.8x	2,672	11.4x	2,828	12.1x	2,984	12.8x
	1.0%	2,239	12.0x	2,395	10.2x	2,551	10.9x	2,707	11.6x	2,863	12.2x

Slide from the winning team of CBS Finance Competition 2019 consisting of 4 team members from FIH partners

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Wrap up of 3 things, we've been going through

1



Building a business case

2



Excel: Best practice

3



Working in Excel

Finding key value drivers



Specify to the case



Utilise tools and functions



Use best practice tips



Learn by doing



Sensitise your results



Finance lessons learned from our experience



Importance of **impact**

Finance sections are the **back bone of your strategy** and is what makes the overall business case attractive or not



Think **logically**

*It **doesn't matter** whether the number is 705 or 699.*

*However, it **does matter** if the impact seems reasonable and there are clearly defined causalities and explanations behind the drivers*



Keep it **simple**

*Most good forecast models can be based on **maximum 8 value drivers***

(80/20 principle)



GIGO-principle

GIGO-principle (Garbage in, Garbage out)

*Remember to have **sources for your input** and an explanation for the given input value*



A short list of key sources of information

Non-exhaustive	
1	<div>Macroeconomic factors</div> <div>  https://www.federalreserve.gov/faqs/economy_14400.htmh </div> <div>  <div>EUROPEAN CENTRAL BANK EUROSYSTEM</div> https://www.ecb.europa.eu/mopo/html/index.en.html </div> <div>  <div>THE WORLD BANK</div> https://data.worldbank.org/ </div> <div>  https://www.imf.org/en/Data </div> <div>  <div>Statistical databases</div> </div>
2	<div>Market attractiveness</div> <div>  https://www.cbs.dk/bibliotek/databaser/passport-euromonitor </div> <div>  https://www.cbs.dk/bibliotek/databaser/frost-sullivan </div> <div>  https://www-statista-com.esc-web.lib.cbs.dk:8443/ </div>
3	<div>Existing business model</div> <div> <p><i>*Must be accessed through Internet Explorer</i></p>  <div>Broker reports</div> https://www.cbs.dk/bibliotek/databaser/thomson-one </div> <div>  <div>Annual reports of case company and close peers</div> </div> <div>  <div>Industry reports from consultancies</div> </div>
4	<div>Growth & improvement potential</div> <div> <p><i>Your own creativity and business acumen</i></p> </div>

List of abbreviations

- **EBITDA:** Earnings Before Interest, Tax, Depreciation & Amortisation
- **EBIT:** Earnings Before Interest & Tax
- **NOPAT:** Net Operating Profit After Tax
- **D&A:** Depreciation & Amortisation
- **Capex:** Capital Expenditure
- **NWC:** Net Working Capital
- **FCF:** Free Cash Flow
- **FCFF:** Free Cash Flow to Firm
- **COGS:** Cost of Goods Sold
- **M&A:** Mergers & Acquisitions
- **NPV:** Net Present Value

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