Capital Allocation

An online programme for corporate executives and financial practitioners

A Market-Based Framework for Value Creation

Highlights

This online platform provides a useful analytical framework for corporate managers and financial practitioners to consider when allocating capital.

The course will help you answering questions like:

- What are the primary factors that drive the company's shareholder value? And are they aligned with the strategy the company is pursuing?
- What are the key dynamics and trade-offs between return on investments (ROIC), growth and earnings quality
- What are the current market expectations embedded in the stock price?
- How can I become a better capital allocator by learning to think like an investor?
- How do you set, and in turn communicate, the capital allocation and funding priorities?

Alleima

"Torbjörn provides a clear and pedagogically effective way to understand the basics of capital allocation."

Göran Björkman, CEO Alleima

H&M

"Torbjörn's book presents a straightforward and effective framework for understanding capital allocation"

Christian Sievert, Board Member, H&M

Introduction

Background – why this programme?

At the crossroads of corporate strategy and financial markets lies capital allocation. This programme takes a practical approach to help you understand how to use the information provided by the market as input in your capital allocation process. We will discuss how to analyse market data and use it to evaluate capital allocation opportunities, and how to balance theoretical frameworks with real-world market insights.

There are low-hanging fruits for both corporate executives and investors well-versed in capital allocation. These opportunities include:

- Evaluating and comparing various capital allocation strategies
- Gain a deeper understanding of valuation centred around the "three value drivers"
- Improving incentive structures to better align with value creation
- Learning to think like an investor to mitigate common behavioural shortcomings
- Gain a better understanding of the "cost of money" and alternative uses of capital

What makes Capital Compass Advisory distinctive?

This course offers a unique curriculum spread across 4 modules, supplemented by several case-studies, covering all the relevant topics that CEOs, CFOs, board members and investors need to understand and manage. Capital Compass Advisory offers a unique programme consisting of a mix between academic studies and best practice from large multinational companies.

Programme objectives

The core objective of this programme is to highlight the role of capital allocation considerations within the investment and cash flow deployment processes to participants. This should in turn be put to practical use in the everyday work life of the participants.

Programme length

The program, including case studies and exercises, takes approximately one day to complete. It also includes the opportunity for participants to ask questions and seek clarification regarding the course material directly from the course originator.

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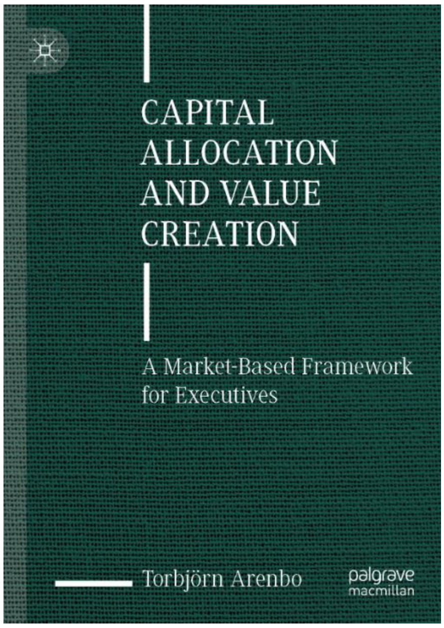
Programme Structure

Structure

The programme consists of four modules with e-learning materials such as videos, case-studies and interactive exercises.

The structure of the programme will to a large degree follow the outlay of the book "Capital allocation and value creation – A market based framework for executives".



