

# Financial Diagnostics for SME Growth

4-5 March, 2020

The Landmark Nicosia, 98 Arch. Makarios III Avenue, Nicosia

## DAY ONE

08.30-09.00	<b>REGISTRATION</b>
09:00-10:30	<p><b>Session 1 – Review of Key Financial Drivers</b></p> <ul style="list-style-type: none"> <li>• Introduction to the principles of financial analysis</li> <li>• Key differences between debt and equity</li> <li>• The business principles of risk and return</li> <li>• Different corporate structures and their roles in business</li> <li>• The role of finance in the development of the company</li> <li>• Overview of the two generic forms of capital: Debt and Equity <ul style="list-style-type: none"> <li>○ Pricing of both debt and equity</li> <li>○ Common and differentiating factors between both forms of capital</li> <li>○ Which forms of financing are most appropriate during different stages of the company’s development</li> </ul> </li> <li>• Key financial drivers and aims of key shareholders: <ul style="list-style-type: none"> <li>○ Creditors (Bankers and other debt providers)</li> <li>○ Investors (equity providers)</li> </ul> </li> <li>• The weighted average cost of capital and its importance as a financial driver for business</li> <li>• The difference between profit and cash in business and why cash is king</li> <li>• Why the cash flow statement is the most important financial statement for business development.</li> </ul> <p><b>Case study exercise:</b> Review of a number of worked examples underpinning the concepts introduced during this initial session.</p>
10:30-11:00	<b>COFFEE BREAK</b>
11:00-12:30	<p><b>Session 2 - The Income statement and its application in strategic growth</b></p> <ul style="list-style-type: none"> <li>• Brief review of the three main financial statements (Income Statement, Balance Sheet and Cash Flow Statement) and their respective functions in financial analysis</li> <li>• Identification and review of the Gross Profit Margin as a key performance indicator and how it demonstrates relative negotiating power of the company with its customers and suppliers</li> <li>• Costs of Goods sold and inventory valuation techniques used in budgeting and finance</li> <li>• The use and application of the Operating Profit Margin and EBITDA as a measure of management efficiency and effectiveness</li> <li>• Why cash flow is King in business</li> <li>• Why profit is not cash flow and the importance of both in financial analysis</li> <li>• Review of the principle ratios used by financiers to understand company performance, financial risk, efficiency and liquidity</li> <li>• Early Warning Levels for the ratios and their use by financiers as financial covenants in equity investments and loan financing</li> <li>• What bankers and investors look for in the company’s financial statements when lending and investing in SMEs</li> </ul> <p><b>Applied Workshop:</b> During this workshop, we will review a case study company and assess the key financial drivers and ratios that can be devised from the income statement. We will assess how trend analysis and the key revenue and cost drivers can underpin the SME’s growth.</p>

12:30-13:30	<b>LUNCH</b>
13:30-15:00	<p><b>Session 3 - The Balance sheet and assessing and building SME company strength</b></p> <ul style="list-style-type: none"> <li>• The role of the balance sheet as a record of assets, liabilities and equity</li> <li>• The importance of building equity in the business through retained earnings to drive company expansion</li> <li>• Different components of the balance sheet, including assets, liabilities and shareholder funds</li> <li>• The relationship between assets, liabilities and working capital</li> <li>• The calculation of working capital and why its management is important for the company</li> <li>• Gearing/leverage and the importance of controlling financial risk in the business</li> <li>• What external financiers assess as KPIs arising from the Balance sheet ratios and their Early Warning Levels</li> </ul> <p><b>Applied Workshop:</b> During this workshop, we will review a case study company and calculate the key balance sheet ratios that are used in assessing the overall level of strength and financial risk in the business. The delegates in their project groups will need to assess how management could improve the composition of the Balance sheet in order to aid the company's future growth.</p>
15:00-15:15	<b>COFFEE BREAK</b>
15:15- 16:30	<p><b>Session 4 - Assessing liquidity, working capital management and cash flows forecast to assess the continued financial health of the business</b></p> <ul style="list-style-type: none"> <li>• Review of why maintaining adequate liquidity levels is essential for the continued survival and development of the company</li> <li>• The definition of liquidity and a detailed review of its different measures in ratio analysis</li> <li>• Review of the different methods of liquidity calculation including net operating cash flow and free cash flow</li> <li>• Managing liquidity through internal and external sources of financing</li> <li>• The need for contingency reserves of liquidity and the relationship with external sources of working capital finance</li> <li>• How to plan liquidity needs as part of the expansion strategy</li> <li>• The cash conversion cycle and its impact on liquidity</li> <li>• Using the cash conversion cycle to understand the company's working capital needs</li> <li>• Why effective working capital management is essential to the going concern</li> <li>• The dangers of overtrading and its impact on company liquidity</li> <li>• How to manage working capital needs during the company's expansion phase</li> <li>• Why having a banker as a close friend is important for company expansion</li> <li>• How the banker can provide working capital financing and what are their demands of the corporate client <ul style="list-style-type: none"> <li>○ Types of different working capital facilities</li> <li>○ Levels of financing that banks are willing to provide in terms of working capital financing</li> <li>○ Key covenants usually required by bankers in working capital financing</li> <li>○ Key security requested by bankers to mitigate their risk position in providing working capital financing</li> </ul> </li> <li>• How to get free working capital finance through the trade supplier customer</li> </ul> <p><b>Liquidity Workshop:</b> We will review the liquidity and working capital needs of an SME company case study that is expanding its operations. We will calculate its working capital needs on an annual basis going forward. As part of the exercise, we will review what bankers require in terms of information and security to provide working capital loans. Reviewing the case study, we will also assess the impact that the payment terms of supplier and customers can have on company liquidity and working capital needs.</p>

