Title	Financial Acumen
Format	Various formats bundled within a Storyline shell.
Duration:	30+ minutes
Learning Outcomes:	• *Evaluate a business's profitability in simple terms.* • *Evaluate the cash generation of a business.* • *Evaluate the value creation of a business.*
At a Glance	• *Learn It! (Lessons)* • *Master It! (Review game)*
Did You Know?	• *Money is everywhere, it affects all of us, and confuses most of us. ~Morgan Housel, "The Psychology of Money"*
Overview/Description: *This introductory course contains several assets to be combined into a single Storyline course.* • *All developer notes in blue italics.* • *Please use style guide and imagery guidelines.*	

Graphic Need

Title	Financial Acumen
Format	Various formats bundled within a Storyline shell.
Graphic Details	*I need the graphic designers to create a character, Calvin Calculator.* *I would like him to be able to be animated or at least with several different expressions (happy, informative, concerned, confused, etc) that can be used in videos and other areas throughout the course.* *He will be their guide through learning.*

Section 1: Introduction

Introduction Slides

Title	Financial Acumen
Learning Outcomes:	*The Financial Acumen course will heighten your understanding of the financial performance of a business. At the end of the course, you will be able to do the following:* ● *Evaluate a business's profitability in simple terms.* ● *Evaluate the cash generation of a business.* ● *Evaluate the value creation of a business.* ●
At a Glance	*Your learning is segmented into two portions: one for learning, and the other to demonstrate mastery.* ● *Learn It!* ● *Master It!*
Did You Know?	*Money is everywhere, it affects all of us, and confuses most of us. ~Morgan Housel, "The Psychology of Money"*

Welcome Video (animated)

Title	Welcome to Financial Acumen
Format	Biteable or Vyond (animated)
Duration:	1-2 minutes
Client Request:	● Please emphasize the fact that the training will provide (i) global knowledge of indicators used to assess business performance, (ii) understanding of the meaning behind the numbers, and (iii) a background and economic awareness to have your own critical eye. ● In the "value creation dimension," please add the KPI "ROCE" and also mention the "WACC" (cost of capital). Those 2 concepts are not in the video of the current training, need to add.

Developer Notes	*I've provided imagery ideas for the video, but I want you to shine and create a masterpiece, so don't let my ideas be a barrier to something brilliant that you think of. When you see blanks, I especially invite your creativity.* ***Look to Canva for Calvin Calculator images***

Script VO	Text On-Screen	Imagery ideas
Hello there! My name is Calvin, Calvin Calculator, and I'm here to guide you through the economic performance of a business.	Welcome!	*Use the Calvin Calculator imagery created by the graphic design team. Use him throughout the video in different scenes.*
This training aims at providing you with the basic financial knowledge to have your own critical eye on a business's performance. I am sure you regularly hear about the concepts of profitability, cash generation, and value creation. Businesses communicate on a number of financial KPIs. If you are wondering how to make the link between all of this, you've come to the right place. Throughout this course, I'll help you to get an overall knowledge of key financial performance indicators used to assess business performance and, most importantly, understand the meaning behind the numbers.		*Fill the screen with floating words here - maybe have them spinning around Calvin's head:* *PROFITABILITY* *VALUE CREATION* *WACC* *ROCE* *NET SALES* *CONTRIBUTION MARGIN* *EBITDA* *CFROI* *EVA* *FREE CASH FLOW*

Join me as we unravel some of the mysteries of finance in this introductory course.		*Calvin speaks to the audience, opening a book with lots of sparkles (or even those words from the last scene) escaping from inside.*
Cut video and start a new one called **The 4 Dimensions of Economic Performance**		
Economic performance of a business is multidimensional. It cannot be translated in one single dimension and one single metric. The performance is measured under 4 dimensions. As the saying goes, "Sales is vanity, profit is sanity, and cash is reality."		*I'm thinking of on-screen pieces fitting together like a puzzle (puzzle pieces are: Profit, Cash Flow, Value Creation, Capital Structure) to create the larger picture: "Business Economic Performance"*
Profit is the primary dimension of economic performance. As the saying goes, "Sales is vanity, profit is sanity, and cash is reality." Making sales is great, but only when turned into a profit. The key is not to make sales; the key is to make profits, which you can also call "margin." These are 2 key performance indicators we use to measure profit.	Profitability KPIs ● EBITDA ● Net Income	
Profit is key, but it is not enough. A business must next turn that profit into cash to satisfy the company's financial obligations and fuel the future growth. Cash flow generation is the second dimension. Understanding cash flow generation enables us to identify if operations of	Cash Flow KPIs ● Simplified Cash Flow (at business level) ● Free Cash Flow (at Group level)	*Calvin surrounded by cash as he explains.*

the business produce enough cash to cover financial obligations and support investments. Said differently, you want to make sure the margin you are making is sufficient to be able to cover investments and a few other items. These are our 2 indicators to measure cash flow.		
The ultimate long-term goal of any business is to provide sufficient return to its stakeholders and create value. Therefore the third dimension is value creation. Value creation takes into account the capital investors by the shareholders and reflects the annual return of the business. In simple terms, you want to make sure that the cash left after paying for investments and other items is sufficient to remunerate the people who provided you with money to do your business, such as banks and shareholders.	Value Creation KPIs • CFROI • EVA • ROCE	
The final dimension is capital structure, which measures the strength of the company's balance sheet. This is quite a technical topic, not covered in this training.		*Show the image of the puzzle pieces again, with this final piece arriving in place.*
Did you get all of that? There's a lot to learn, but I am about to break it down for you to help you understand and analyze those performance indicators yourself.		*Calvin Calculator speaking to the audience.*

Now, that's knowledge with power. Let's get started!	Let's go!	

