Corporate Financial Management Operation FPG

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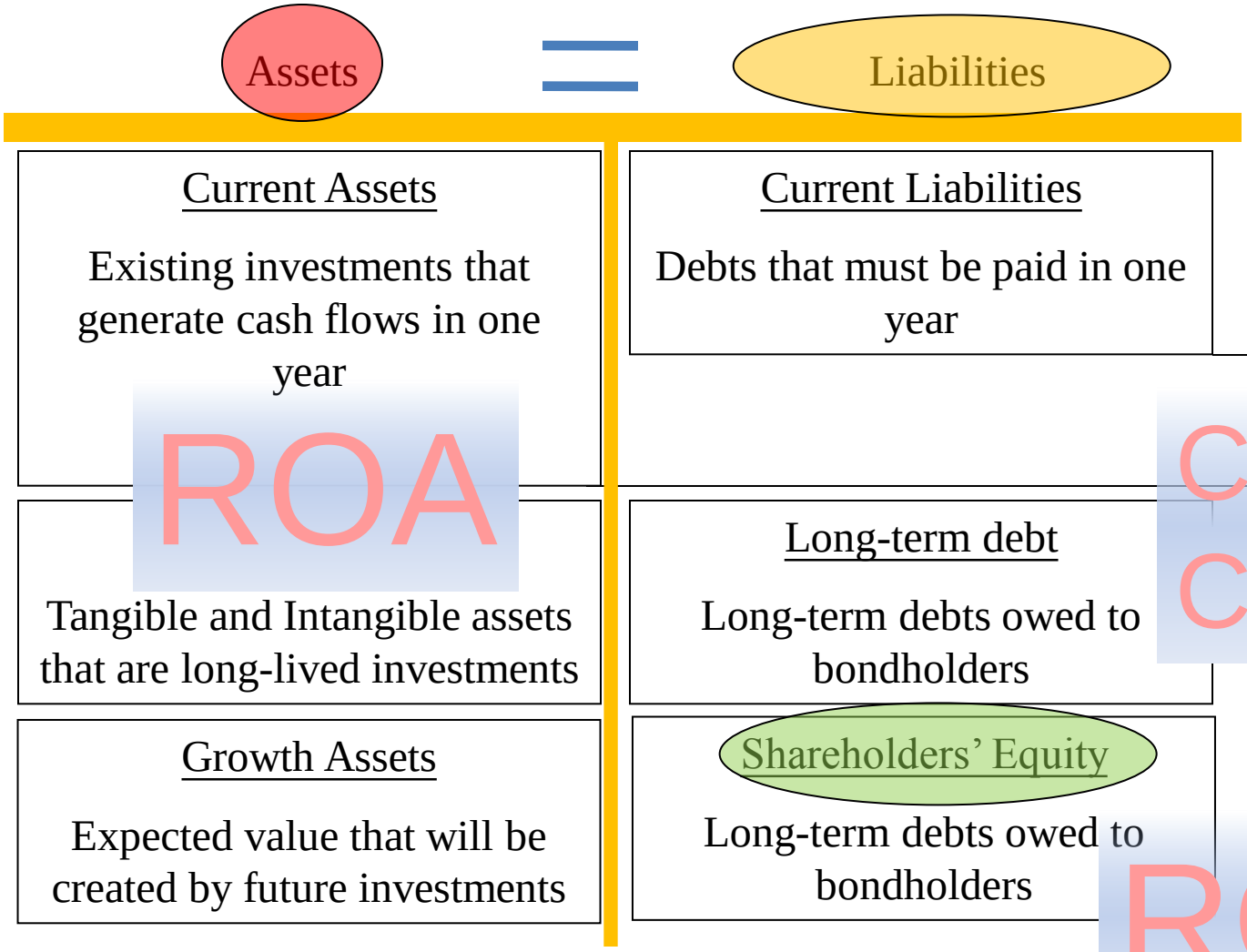
Corporate Finance in FPG