Module 1. The value framework

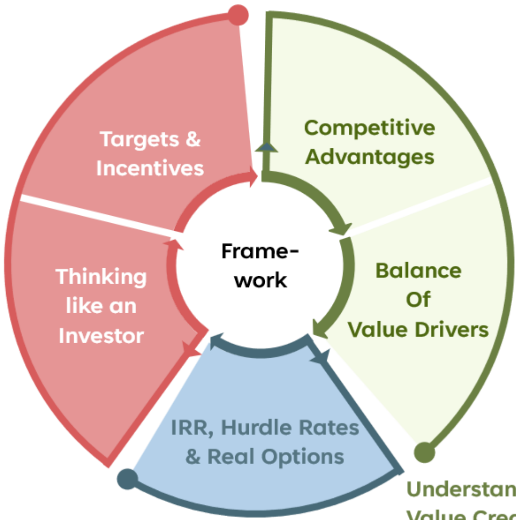
1.1. The three value drivers

Without sufficient understanding of the theoretical building blocks of value creation, it becomes challenging to make informed decisions regarding capital allocation. Therefore, we start by describing what roles ROIC, growth and cost of capital play in the value creation framework as well as highlight the interaction between them. We also take a closer look at earnings multiples.

1.2. A market based approach

Thereafter we supplement the analytical framework with empirical findings. We do that by taking a market-based approach in trying to shed some light on the delicate question of capital allocation and shareholder value creation. We use a Total Shareholder Return (TSR) framework to measure and better understand the performance drivers.

- What is a TSR framework?
- TSR and the three value drivers - the empirical perspective
- Case study: Telia vs Elisa



1.3. Earnings quality and competitive advantage

We will also discuss the, sometimes overlooked, importance of earnings quality as a value driver. In particular, we focus on the way earnings quality, competitive advantage and cost of capital can be linked together.

- What is earnings quality and why does it matter?
- In what ways can earnings quality be achieved?
- Case study: Nolato
- Case study: Atlas Copco

> "Corporations and investors worry far too much about earnings growth. What they should be focusing on is the relationship between earnings growth and return on capital"
>
> Michael J. Mauboussin

Module 2. Cash flow deployment alternatives

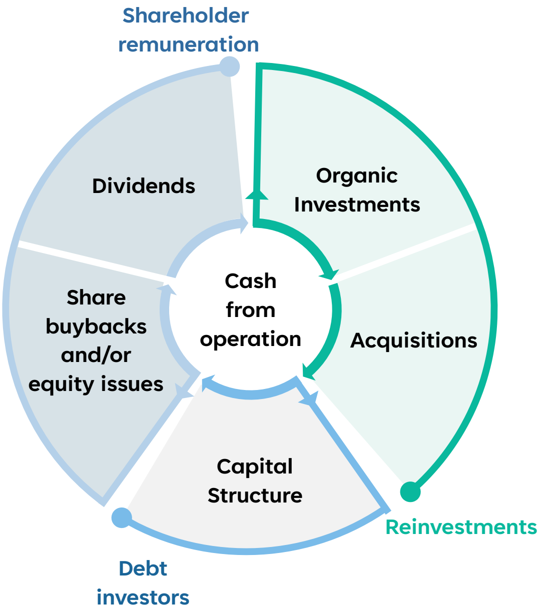
Once management has decided what value driver levers to pull and what business strategies to pursue, it is time to consider what capital allocation alternatives may take the company closer to its desired goals. In the second part of this programme, we look at the dynamics surrounding some of the cash flow deployments alternatives that management has at its disposal.

> "What we're trying to find is a business with a wide and long-lasting moat around it, protecting a terrific economic castle with an honest lord in charge of the castle."
>
> Warren Buffett

2.1. The art of deal-making

Mergers & Acquisitions are one of the biggest cash spends for corporates and, as such, have a significant impact on the firm's operations. The wide range of expected returns suggests that executives at acquiring companies should put in extra effort to master the art of deal-making.

- What does empirical evidence tell us Reviewing our Nordic peer group from an M&A perspective
- Case study: Nibe



2.2. Portfolio optimization and why less so often is more

Not all investments or acquisitions succeed. How should management evaluate investments that do not reach their expected returns? Should the assets be divested or should attempts be made to turn the underperforming entity around?