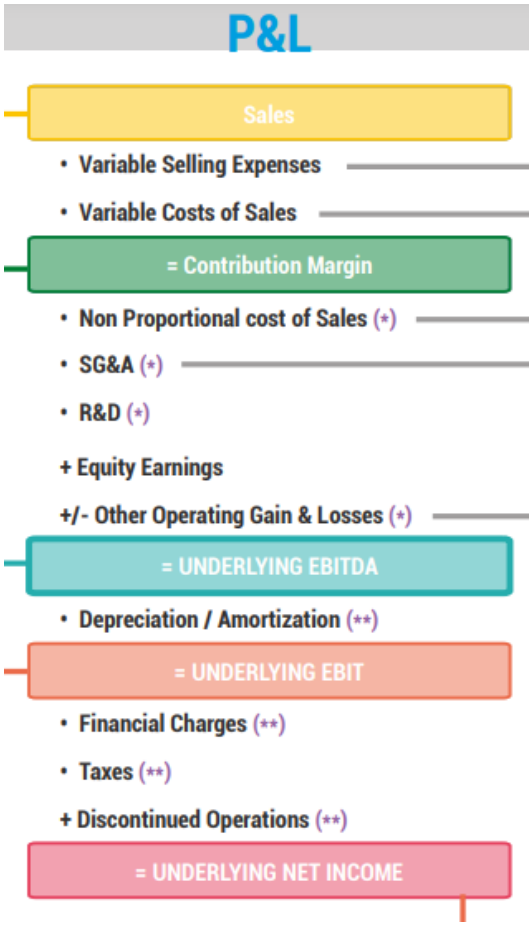
Section 2: Profitability

What is Profitability? Interactive Glossary (graphic with hot spots)

Title	What Is Profitability?
Format	• Canva (graphics) • SL (hot spot)
Duration:	1-2 minutes
Graphic Developer Notes:	*Please create a fun graphic that will become a hot spot activity on Storyline with these terms:* • *Contribution Margin* • *EBITDA* • *Net Income* *See April Austin's comments to the right to make grammatical corrections on one of the graphics.*
Storyline Developer Notes	*Please add hot spots over each piece of the graphic. When clicked, the hot spot expands to provide more information.* ***Look to Canva for replacement images for the ones linked below.***

Term	Definition

Contribution Margin	The contribution margin corresponds to the difference between net sales and variable costs. This measure indicates how a particular product contributes to the overall profit of the company. Net Sales - Variable Costs = Contribution Margin
EBITDA	EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization Underlying EBITDA is an important KPI for 2 reasons: 1) It corresponds to the margin of the normal operations of a business after all operating costs (variable and fixed). 2) EBITDA is a key component of P&L and cash generation. If the business generates the right level of EBITDA, the P&L will come down to the right level of Net Income and the business will be able to invest to support future growth. *Create a graphic to go here with what I provided below:* **EBITDA** /\ / \ P&L Cash

	 **There are 5 levers to manage EBITDA. The first 3 levers are about managing the top line of the P&L, while the 2 last ones are about managing and controlling the ownership costs of the business.** 1. Volume 2. Mix of products sold (sell more products with the highest margins) 3. Pricing 4. Fixed costs (depends on productivity and industrial footprint) 5. Variable costs (industrial performance: plant efficiency, raw material consumption)
Net Income	This is the net balance between revenue and costs. This represents the business's profit (also called earnings). ● **Revenue** is everything we invoice our clients for (products and services). ● **Costs** include cost of goods sold (variable costs), operating expenses (fixed costs), tax & interest expenses, etc. Revenue - Costs = Net Income

Economic Interpretation (video)

Title	Economic Interpretations
Format	Biteable or Vyond (animated)
Duration:	1-2 minutes
Graphic Developer Notes	*Please create 3 fictitious products that will be used in different videos and mentions through the course.* 1. *Widget* 2. *Gizmo* 3. *Thingamajig*
Video Developer Notes	*Add Calvin Calculator as a primary character in the video. I see him working from a chalkboard during the math calculations.* Look to Canva for images of Calvin Calculator

Script VO	Text On-Screen	Imagery ideas
Let's look at a simplified profit & loss statement, called "P&L" EBITDA corresponds to the margin of a business after covering all operating costs, variable and fixed.	**E**arnings **B**efore **I**nterest **T**axes **D**epreciation [and] **A**mortization	*Add Calvin Calculator as presenting the text.*
Let's say I run a business of manufacturing and selling widgets. Manufacturing a widget costs me 2 Euros in raw materials and utilities.		*A "widget" can be anything, so make it something visually fun to show here and through the following slides talking about the widget.*
At the market, I can get 10 euros for my widget. That's sounding pretty good so far.	€10 - €2 = €8	*Happy Calvin Calculator.*
I make them in-house, and last quarter I sold 10 thousand widgets.	€10 x 10,000 = €100,000	*Happy Calvin Calculator.*
Now let's talk about all of the expenses associated with the sales. We start with that exciting	€100,000	*Make this text bold green*

sales total of a hundred thousand euros.		
The raw material and energy cost of our sales at 2 euros each removes 20 thousand.	€100,000 <u>- €20,000</u> €80,000 This is the contribution margin.	*Make the first line green and the second line red.* *Bottom line is black.*
Next, as we get to the fixed costs, such as labor cost of the employees, maintenance of the industrial equipment, and other costs like the rent of the administrative offices and any consulting services, our number keeps shrinking. That remaining amount is our EBITDA.	€80,000 - €30,000 Labor costs - €20,000 Maintenance <u>- €10,000 Other operating costs</u> **EBITDA =** €20,000	*Make the €80,000 text green and the next three lines text red.* *Bottom line is black*
Wow, that just got smaller, but hey, that's the cost of doing business, right? Our **EBITDA margin** for the widget sales is our EBITDA calculation divided by our gross sales.	EBITDA Margin = EBITDA/Sales 20,000/100,000 = 20%	
Now, how can you influence the EBITDA to manage the profitability of that business? That's something worth considering. Here we have 5 levers of action to influence EBITDA.	5 Levers of Action 1. Volume (sell more widgets) 2. Mix of products sold (sell more widgets with higher margin) 3. Pricing (increase the selling price of the widget) 4. Variable costs (improve industrial performance) 5. Fixed costs (define the right level of production, cost, SG&A, and R&D expenses)	*Calvin is thinking…*
For instance, you could increase your prices, especially if the cost of raw material rises. You could also		*Calvin on a scale with a pile of widgets on the other side as the script speaks of balance.*