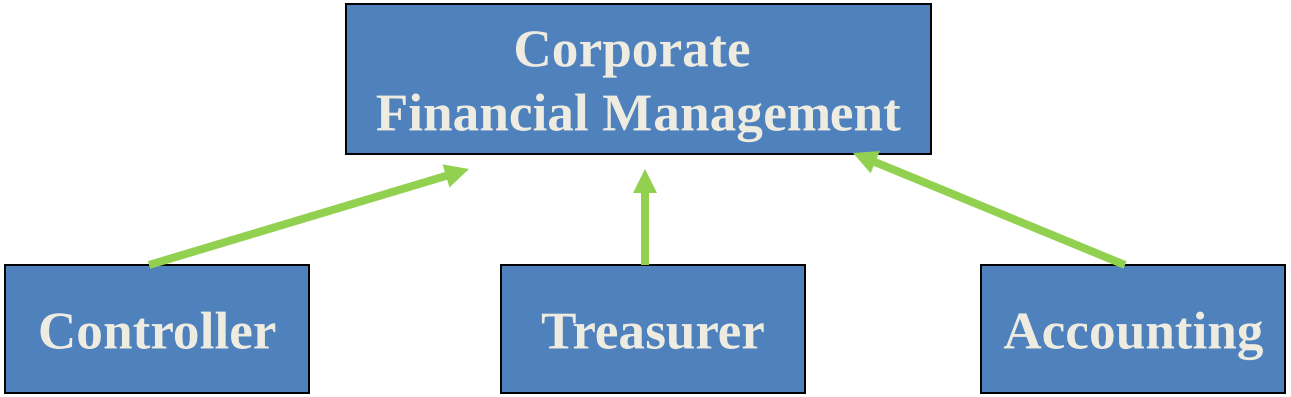
FINANCIAL DECISIONS

- INVESTMENT DECISIONS
- FINANCING DECISIONS
- DIVIDEND DECISIONS

Balance Sheet Model



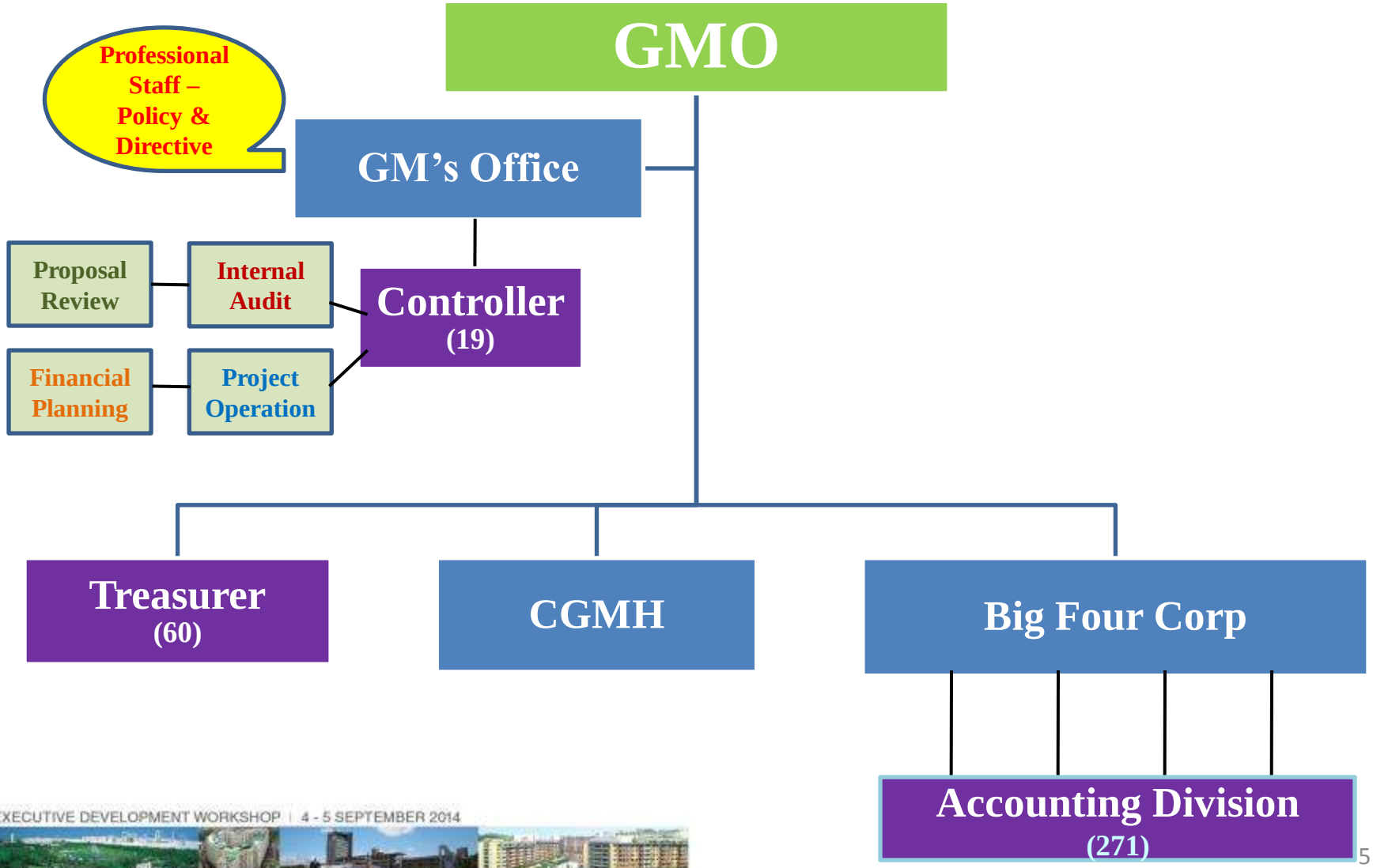
What Really is it Anyway?



