

# Financial Asset Management

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foundation on which corporate value is created

# Value

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# Value

- Companies and organizations exist to create value for all stakeholders, incl:
  - Employees
  - Customers
  - Suppliers
  - Lenders
  - Shareholders



# Financial Assets

- Receivables
- Cash
- Investments in (tradable) financial instruments
- Equity

# Financial Policy

## Aggressive

- Driven by a sense of do more for faster growth in the business with the limited resources available
- Ranges from slightly to chronically undercapitalized.
- Extensive use of financial leverage
- High risk approach

## Conservative

- Driven by a need to get high quality cashflows from high quality business relationships
- Exhibit a strong preference for well capitalized operations and liquid financial reserves
- Prefers use of operating leverage
- Low risk approach

# Cash Flow Management

- Sales cycle review
  - Sale contract – payment terms
  - Late interest penalty or higher pricing for credit
  - Ability to factor/sell the receivable
- Payment cycle review
  - PO procedures & link to budget plus cash availability
  - Payment forecast (actual) to find liquidity gaps

# Liquidity Management

- Determine where to park cash e.g. bank
- Determine the appropriate level of cash to hold
- Excess cash should be deployed to risk appropriate financial instruments e.g. bank deposits, T-bills or even long term T-bonds and high quality corporate bonds
- No forecasted liquidity gaps should be tolerated
- Consider an annual stand-by bank facility - expensive



# Investment Appraisal

- At all times have a clear understanding what your company's cost of capital is
  - Debt: interest rate on a loan
  - Equity: Expected return of equity investors
  - Proportional against target capital structure
- Diligently evaluate all investment proposals returns against your cost of capital
  - Very important to be clear what the cash flows are
- Typically poor investment decisions lead to a depletion of corporate financial assets

# Financial Risk

- Develop a risk statement as part of the financial policy document
- Clearly state the risk appetite – aggressive vs conservative
- Implement clear risk control, containment and remedial measures
- Measure, measure, measure
- Risk areas
  - Counterparty
  - Credit
  - Market

# END

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