improve the utilization rate of the industrial equipment, or improve the production yield to consume less raw material or reduce waste to produce a widget of the same quality. You could also think about hiring an additional commercial employee to sell more volume. Finally, you could reduce cost by, for example, reducing the maintenance cost of the production equipment. It's also good to routinely have a good understanding of operating costs and identify potential savings actions. Keep in mind that those 5 levers are interdependent and impact EBITDA with different magnitudes. For instance, higher prices could result in lower volume sold, and reducing fixed costs could result in inefficiencies in the production process. The goal is to find the right combination to grow the EBITDA. Think of balance.		
Looking at the evolution of EBITDA over time tells if the business is able to implement the right actions to generate profit sustainably. Now, how can you make a difference?		*Calvin is holding both sides of the scale keeping that balance.*

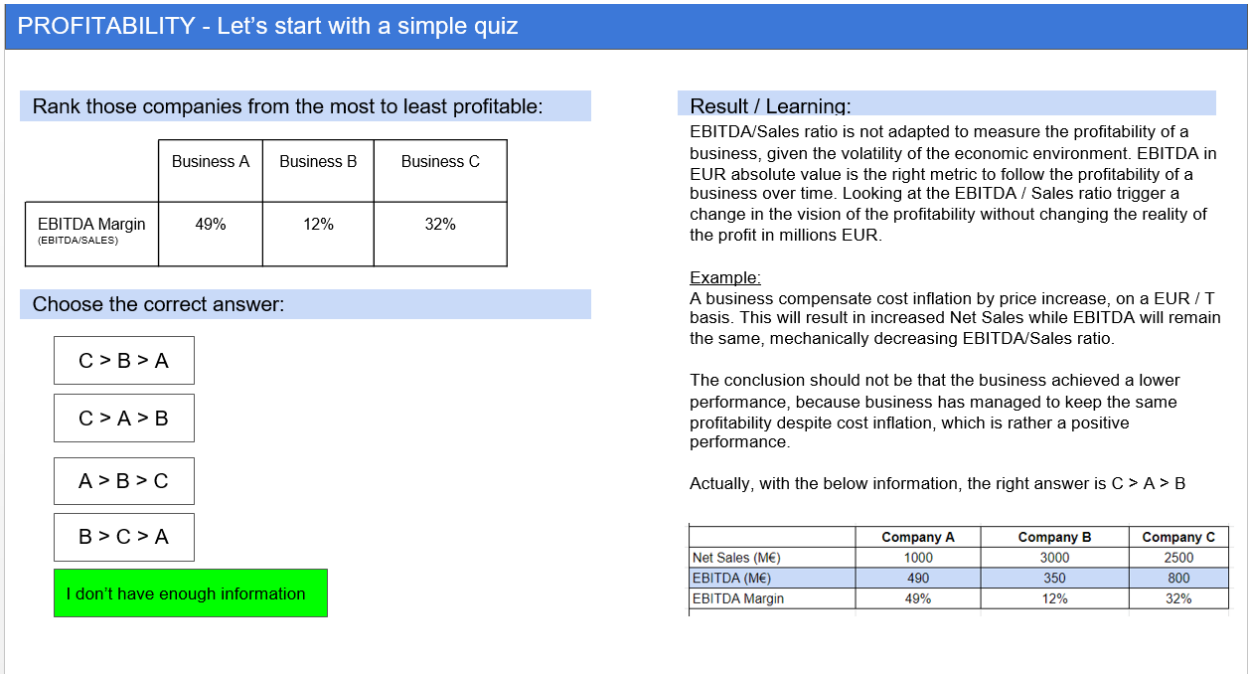
Let's Practice (Exercise)

Title	Let's Practice
Format	SL Review activity

Duration:	5 minutes
Client Request	Use the provided quiz / exercise.

Title/Menu Page: Have boxes for three topics that will HOTSPOT to questions, then add a HOTSPOT to return to the menu page.

- *The most profitable business*
- *The power of pricing*
- *The EBIDTA drivers*



Box: The most profitable business

Rank these companies from the most to the least profitable, based on their EBITA Margin: EBITDA / SALES

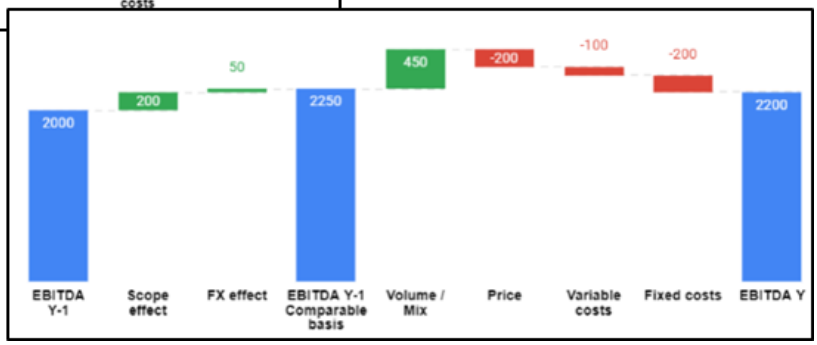
	Business A	Business B	Business C
EBITDA Margin (EBITDA/SALES)	49%	12%	32%

Choose the correct answer.