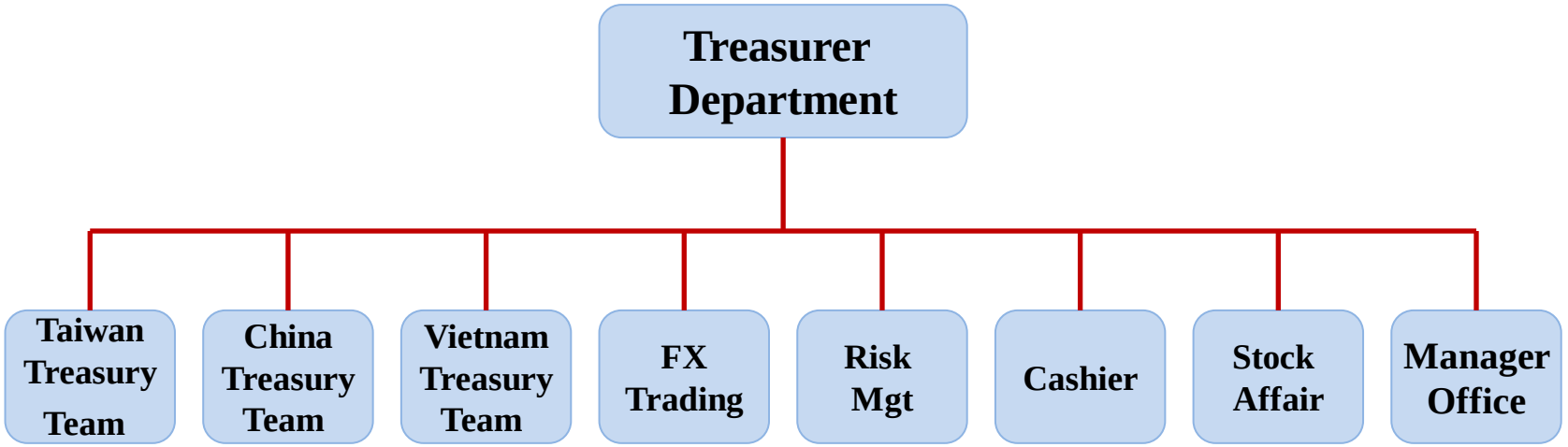
Core Competencies

- **Transcending Financial Management into Business Operations**

Organization Chart



Treasurer Department



Investment Decision

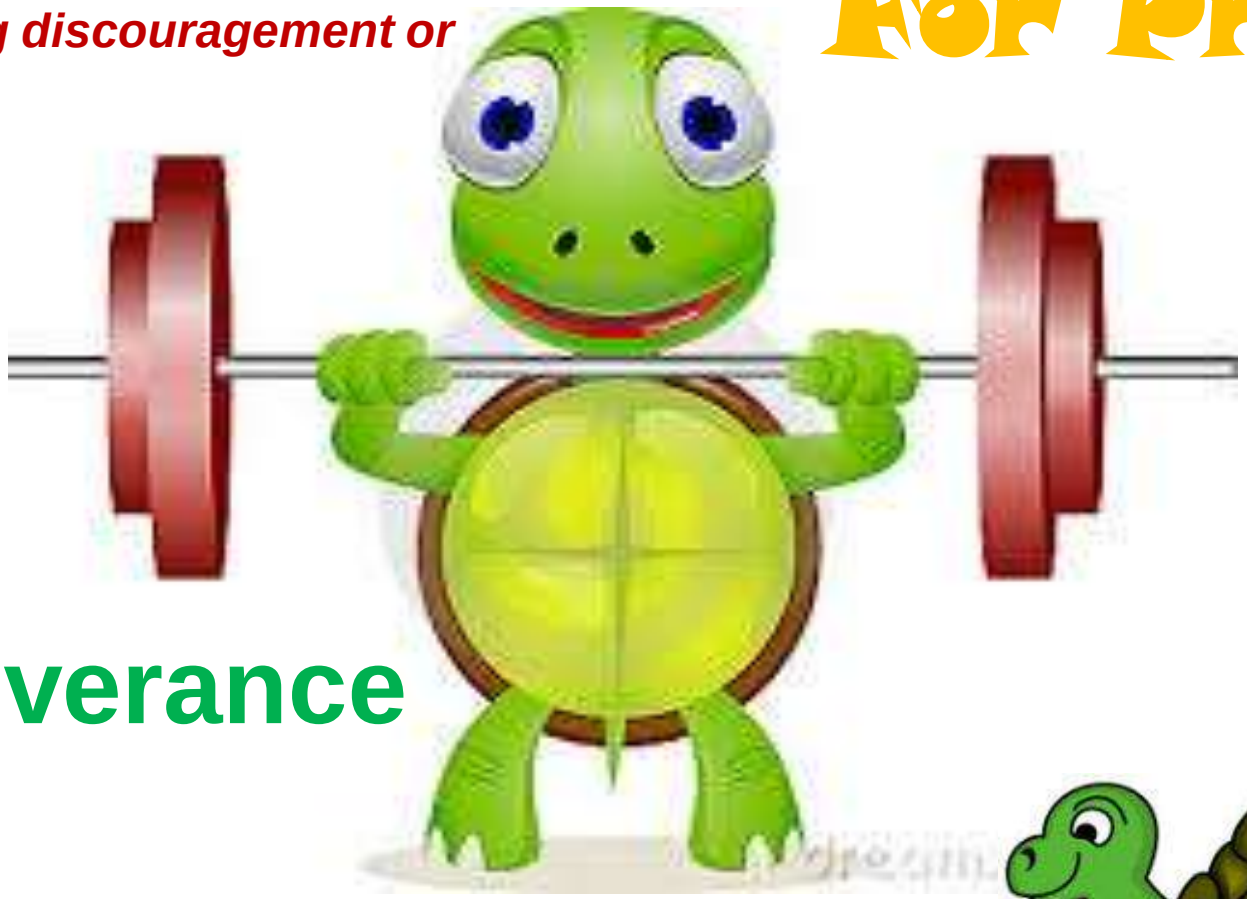
New Product Development

Production Scale Expansion