- The Investor's take on what to keep and what to divest

> "Earnings should be retained only when there is a reasonable prospect that for every dollar retained by the corporation, at least one dollar of market value will be created for owners."
>
> Warren Buffett

2.3. Capital structure and funding

Now we turn our attention to the liability side of the balance sheet and analyse the role of capital structure in the value creation process. How much leverage can the business model take and how large, if any, are the financial gains from increasing the leverage?

- Capital Structure from the academic versus the practical perspective
- How to measure leverage and the liquidity back-up
- Rating agencies and capital structure

2.4. Shareholder remunerations – Time to give back?

The equity market has often a very strong focus on management returning excessive cash to shareholders. One common capital allocation mistake is no doubt when corporates try to achieve growth at too high a price.

- Why dividend policy matters for value creation
- Ways to distribute excess cash and pros and cons with share buybacks

Module 3. Reading the market and thinking like an investor!

The market contains an abundance of information, which can be a valuable source of input for a firm's decisions regarding capital allocation. However, to effectively make use of the market information, executives must possess the ability to interpret the market and extract relevant insights.

3.1. Adopting an investor mind-set

In this part we investigate how "thinking like an investor" can improve a firm's capital allocation process.

- Applying a disciplined rule-based framework for investing
- Thinking in terms of risk-reward trade-off
- Using various techniques for scenario modelling

3.2. Reading the market – Financial and macro-economic backdrop

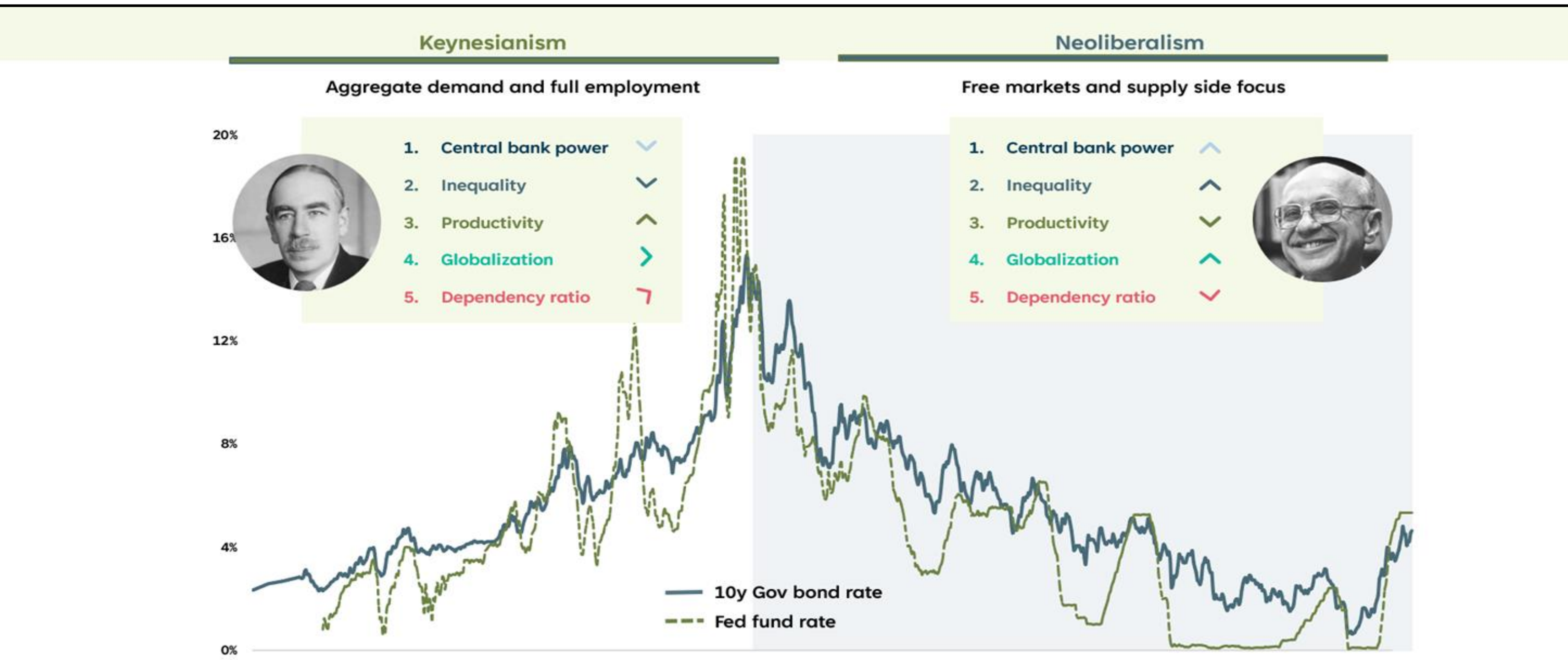
The financial market's evaluation of a company's attributes, such as growth potential and margin stability, can vary over time and so can the availability of leverage as a value-generating tool. In this part we take a step back to better understand how the investor preferences may change between various macro and financial policy regimes.