C > B > A
C > A > B
A > B > C
B > C > A
I don't have enough information (correct)
Feedback: EBITDA/Sales ratio is not adapted to measure the profitability of a business, given the volatility of the economic environment. EBITDA in EUR absolute value is the right metric to follow the profitability of a business over time. Looking at the EBITDA/Sales ratio triggers a change in the vision of the profitability without changing the reality of the profit in millions EUR. **For example,** A business compensates cost inflation by price increases on a EUR/T basis. This results in increased Net Sales while EBITDA remains the same, mechanically decreasing the EBITDA/Sales ratio. The conclusion should not be that the business achieved a lower performance because the business has managed to keep the same profitability despite cost inflation, which is a positive performance. With a little extra information you see below, the answer changes to C > A > B

	Company A	Company B	Company C
Net Sales (M€)	1000	3000	2500
EBITDA (M€)	490	350	800
EBITDA Margin	49%	12%	32%

Box: The EBIDTA drivers What can explain the variation of profitability over time? Select all that apply. *Developer note: All answers are correct.*
Volume (business sells more or less quantity of a product)
Change in scope (company has acquired or divested in a business)
Price (business sells product at a higher or lower unit price)
Variable costs (raw material, energy, logistics are costing more or less)

Fixed costs (head count variation, labor cost inflation, T&E)
Change in FX rates
Mix of products sold
***Feedback*:** All of these parameters impact the evolution of profitability. To assess the profitability performance of a business, it is critical to measure the profitability over time and break down its variation according to all those drivers. This is the so-called EBITDA bridge. Having a clear understanding of the profitability drivers of a business is critical to set the right strategic priorities. The EBITDA bridge tells the story of a business. Many different stories can explain the same amount of profitability variation    
(Show this image static with the next two questions) Your goal is to compensate for a 10% price decrease. New figures are below. Use these:

Volumes (Tons)	200
Sales (€)	1000
Variable costs (€)	(600)
Contribution Margin (€)	400 (40% of sales, 2 EUR / T)
Fixed costs (€)	(200)
EBITDA (€)	200

Box: The power of pricing

How much of a **volume** increase (%) do you need to generate?

Developer note: Make the answers clickable boxes.

10%	33% *(correct answer)*	40%

Feedback (Correct answer)

That's right! The leverage from price to volume is 1 to 3. Every time the business gives up 10% on price, it needs to increase volume by 33% to compensate and maintain the EBITDA.

Add table below:

	Base Case	After 10% price decrease
Volumes (Tons)	200	200
Sales (€)	1000	900
Variable costs (€)	(600)	(600)
Contribution Margin (€)	400 (40% of sales, 2 EUR / T)	300 (33% of sales, 1.5 EUR/T)
Fixed costs (€)	(200)	(200)
EBITDA (€)	200	100

Feedback: (Incorrect answers)

The leverage from price to volume is 1 to 3. Every time the business gives up 10% on price, it needs to **increase volume by 33%** to compensate.

Add table below:

	Base Case	After 10% price decrease
Volumes (Tons)	200	200
Sales (€)	1000	900
Variable costs (€)	(600)	(600)
Contribution Margin (€)	400 (40% of sales, 2 EUR / T)	300 (33% of sales, 1.5 EUR/T)
Fixed costs (€)	(200)	(200)
EBITDA (€)	200	100

Block: The power of pricing

How much fixed cost reduction (%) do you need to save? *(show table image below to the left of question)*

Volumes (Tons)	200
Sales (€)	1000
Variable costs (€)	(600)
Contribution Margin (€)	400 (40% of sales, 2 EUR / T)
Fixed costs (€)	(200)
EBITDA (€)	200

Developer note: Make the answers clickable boxes.

10%	25%	50% *(correct answer)*

Feedback: (Correct answers)

That's right! The leverage from price to fixed costs is 1 to 2. Every time the business gives up 10% on price, it corresponds to cutting fixed costs by 2 to compensate. A 10% price decrease reduces the contribution margin and EBITDA by 100 €. The contribution margin per Ton becomes 1.5 EUR/T. Volume needs to be increased by 100 / 1.5 = 66 Tons to generate 100 € more of contribution margin and EBITDA. This 66 Tons increase corresponds to a volume increase of 33% (66/200).

	Base Case	After 10% price decrease
Volumes (Tons)	200	200
Sales (€)	1000	900
Variable costs (€)	(600)	(600)
Contribution Margin (€)	400 (40% of sales, 2 EUR / T)	300 (33% of sales, 1.5 EUR/T)
Fixed costs (€)	(200)	(200)
EBITDA (€)	200	100

Feedback: (Incorrect answers)

The leverage from price to fixed costs is 1 to 2. Every time the business gives up 10% on price, it corresponds to cutting fixed costs by 2 to compensate. A 10% price decrease reduces the contribution margin and EBITDA by 100 €. The contribution margin per Ton becomes 1.5 EUR/T. Volume needs to be increased by 100 / 1.5 = 66 Tons to generate 100 € more of contribution margin and EBITDA. This 66 Tons increase corresponds to a volume increase of 33% (66/200).

	Base Case	After 10% price decrease
Volumes (Tons)	200	200
Sales (€)	1000	900
Variable costs (€)	(600)	(600)
Contribution Margin (€)	400 (40% of sales, 2 EUR / T)	300 (33% of sales, 1.5 EUR/T)
Fixed costs (€)	(200)	(200)
EBITDA (€)	200	100

KEY TAKEAWAY: A business should never give up on price (as much as it can resist market dynamics).
Indeed, arbitrating volume growth to the detriment of price is not necessarily a value creation strategy; reducing price to sell more volume results in the same profitability over time, while producing more volume requires additional capacity = additional investment = more capital invested. As a consequence, the return of the business keeps reducing.

Section 3: Cash Conversion

What Is Cash Conversion? (Carousel)

Title	What Is Cash Conversion?