No Short Cut to Success

Continued steady belief and efforts withstanding discouragement or difficulty

For Profit

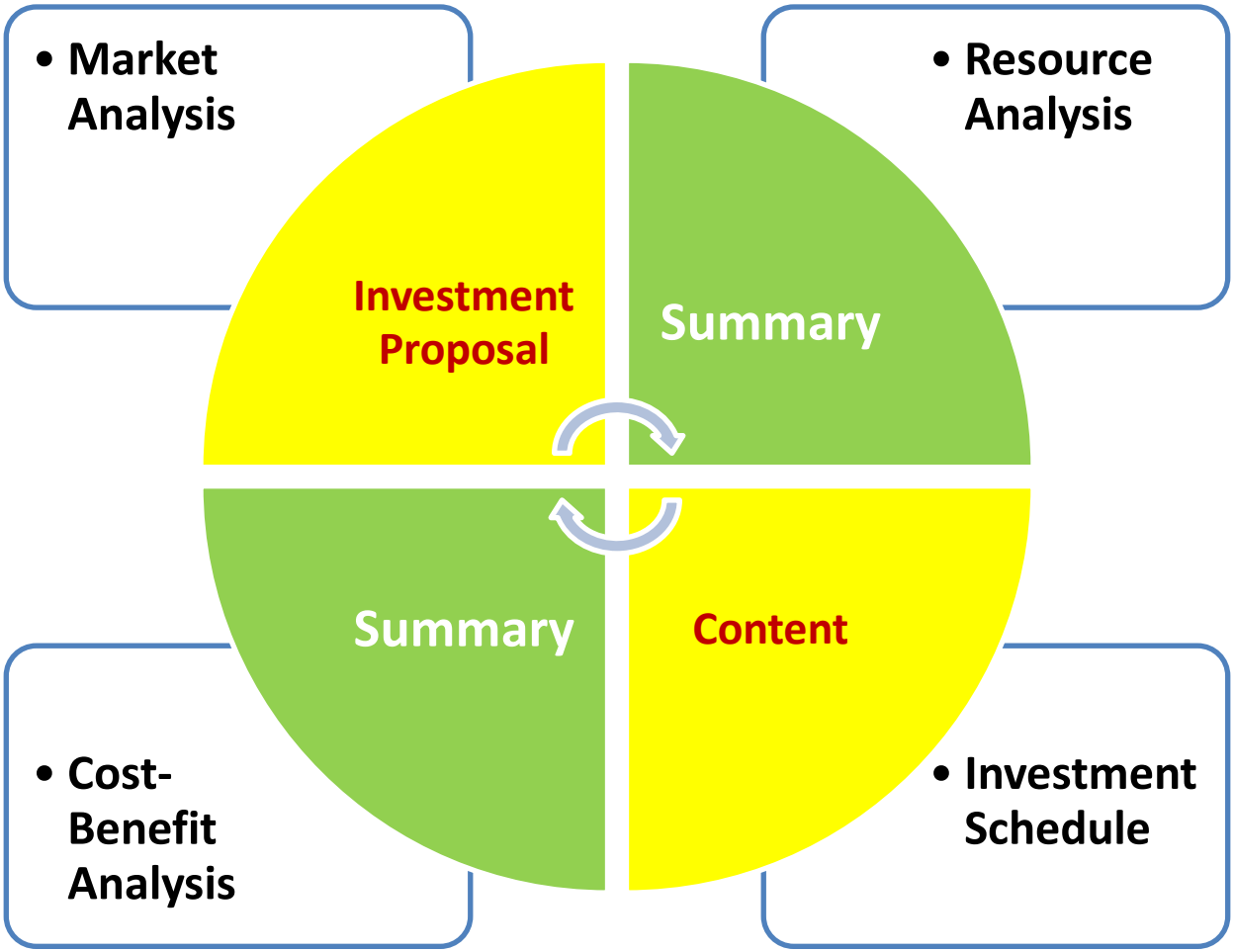


Perseverance

Investment Management Process

1. **Framework Analysis**
   - Tax
   - Diversification
   - Tech & Market
   - Leadership
2. **Industry Analysis**
   - Core Competency
   - Integration
   - Expansion
3. **Target Evaluation**
   - Market
   - R&D
   - Capital
   - Law & Act
4. **Business Valuation**
   - DCF
   - EVA
   - Payback
5. **Restructure**
   - M&A
   - Innovation
   - Culture
6. **Follow-up**
   - Performance
   - Exit