- Financial regimes and valuation
- How can understanding the financial markets improve the capital allocation process?

3.3. A shareholder activist perspective - Case study: Sandvik

In this part, we apply a practical, market-oriented approach to shed some light on the complex issues of capital deployment and the creation of shareholder value.

- What are the main drivers of Total Shareholder Return and what does the historical cash flow deployment look like?
- What are the current market expectations embedded in the valuation?



Module 4. The capital allocation framework

All three building blocks are now in place: the theoretical foundation, the cash flow deployment alternatives, and the investor toolbox. It is time to put our market-based capital allocation framework together.

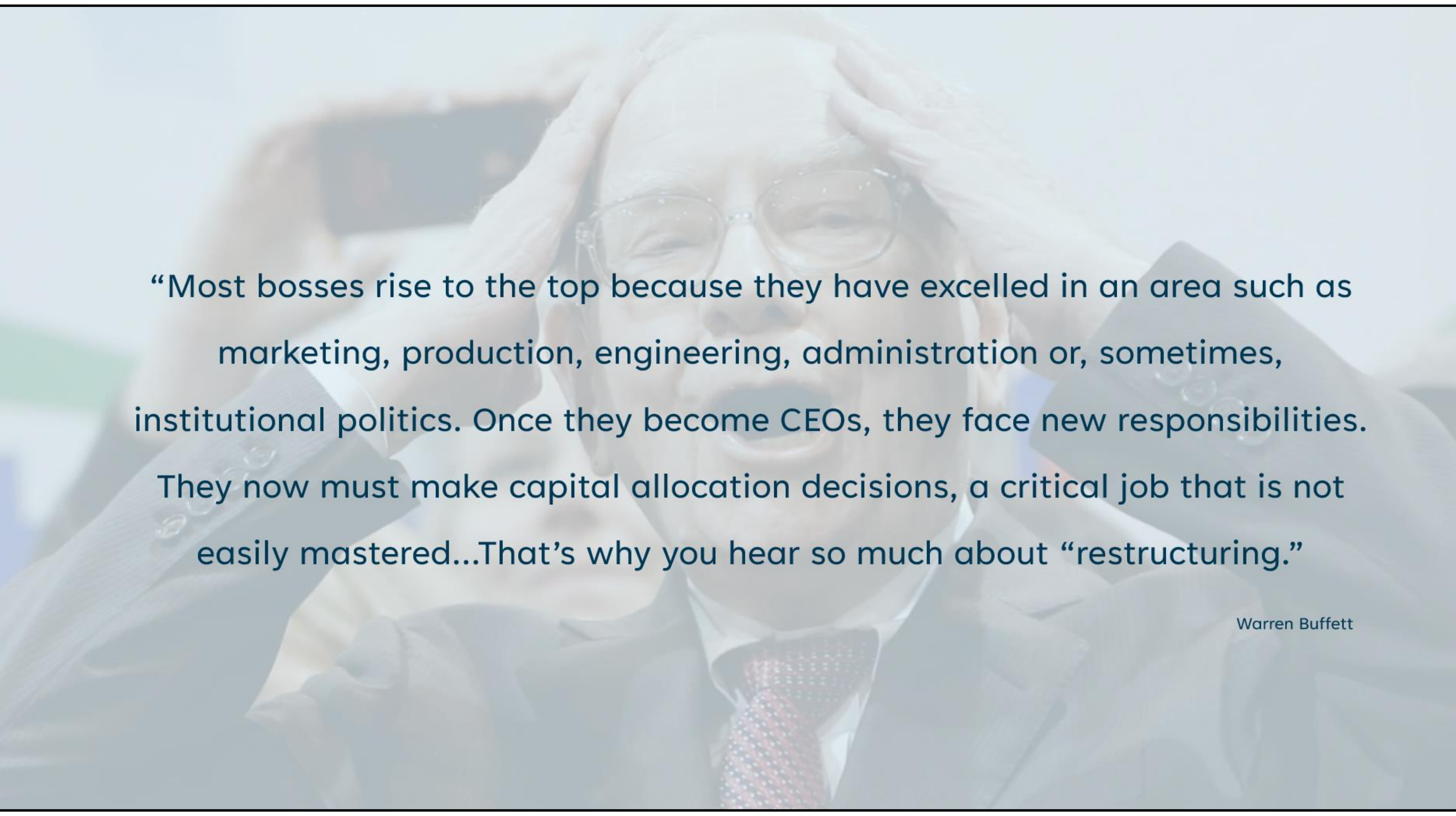
4.1. Financial targets and policies – capital allocation priorities in essence