Format	1. SL Process
Duration:	10 minutes
Developer notes	*Create a carousel collection of images/text that align with the client's style guide. The graphic design team will create new versions of the images I have pasted in the table below.* ***Look to Canva for replacement images of the ones noted below.***
Graphic Designer Notes	Graphic design - there are some images created by the client that could use some serious re-designing. a. Cash Conversion Simplified Cash Flow *(Add EBITDA at the top of the list)* b. Cash Conversion Free Cash Flow *(Add Simplified Cash Flow to the top of the list)*

Cash Is Reality	
Title	Description
Cash Flow	Cash flow is the amount of cash generated by a business during a given period of time. Cash flow measures the movement of cash inflows and outflows of the business. The difference between EBITDA and cash flow is that cash flow also accounts for such things as investments (CAPEX), inventory increase or decrease, taxes, payment for large environmental remediation, bank interests, etc.
Simplified Cash Flow *Need a better graphical representation of this:*	At group level we have 2 main KPIs for Cash Flow. One KPI is Simplified Cash Flow, which is used to measure the cash generation performance of a business unit, such as a GBU. It is only used internally. This includes the main items on which the business can act upon (EBITDA, working capital, CAPEX, etc.).

• Equity earnings + Dividends from equity JV • +/- Δ industrial Working Capital • CAPEX • Non Cash in "other oper. G/L" + Cash in from sales of assets • Cash out restructuring = SIMPLIFIED CASH FLOW	
Free Cash Flow *Need a better graphical representation of this:* +/- Δ WC Other • Pension & HSE cash out • Tax cash out • Other cash out • Cash out disc op = FREE CASH FLOW	Free Cash Flow is the second main KPI for cash flow. This is what is relevant at group level to measure the performance of the whole company. It includes the simplified cash flow but also includes other elements that are managed at the group level (e.g., bonus, income tax, financing, major litigations,..) on which a business's management has no or less direct impact. The Group communicates externally on free cash flow. Free Cash Flow neither includes the payment of dividends to Shareholders nor the impact of M&A transactions and debt capital operations (reimbursement of the capital of a loan, capital from a new borrowing). After having taken into account those items, the cash flow corresponds to the variation of cash on the bank account of the Company.

Economic Interpretation

Title	Cash Conversion Interpretation
Format	1. Graphical design: Redesign graphic (in developer notes below) 2. Video: Biteable or Vyond (animated)
Duration:	1-2 minutes

Developer notes	*The items in the video will be talking about this graphic that I'd like to be re-designed and used in the video, calling to attention specific pieces as they are called out in the script. Do not include the red sunbursts in the illustration. We will call attention to each separately.* *Let your animation shine to call out these topics as they arrive on the script. Calvin Calculator should be present through the video, as well. I will note what to highlight for each frame, but I leave you creative freedom to make this terrific with visual interest and styling.* *Link: Cash Conversion Interpretation Chart - (needs to be redesigned by graphics team)* • ***Look to Canva for replacement image and Calvin Calculator images.***

Script VO	Text On-Screen	Imagery ideas
I'm sure you're wondering how all of these cash flow terms you're learning work together. The difference between sales and cash flow has to do with each of these factors. The widget company is small, but has big plans, so every bit of cash flow makes a difference. Let's see how different areas of management keep the cash flow healthy with the widget company.		*Show the redesigned image through much of the video. In this frame, Calvin Calculator can be introducing the graphic.*
When a widget sale is made, the customer signs a contract and production begins to fulfill the order. The widget company spends resources to fulfill the order; however, it doesn't receive anything in return until the customer invoice is paid. That can be anywhere from 30 to 45 days from order fulfillment,		*Imagery of a deal…i.e. Hands shaking, signing contract.* *Show calendars flipping or something indicating time past waiting for payment.*

depending on the payment terms of the contract.		
On top of sales, contribution margin, and EBITDA, the two key drivers of cash flow generation are W**orking Capital** and **CAPEX**. Both need to be optimized to maximize cash delivery.	**2 key drivers** 1. Working capital 2. CAPEX	*Call attention to the boxes: Industrial Working Capital Capital Expenditures (CAPEX)*
Within Working Capital, on the Account Receivables side, effective management is to minimize overdues (by pre-collection and pre-litigation monitoring) and reduce payment terms of customers.The widget company is not a bank. Its business needs to keep running, and cash flow is critical. If a customer needs funds to finance their operations, they should arrange this with their bank.	Cash flow is critical	*Call attention to Delta Receivables box*
Optimizing the level of inventories is a challenge, but this is a strong lever on cash generation. Too high inventory immobilizes cash that would be better invested elsewhere, while too low a level of inventory would result in missed sales. *When possible, the success factor is to be able to implement a "make to order" production rather than "make to stock." The recipe to get there is to have a good sales forecast accuracy, production units & processes that can be adjusted to demand, and an ongoing optimization of logistic flows. This needs constant alignment between*		*Call attention to Delta Inventories box*

commercial, industrial, and supply chain teams.		
On the account payables side, effective management is to make purchases at the right time based on needs, and obtain increased payment terms from suppliers during contract negotiations.		*Call attention to Delta Payables box.*
When it comes to capital expenditures (CAPEX), optimizing cash flow consists of investing at the right time (taking into account that building a factory takes up to 2 years) and right-sizing the investment (avoid useless or oversized equipment, for instance) and also in assessing non-CAPEX alternatives (bottom slicing customer portfolio, use tollers, etc.).		*Call attention to the Capital Expenditures (CAPEX) box.*
Receivables, payables, inventories, and CAPEX have a powerful effect on a business's cash flow generation. Keep in mind that working capital mismanagement can ultimately lead to bankruptcy. CAPEX and working capital management clearly make the difference between a low- and high-performing business.		*Calvin Calculator wrapping it up.*

Let's Practice

Title	Let's Practice

Format	SL Interactive Review activity
Duration:	10 minutes
Client Request	Use the existing quiz / exercise, and make the link with the 2 business comparisons.
Developer Notes	*Since this is a financial course, let's do something around money, and that monetary type will be euros. Perhaps when an answer is correct, make a cash register sound and pile coins for each correct answer.*

Can you collect all 5 coins by identifying if the statements are true or false?