DAY TWO

09:00-10:30	<p><b>Sessions 1 - The cash flow statement and its primacy in financial management and debt repayment</b></p> <ul style="list-style-type: none"> <li>• The role and composition of the cash flow statement in business</li> <li>• The importance of cash flow from operations in financing the investment and financing activities of the company</li> <li>• Drafting a cash flow statement from the company's Income Statement and Balance Sheet as an essential of planning for growth through external financing</li> <li>• The calculation of free cash flow and its importance to external financiers</li> <li>• The Debt Service Coverage ratio and financial forecasting</li> </ul> <p><b>Workshop:</b> Delegates in their project workshop teams will review the composition of a cash flow statement of a major international listed company. They will then be required to draft a cash flow from a case study question's income statement and balance sheet.</p>
10:30-11:00	<p><b>COFFEE BREAK</b></p>
11:00-12:30	<p><b>Sessions 2 - The Mission: The creation of the company's strategic vision and mission</b></p> <ul style="list-style-type: none"> <li>• The importance of effective strategic planning in terms of a company's overall performance and how to identify and mitigate strategic risks facing the business</li> <li>• Identifying the correct strategy for the business based on its suitability, acceptability and feasibility</li> <li>• Different types of successful business strategy implemented by business:             <ul style="list-style-type: none"> <li>○ Porter's generic strategies</li> <li>○ Bowman's strategy clock</li> </ul> </li> <li>• Identifying strategies for growth in the business – the use and application of Ansoff's Matrix</li> <li>• Strategic development and the relationship between the parent company and the subsidiary – application of the Ashridge model</li> <li>• Organising and developing a company's portfolio of businesses and strategic business units using the Boston Consulting Matrix</li> <li>• Identifying a client company's critical success factors and assessing how it uses those to exploit market opportunities through the project development</li> </ul> <p><b>Mission Workshop:</b> Introduction to a case study company in the shoe and clothing wear sector, whereby the delegates in their project teams are required to assess the company's overall strategic planning using the strategic theories introduced during the session. Based on the company's identified Critical Success Factors, the delegates need to devise a strategy for the business that they believe will lead to business success. This will be discussed and presented by the delegates during the workshop.</p>
12:30-13:30	<p><b>LUNCH</b></p>
13:30-15:00	<p><b>Sessions 3 - The Management – Governance</b></p> <ul style="list-style-type: none"> <li>• A full review of the areas covering 'management' including internal human resources as well as methods of internal management and control</li> <li>• Why investors pay more for well-run companies</li> <li>• The importance of good corporate governance in the business</li> <li>• Introduction to the principles of good governance</li> <li>• The importance of risk management and internal control in the business and how it builds corporate value</li> <li>• Understand how to make the link between external risk crystallisation and its impact on the client company's ability to generate project cash flows</li> <li>• Introduction and application of a risk management framework</li> <li>• The use and application of the risk register in successful risk management</li> <li>• The importance of culture within the organisation and its effect on management of the business</li> </ul>

	<ul style="list-style-type: none"> <li>• Different types of management styles in business and identifying the most effective management styles given different scenarios</li> <li>• Different management styles required to implement effective change in the organisation.</li> <li>• The importance of effective leadership in driving the company forward and which leadership styles work best.</li> </ul> <p><b>Management Case Study:</b> Delegates will review a case study and identify the governance failings and areas for management improvement in the case study, presenting their findings to the rest of the class.</p>
<p><b>15:00-15:15</b></p>	<p><b>COFFEE BREAK</b></p>
<p>15:15- 16:30</p>	<p><b>Sessions 4 - The Market including client relationship management and dealing with competition in the SMEs industry.</b></p> <ul style="list-style-type: none"> <li>• The importance of understanding the company’s market and business environment</li> <li>• A review of principle models that can be used to analyse the company’s market             <ul style="list-style-type: none"> <li>○ Porter’s five forces matrix</li> </ul> </li> <li>• Sources of information for market review and competition analysis</li> <li>• A review of implementing the company’s strategy and how to anticipate competitor reaction.</li> <li>• Choosing the timing in the business cycle for the development of new project development</li> <li>• External risk analysis using PESTEL analysis and their potential impact on the company’s market and industry</li> <li>• The importance of creating Critical Success Factors to exploit market opportunities</li> <li>• The importance of effective Client Relationship Management</li> <li>• Recent trends in a number of different sectors and their impact on company profitability</li> </ul> <p><b>Marketing Case Study:</b> Delegates will review an SME case study and propose a new business concept for the company based on the marketing mix. This analysis will also encompass an assessment of the company’s proposed strategy in the context of its business environment and potential external risk factors.</p> <p><b>Programme closing and feedback</b></p>