As the CEO of a company, what message would you like to send to your organization and financial stakeholders, and why? The financial targets should align with the company's mission and strategy. Ideally, when determining the financial goals and their priorities, one should consider the key value drivers of the business.

- Financial targets should express the company's ambition to create value
- Pros and cons with different targets

4.2. A three-step capital allocation framework

We summarize our findings in the form of a three-step capital allocation framework where we first will determine the relative importance of the three value drivers, before turning to the evaluation of the cash flow deployment options with a "risk-reward" mind-set. The third and last step involves setting KPIs and financial target priorities that are aligned with the company's value creation proposition.



References:

” Torbjörn explains in an educational way and through many practical examples how CEOs and CFOs can make long-term decisions that lead to value creation in companies. His book 'Capital Allocation and Value Creation' contains many valuable insights that I have been able to apply in my discussions with management”

Elisabeth Mosséen, Group Treasurer SKF

"The best practitioners’ guide to capital allocation!”

Johan Dufvenmark, CFO Beijer Alma

“The book deals with the important topics of optimal capital allocation and creation of value, from both a theoretical and practical perspective. It is generously illustrated with relevant empirical examples. Highly recommended reading for corporate executives, board members as well as investors and investment analysts."

Per Frennberg, Chairman at AP7 and former CIO at Alecta

” Torbjörn has written an excellent and accessible book on the sometimes difficult-to-grasp subject of capital allocation.”

Jörgen Rosengren, CEO Gränges

”Torbjörn's book provides a great framework for thinking about Capital Allocation"

Anders Borg, Chairman of the Board, LKAB

Over the past few years, there have been several occasions when there has been a need for qualified financial analyses. Torbjörn has always been the one who provided the most qualified analyses and delivered well beyond expectations. A brilliant analyst with deep insights and expertise in financial matters.

Jörgen Elf, Group Treasurer SCA

Practical Information

Length:

The program, including case studies and exercises, takes approximately one day to complete. It also includes the opportunity for participants to ask questions and seek clarification regarding the course material directly from the course originator.

Price:

SEK 7.900 (excluding VAT) - discounts are available for companies registering more than five applicants.

Tailormade Workshops and Seminars:

As a follow-up to the program, we offer tailored workshops and seminars for you and your management team or board of directors. Learn how an effective capital allocation process can significantly enhance your company's long-term value creation.

Enquiry?

If you have any questions related to our offerings and services, please contact:

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