Are the following statements true or false?	Answers	Feedback
Between two businesses, the one with the highest EBITDA generates for sure more cash than the other.	True False *(correct answer)*	The EBITDA is the starting point of the cash generation. The actual cash generation of a business is additionally impacted (mainly) by working capital (inventory + receivables - payables) and CAPEX.
As long as a customer accepts price increases, it is not detrimental to cash generation to grant longer payment terms and/or commit to deliver products in a shorter period of time and/or accept if the customer pays after the due date.	True False *(correct answer)*	Price increases result in more cash generation, but any decision leading to an increase of working capital reduces cash generation. • Extending customer payment terms and overdues increases receivables and, consequently, working capital. • Committing to deliver products on short notice will require building safety stock, increasing inventory and, consequently, working capital. Payment terms and inventory commitments have a value for the customers—take those into consideration during your negotiations.

When demand is above production capacity, a business should quickly invest to expand production not to miss sales.	True False *(correct answer)*	Investing capital to expand production is not always the option that creates the most value. For example, instead of producing more products, it could possibly be more value creative either to operate the business under allocation to maximize value from pricing (bottom slicing: sell more products to the most profitable customers of the portfolio), or to work with tollers, or to create a joint venture (JV) with a partner.
Cash invested in working capital or CAPEX projects has a cost.	True*(correct answer)* False	The cash invested in a business has a cost, which is the cost of capital (weighted average cost of capital, or WACC).
Increasing dividend distribution mechanically reduces the free cash flow.	True False *(correct answer)*	The free cash flow is the amount of cash generated by a company before distribution of dividends, repayment of debt capital, and M&A transactions.

Business Case

Title	Business Case
Format	1. Graphic Design - re-create graphic (see below) 2. SL Interactive Review activity
Duration:	5 minutes
Client Request	Use the existing quiz / exercise, and make the link with the 2 business comparisons.
Developer Notes	*Show the graphic and a button for each option.* *Look to Canva for replacement images for the ones linked.*

Graphic Designer notes	*Please create some new graphics to replace these:* *Cash Conversion Business Case*

Let's analyze a business case this time!
Based on what you've learned so far, between Business A and B, which business is managing its working capital better? Remember that it's more than one number you should consider.

Re-design/create this graphic
In the graphic, in the left column, also make these changes:
(1) change "Capex" to "CAPEX";
(2) change "WC variation" to "WC Variation";
(3) change "Working capital" to "Working Capital"

M€	Business A	Business B
Net Sales	1000	3000
EBITDA	**490**	**350**
Capex	-70	-120
WC variation	-150	50
Simplified Cash Flow	**270**	**280**
Working capital	900	1000

Business A *Incorrect Answer*	Not quite. Remember to look beyond the working capital number. Business B reduced its working capital over the period, generating 50 M€ positive cash flows, and its working capital represented 30% of sales. Business A increased its working capital by 150 M€, and working capital/sales ended up at 100%.
Business B *Correct Answer*	That's right! Business B reduced its working capital, generating 50 M€ positive cash flows over the period, and its working capital represented 30% of sales. Business A increased its working capital by 150 M€, and working capital/sales ended up at 100%.

Conclusion
Working capital management has a strong impact on cash delivery. A business generating higher profits than another can deliver less cash if it doesn't control its

working capital. It is critical for value creation to take into account the following general rules in the negotiations with customers/suppliers:

- Minimize customer payment terms.
- Relentlessly chase customers paying late, to reduce the amount of overdues.
- Maximize suppliers' payment terms.
- Implement a "make to order" strategy rather than "make to stock," to keep inventory at a minimum.
- Do not commit to accepting to deliver on short notice with a short lead time—this will require building safety stock to comply with this commitment.

Obviously, each business relationship has its own specificities, and deviations from the above general rules can be acceptable as long as the overall deal creates value.

Section 4: Value Creation

What Is Value Creation? (Flip Cards)

Title	What Is Value Creation?
Format	SL Interactive Review activity
Duration:	10 minutes
Developer notes	*My original intent is to create flip cards for this interaction. If content is too heavy to be flip cards, please create a click interaction that displays the content effectively.*

Title	Description

“Value Creation” and “Return”	After having looked at profit (EBITDA) and cash generation (Cash Flow), we now need to look at the final dimension of Value Creation. Value creation KPIs are important because it is not the same to generate 100€ of cash if you have invested 100€ or 1000€. To evaluate the value creation of a given business, you need to calculate its return.
CFROI Cash Flow Return on Investment	CFROI introduces the concept of return of a business, by combining cash generation and capital invested. It enables us to evaluate the value creation of the business and allows us to compare business performances. . Calculation: *[dev:center this and the equation below]* = Recurring cash flow capital invested CFROI reflects the overall % of return of the capital invested in a given business. It has to be compared with the cost of the capital invested in this business (WACC). The business creates value if CFROI is above WACC. It is very similar to IRR or MIRR you may have seen when you evaluate an investment profitability. CFROI helps a group to allocate its capital resources between businesses. It is more an internal metric because it cannot be compared to other companies: computation uses accounting data that is adjusted according to internal methodology (“recurring cash flow”, “ replacement value of assets”)
ROCE	ROCE is another way to measure the return

Return on Capital Employed	of a business. The return % is more complex to interpret from an economic standpoint, but it has the advantage of being calculated with accounting data and consequently is useful to compare companies that all use similar accounting standards such as IFRS. For example, it allows us to compare the company with its peers operating in the same industry -> It makes sense to communicate it externally. Companies strive toward an ever-increasing ROCE over time, signifying that the business is stable and is an attractive investment option for investors. Generally, we will use ROCE at group level and use CFROI to evaluate and compare business lines inside the group. Generally, we will use ROCE at Group level and for external communication, while CFROI will be used internally to measure value creation of business lines inside the group and take capital allocation decisions.
WACC Weighted Average Cost of Capital	A company needs funds (capital) to finance itself. The capital is coming from 2 sources: - Shareholders (equity): they provide cash to the company in exchange of ownership. They are remunerated by dividends and by the variation of the share price. - Financial institutions / market (debt): they provide loans to the company. They are remunerated by interest. The WACC is the weighted average cost of these financing sources: return expected by the shareholders and interest cost of debt. It is expressed in %. Conceptually, it means that when a company is investing in a project or immobilizing more cash in its working capital, the capital

	invested will cost X%. It is then obvious that an investment project with lower return destroys value, explaining why WACC is considered as the value creation threshold. WACC is a measure of the cost of funds to a company, weighted by its proportion.
EVA Economic Value Added	EVA is the translation of % CFROI in % into a value in €, representing the value in excess of the cost of capital. It is computed as recurring cash flow - the invested capital x WACC. Think of the value created **in excess** of the costs of capital.

