

# Leading Through Financial Excellence

## Program Overview

In Leading Through Financial Excellence, MIT Sloan School of Management's elite faculty elevates non-financial leaders by giving them the concepts, language, and skills necessary to make important business decisions through a financial lens. Upon completing the certificate program, business leaders will be able to analyze, develop, and make the financial case for critical investments to senior-most management.

### MAKING THE BUSINESS CASE

Understand how to build a business case for an investment project, including demonstrating why the project is needed and its benefits

### DEVELOPING PROJECT INVESTMENT PRO FORMAS

Acquire a framework for evaluating all incremental costs, cost savings, and/or revenues over the lifetime of an investment

### SCENARIO ANALYSIS

Learn to identify assumptions and areas of risk, and apply these learnings to develop alternative scenarios, resulting valuations, and opportunities for generating real options



ANTOINETTE  
SCHOAR



PAUL  
ASQUITH



JAKE  
COHEN

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## Key Conceptual Models

- ✓ **Making the Business Case:** Tactics for building a business case around an investment to the senior-most audience.
- ✓ **Real Options:** Maximizing expected value by staging the timing/structure of investments in a way that expands flexibility, limits downside risk, and postpones commitments based on information that emerges over time.
- ✓ **Scenario Analysis:** Identification of uncertain assumptions in an investment to generate alternative scenarios, and estimating probabilities for each scenario to derive expected value.

## Additional Program Features

- ✓ **Financial Ratios:** Measuring attributes such as profitability, efficiency, liquidity, and solvency, and applying them to critical business decisions.
- ✓ **Capital Budgeting:** Techniques for rigorously valuing investment opportunities to make sound decisions about capital allocation.
- ✓ **Cost of Capital:** Principles and methods for quantifying the relative risks for new investments.

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## Curriculum: Week by Week

### MODULE

#### One: Introduction to Financial Statements

Video Lectures: 40 Minutes  
Assignments: 90-120 Minutes

#### Two: Capital Budgeting

Video Lectures: 30 Minutes  
Assignments: 45-60 Minutes  
Live Virtual Events: 90 Minutes

#### Three: Analyzing Business Financials & Generating Projections

Video Lectures: 50 Minutes  
Assignments: 90-120 Minutes

#### Four: Free Cash Flows & Valuation

Video Lectures: 38 Minutes  
Assignments: 90-120 Minutes  
Live Virtual Events: 90 Minutes

#### Five: Scenario Analysis & Real Options

Video Lectures: 50 Minutes  
Assignments: 120 Minutes

#### Six: Cost of Capital

Video Lectures: 35 Minutes  
Assignments: 90-120 Minutes  
Live Virtual Events: 90 Minutes

### LECTURES [VIDEOS]

- The Balance Sheet
- The Income Statement
- The Statement of Cash Flows and Connections
- Ratio Analysis: Introduction

- The Time Value of Money
- Net Present Value
- Internal Rate of Return
- Payback Period and Discounted Payback Period

- PIPES Financials
- PIPES Sources and Uses of Funds
- PIPES Cash Cycle Forecasting
- PIPES Needs

- Free Cash Flows to the Firm
- Calculating Cash Flows
- Valuing Companies and Projects
- Terminal Value

- Scenario Analysis and Real Option Valuation
- Turbo Widgets Scenarios
- Turbo Widgets eNPV Calculations
- Decision Analytic Approach

- Introduction to Cost of Capital
- Market Risk Premium
- Capital Asset Pricing Model
- Weighted Average Cost of Capital

### KEY LEARNING

Professor Jacob Cohen explains how to read and interpret key financial statements – the Balance Sheet, Income Statement, and Statement of Cash Flows. He explains how profits are generated, the distribution of assets within a firm, the sources of company funds, and the uses of those funds. Professor Cohen also introduces key financial ratios and how to construct them in order to diagnose the financial health of your business.

Professor Cohen introduces common tools used for project and business valuation in order to make capital budgeting decisions. Emphasis is applied in computing Net Present Value, the preferred method of financial valuation. You will eventually calculate Net Present Value to generate a valuation of your own investment project.

In this module, you'll be introduced to PIPES, a fast growing plumbing supply business, that is nevertheless losing money. Professor Paul Asquith uses this compelling case to demonstrate the use of ratio analysis to diagnose the company's financial challenges and generate projections to model the possible solutions. He explains how to determine the company's profitability, the sources and uses of funds within the business, and how the company's debt situation is impacting its overall performance.

Professor Asquith digs even deeper into project and company valuation methods. He introduces how to generate free cash flows to the firm and the future revenue or cost savings projections that account for details such as tax impacts, depreciation, and working capital. You'll also learn how to generate a Terminal Value for your project, the expected value of your project beyond your initial projection period, and how to integrate that figure into your Net Present Value calculation.

The basis of financial valuation is a prediction about the future, therefore, a solid valuation has to take into account key risks to a project's success. In this module, Professor Antoinette Schoar introduces how to account for business risk and uncertainty in valuation calculations by walking through the key steps in Scenario Analysis. She also illustrates how to integrate a "real option" into your investment plan, a process of staged investment that allows you to further mitigate risk by gathering data during initial project stages and adjusting the project accordingly.

While you will have been using a Cost of Capital figure throughout the program to compute your project valuation, Professor Schoar now provides valuable context on how finance professionals think about cost of capital, risk premiums that go into computing cost of capital for a given market, and how this translates into a Cost of Capital figure for an individual firm.

\* Module = 1 Week \*\*Live Events may be subject to change

NOTE: Orientation Pre-Requirement Work (90 minutes) and Final Presentation at end of program (90 minutes).

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## Project Examples

NAME	DESCRIPTION	PROJECTED BUSINESS IMPACT	PROJECTED FINANCIAL IMPACT
<b>Activation – The Sweet Spot</b>	A Director of Global Delivery from a large technology company launched a strategy that aims to drive down the time for their SaaS implementations to go live, enabling them to realize activation fees in a shorter time frame.	Increased Speed 8%	\$17,600,000
<b>Digital Ticket Creation Process</b>	With the goal of reducing the volume of incoming calls to their call centers, a Director of Customer Experience for a major telecommunications company developed a business plan to enhance their company app, giving customers the ability to submit trouble tickets and interact directly with the engineering teams.	Increased Quality 10%	\$2,500,000
<b>Expansion in Romania</b>	A Regional Sales Director for a global industrials organization developed a proposal to increase his firm's sales presence in an emerging country.	Increased Efficiency 20%	\$300,000
<b>Reassessment of the Trade Settlement Process</b>	An Executive Director and General Counsel for a major financial services institution redesigned their trade settlement process in order to eliminate costs that still remain in the business because of antiquated processes when trading was done face to face.	Reduced Risk 50%	\$250,000
<b>Member's Visit Report</b>	After realized that much of what a banker and a client discuss is forgotten following their branch visit, an AVP of Process Improvement and Technology designed a data product for clients that captures the notes and details from these meetings to improve their overall experience and stay top of mind.	Increased Quality 10%	\$2,500,000