



Free Cash Flow: A Powerful Decision-Making Metric

In today's business world, it is vital for companies to understand the difference between net income and free cash flow. This course offers participants the knowledge and ability to use free cash flow as a business management tool to create value for shareholders.

Participants learn why free cash flow is superior to net income in evaluating business performance, and how to use this metric to analyze current and future investment opportunities. Participants learn about the building blocks of free cash flow including net operating profit after taxes, invested operating capital, and the weighted average cost of capital. They also learn how to use free cash flow to make capital budgeting decisions and to quantify the value of acquisition opportunities. This course provides the free cash flow knowledge and tools that a business professional needs to compete effectively in an economy that is fast moving, and ever changing.

Targeted Audience

CEO's, VP's of Operations, Presidents, Controllers, CFO's, Financial Managers, EVP's of Finance, Financial Analysts

Special Offer

Clients who register for this course will receive a complimentary 4-month subscription to FT.com. The Financial Times is the world's most respected financial newspaper, providing a broad assessment on finance, business and the industrial sector. The move to the electronic version follows an ongoing review of our environmental responsibilities as a global business and as part of the Pearson group. FT.com also has features that are not available in hard copy, such as: Special Reports, Alphaville, editor blogs, education sections and much more! Subscriptions will start within 6-8 weeks of the start of class and are limited to one subscription per client. (Please note: as of May 1, 2011, the electronic subscription replaces the hard-copy 3-month Financial Times subscription.)

Advance Preparation

No advance preparation required.

Prerequisites

Basic understanding of introductory accounting and finance. Participants should bring a calculator to class.

Learning Objectives

Students will be able to:

- . Calculate Free Cash Flow
- . Compare Free Cash Flow to Net Income
- . Determine Financial Drivers of Free Cash Flow
- . Calculate Cost of Capital
- . Use Free Cash Flow for Capital Budgeting Decisions
- . Free Cash Flow versus Economic Value Added
- . Analyze Acquisitions Using Free Cash Flow
- . Link Incentive Compensation to Free Cash Flow

Alumni Comments

"Excellent course - very clear presentations, well explained, excellently timed"

Level: Intermediate

CPE Credits: 7.0

Instructional Method: Group-Live

Detailed Outline

Free Cash Flow

Introduction to Free Cash Flow

- . Economic View of the Firm
- . Why the Attention to Free Cash Flow?

- . Traditional Financial Management Framework
- . What are the Different Types of Cash Flow
- . What Exactly is Free Cash Flow?
- . Adopting a Free Cash Flow Framework
- . Characteristics of Free Cash Flow
- . How is Free Cash Flow Calculated?
- . Relationship Between Market Value Added and Free Cash Flow
- . Relationship Between Return on Investment and Cost of Capital
- . Optimal Investment Horizon
- . How to Enhance Free Cash Flow

Free Cash Flow Adjustments

- . Operating Adjustments
- . Non-Recurring Adjustments
- . Cash Adjustments
- . Economic Adjustments
- . Net Operating Profit After Taxes (NOPAT)
- . Capital
- . Symmetry Between NOPAT and Capital Adjustments

Free Cash Flow Drivers

- . Operationalizing Free Cash Flow
- . Sub-Components of Free Cash Flow
- . Optimization of Drivers Versus Maximization

Cost of Capital

- . What is the Cost of Capital?
- . Sources of Capital
- . Characteristics of Debt Capital
- . Cost of Debt Capital
- . Characteristics of Equity Capital
- . Cost of Equity Capital
- . Capital Asset Pricing Model
- . Weighted Average Cost of Capital

Capital Budgeting Using Free Cash Flow

- . Goals of Capital Budgeting
- . Benefits of Using Free Cash Flow for Capital Budgeting
- . Numeric Example of Capital Budgeting Using Free Cash Flow
- . Incremental Analysis Using Free Cash Flow

- . Terminal Value Calculation
- . Cash Flow Perpetuity Method
- . Constant Growth Rate Method
- . Terminal Value Numeric Examples

Free Cash Flow and Interim Financial Results

- . Free Cash Flow Versus Modified Free Cash Flow
- . Relationship Between Modified Free Cash Flow and Market Value

Acquisition Analysis Using Free Cash Flow

- . What are the Benefits of Acquisitions?
- . How is Free Cash Flow Used to Evaluate Acquisitions?
- . What is Total Value Received?
- . What is Total Value Paid?
- . How is Incremental Synergy Value Determined?
- . How is Acquisition Price Determined Using Free Cash Flow?
- . Numeric Example of Acquisition Analysis Using Free Cash Flow

Free Cash Flow and Incentive Compensation

- . Goal of Incentive Compensation Plan
- . Shortfalls of Traditional Incentive Compensation Plans
- . Elements of a Free Cash Flow Incentive Compensation Plan
- . Fixed and Variable Elements of Plan
- . Determination of Parameters for Fixed and Variable Elements
- . Bonus Bank Calculation
- . Numeric Example of Free Cash Flow Incentive Compensation Plan
- . Administrative Aspects of Plan

Free Cash Flow Implementation Issues

- . What are the Possible Pitfalls to Adopting a Free Cash Flow Financial Management Framework
- . What is the Timeframe to Implement a Free Cash Flow Program?

Final Questions and Answers