Rise Text
Keep in mind that a business can generate cash flow but may not create value, because the cash generated is not sufficient to pay for interests and dividends. Conversely, for a very profitable business you need to assess the excess cash generated on top of interest and dividend to see what growth option you have. This is why return and value creation metrics are extremely important, especially when you evaluate the strategy of a business or a company.

Economic Interpretation (Video)

Title	Economic Interpretations of Value Creation
Format	• Graphics - re-design some images for better clarity • Video: Biteable or Vyond (animated) • See Canva for new graphic assets
Duration:	1-2 minutes

Graphic Developer notes	*The following images need to be redesigned for improved clarity to be used in the video:* *In the graphic, in the left column, also make these changes: (1) change "Capex" to "CAPEX";* *(2) change "WC variation" to "WC Variation";* *(3) change "Gross assets" to "Gross Assets";* *(4) change "Net assets" to "Net Assets";* *(5) change "Cost of capital" to "Cost of Capital"* 1. *Eco Interpretation of Value Creation - Image 1* *One change to this graphic is to re-name the businesses.* a. *Business A is Widgets* b. *Business B is Gizmos* c. *Business C is Thingamajigs* 2. *Graphical representation of value creation (In the graphic: capitalize "representation" at the top)* a. *Business A is Widgets* b. *Business B is Gizmos* c. *Business C is Thingamajigs* d. *Where you see the Value creation threshold (WACC) put a thin red line across the graphic instead of the little blue arrow.*

Script VO	Text On-Screen	Imagery ideas
It's time to revisit our innovative widget business. A lot has changed since we last peeked inside.		
Business is booming, in fact! The Widget Company has expanded and started two new product lines. One line manufactures the best gizmos on the market. The other new line is a brand-new product, called the thingamajig.		*Join the Widget image with the Gizmo and Thingamajig images created by the graphics team.*
In order for the expansion to happen, investors helped raise capital to get the resources and equipment in		

place to meet the market needs right away.		
Of our three lines of business, we'll analyze and compare their performance to determine where our next capital investment will go to deliver more new growth.		*Calvin the calculator talking to the crowd.*
We can look at straight numbers to compare the profits, cash flow, and return of each business line.		*Show the new graphic designed version of this*: *Eco Interpretation of Value Creation - Image 1*
~~It's much easier to see in a graph.~~ But it is more meaningful to translate numbers into a graph. This is the graphical representation of the CFROI of each business.		*Show the new graphic designed version of this:* Graphical representation of value creation
The red line represents WACC. The vertical axis is the sales on capital invested, which represents the level of usage of capital invested in the business (think of it like the usage rate of a plant). The horizontal axis is the recurring cash flow on sales, which represents the cash conversion of the sales (how much cash generates 100 euros of sales, after all costs, investments, and working capital). Each dot represents the CFROI of each business line (widgets, gizmos, and thingamajigs).		*Show the new graphic designed version of this:* Graphical representation of value creation *Do a visual accent on the red line when mentioned.* *Do a visual accent on the horizontal axis when mentioned.* *Do a visual accent on the horizontal line when mentioned.*

Now, what does the graph tell us? The Widgets business has a good cash conversion but uses only a limited portion of the capital invested.	*NEW ON SCREEN TEXT* ● Good cash conversion ● Low utilization of assets	*Show the new graphic designed version of this:* Graphical representation of value creation *Add something to call out the Widget product on the map.*
The Gizmos business has a commodity business profile, with high utilization of assets but selling price defined by market price, pressuring margins.	*NEW ON SCREEN TEXT* ● *Commodity business profile* ● *High utilization of assets* ● *Selling price defined by market price*	*Show the new graphic designed version of this:* Graphical representation of value creation *Add something to call out the Gizmo product on the map.*
The Thingamajigs business delivers good cash conversion and uses a decent proportion of capital invested in this business.	*NEW ON SCREEN TEXT* ● *Good cash conversion* ● *Good utilization of assets*	*Show the new graphic designed version of this:* Graphical representation of value creation *Add something to call out the Thingamajig product on the map.*

Let's Practice

Title	Let's Practice—Case Study
Format	SL Interactive Review activity
Duration:	10 minutes
Developer Notes	Show two images you've used before, side by side. (need new renditions of images from graphic design team): 1. *Show the graphic re-design of Eco Interpretation of Value Creation - Image 1* 2. *Graphical representation of Value Creation* *(These links are for reference so you can see what they will create. You'll need the new copy from the graphics team for the interaction.)* *Create six boxes of text that will go with each product. The learners will select which boxes go with each product for their analysis. Allow 2 attempts*

	to get the right answer before revealing the correct sort. (Feedback: Not quite - please try again) *Correct feedback: You did it! Select each box for more insight about why its placement is recommended this way.* *After they extinguish their tries, show the correct answers and feedback (instruct them to select each box to learn more about its most appropriate placement - as tooltips or windows to open when they click on each item),* *Boxes to show:* 1. *Improve cash generation through cost competitiveness and capital optimization.* 2. *Improve cash generation by increasing prices.* 3. *Invest in growth projects, even if they have lower returns than the business's actual return.* 4. *Improve cash generation by improving products (use existing asset base to develop higher-margin products).* 5. *Do not change anything. The business is successful as it is.* 6. *Rationalize industrial footprint to maximize capital usage.*

Let's look again at the figures and the graphic and compare the three product lines. For each product line, select the boxes that represent the best strategy to increase value creation.	
Line of business	Answer options
Widget	1. *(incorrect)* Improve cash generation through cost competitiveness and capital optimization. 2. *(incorrect)* Improve cash generation by increasing prices. 3. *(incorrect)* Invest in growth projects, even if they have lower returns than the business's actual return. 4. *(incorrect)* Improve cash generation by improving products (use existing asset base to develop higher-margin products). 5. *(incorrect)* Do not change anything. The business is successful as it is. 6. *(Correct answer)* Rationalize industrial footprint to maximize capital usage. **Correct answer feedback:** That's right! *(see below for continued feedback)* Incorrect answer feedback: Not quite. *(see*

	below for continued feedback) *Feedback continued for both answers*: The Widget line has a strong cash delivery but low utilization of its assets. Further increasing prices is not the best option to reach value creation. Indeed, it bears the risk of losing volume, leading to even lower asset (hence capital) utilization. Reducing prices to capture volume is not a value creative strategy in the long run, as already explained in this training. The most effective strategy to increase value creation is to operate the same level of business with fewer assets (hence less capital invested): "fill the plants" strategy. This would usually be achieved through industrial footprint rationalization.
Gizmo (Select all that apply)	1. *(Correct Answer)* Improve cash generation through cost competitiveness and capital optimization. 2. *(incorrect)* Improve cash generation by increasing prices. 3. *(incorrect)* Invest in growth projects, even if they have lower returns than the business's actual return. 4. *(Correct answer)* Improve cash generation by improving products (use existing asset base to develop higher-margin products). 5. *(incorrect)* Do not change anything. The business is successful as it is. 6. *(incorrect)* Rationalize industrial footprint to maximize capital usage. **Correct answer feedback:** That's right! *(see below for continued feedback)* **Incorrect answer feedback**: Not quite. *(see below for continued feedback)* **Feedback**: The Gizmo line has high asset (hence capital) utilization, but the selling price is constrained by market price (commodity business). To improve margins and cash generation, this business should: (1) improve its cost competitiveness, be selective on CAPEX investments, and

	optimize working capital. 2) use its assets to diversify its production to less commoditized products with higher margins.
Thingamajig	1. *(incorrect)* Improve cash generation through cost competitiveness and capital optimization. 2. *(incorrect)* Improve cash generation by increasing prices. 3. *(Correct answer)* Invest in growth projects, even if they have lower returns than the business's actual return. 4. *(incorrect)* Improve cash generation by improving products (use existing asset base to develop higher-margin products). 5. *(incorrect)* Do not change anything. The business is successful as it is. 6. *(incorrect)* Rationalize industrial footprint to maximize capital usage. **Correct answer feedback:** That's right! *(see below for continued feedback)* **Incorrect answer feedback**: Not quite. *(see below for continued feedback)* **Feedback**: The Thingamajig business has a good return. More capital should be invested in this business to create more value in absolute EUR amounts (EVA), even if it results in reduced CFROI %.
Great job! Now let's finish with one last question.	
Considering the CFROI of each business line, select which one creates value.	Widget Gizmo Thingamajig *(Correct answer)* **Feedback**: Only Thingamajig is creating value because this is the only one with value creation metrics above the cost of capital.
Bravo! You did great.	*Add some celebratory effects here with Calvin Calculator.*

Section 5: Assess Your Acumen

Title	Assess Your Acumen
Format	SL Interactive Review activity
Duration:	5 minutes
Developer notes	*Let's do the soccer game for this one.*

Rise Text	
During this course, you learned the basics of financial analysis of a business. To get a more comprehensive performance assessment or assess the future prospects of a business, other aspects need to be considered, such as: sustainability indicators (GHG emissions, water consumption…), R&I spend, Debt, and more.	
In this game, you will score a goal by recalling your new financial acumen. For each correct answer, your team will make a goal and score a point. For each incorrect answer, the opposing team will score. Are you ready? Let's go!!!	
Title	**Description**
What terms relate to the profitability of a business?	• EBITDA and net income *(correct answer)* • CFROI and ROCE • WACC and CAPEX **Feedback**: EBITDA and net income are both indicators of profitability of a business, but you learned

	today that they do not tell the complete story of the business performance.
Three main key drivers of cash flow generation for a business are EBITDA, working capital, and _____.	• EBITDA • WACC • CAPEX *(correct answer)* **Feedback**: CAPEX is the second key driver to cash flow generation.
When demand is above production capacity, a business should quickly invest to expand production not to miss sales.	• True • False *(correct answer)* **Feedback**: Investing capital to expand production is not always the most value creative option. For example, instead of producing more products, it could possibly be more value creative to operate the business under allocation to maximize value from pricing (bottom slicing: sell more products to the most profitable customers of the portfolio), or to work with tollers, or contemplate a joint venture with a partner.
If a business is only using part of its plant capacity (e.g., only part of the capital invested in it), but has sales with high margins and cash conversion, how could this business create more value?	• Invest more to grow this business. • Reduce prices to sell more volume. • Reduce capital invested while keeping the same level of business. *(correct answer)* **Feedback**: Reducing prices to capture volume is not a value creative strategy in the long run. The most effective strategy to increase value creation is to operate the same level of business with fewer assets (hence less capital invested): “fill the plants” strategy. This would be usually achieved through industrial footprint rationalization.
• Greenhouse gas (GHG) emissions (usually expressed in CO2 equivalent). • Water consumption • Social commitments and initiatives All of these are examples of	• Extra-Financial Indicators *(correct answer)* • Research and Innovation • WACC **Feedback**: While they are not financial performance

_____.	indicators, the non-financial indicators weigh more and more in the long-term value creation of a business. A business is really sustainable when it is both good for the planet, and economically viable