Investment Proposal



Demo- Proposal Summary Table

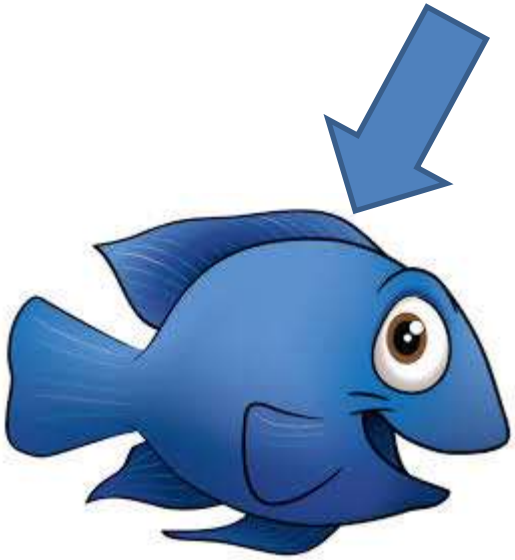
案名	XXXX第XX廠擴建計劃			投資部門	XXXX股份有限公司
投資動機	1.以市場面觀之,2002年DRAM位元(bit)需求之複合成長將為1997年之14倍 2.以供給面觀之,1998年美.日.韓等國大幅縮減對半導體之投資,預估於供給面將趨不足			投資目的	因提高製程能力為降低成本之最主要方法,預計1998至2001年產業界之技術將由0.25um提昇至0.18um,擴建晶圓二廠之目的為建立一個以0.18um製程為主,月產30,000片之八吋晶圓廠,以保持公司之競爭力.
投資規模	產能	年產36萬片八吋晶圓			
	用人狀況	男:265 人 女:457 人 小計:722 人			
	預計產銷量	每月三萬片八吋晶圓			
	預定試車日	1999年6月			

	項目	金額	說明
投資概算	土地	(管理費用)	1.廠房面積: FAB:16,000 M2 其他:24,000M2 合計:40,000M2 2.設備數量:主要設備:377台其他設備:208台合計:585台
	廠房	2,004,785	
	機器設備	30,343,730	
	公共設施	5,269,875	
	技術費用	-	
	其他	-	
	合計	37,618,390	

投資效益分析 時程	1999	2000	2001	2002
銷貨收入	830637	14840512	22182064	24177756
製造成本	1104988	10774228	14760006	15539270
毛利	-274352	4066284	7422058	8638485
毛利率	-33%	27%	33%	36%
銷管財研	124595	2151874	3105489	3384886
損益	-398947	1914410	4316569	5253599
損益率	-48%	13%	19%	22%
折舊費用	464337	3856574	5723021	5723021
邊際貢獻	65390	5700983	10039590	10976620
回收年限				4.25 年
損益平衡點			9021825	(仟元/年)

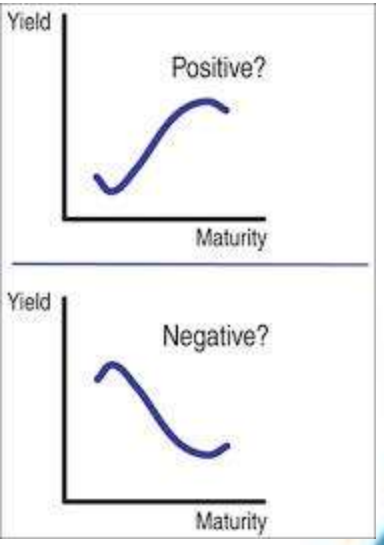
董事長		總經理		副總經理(協理)		經理	

Government Encouragement of Investment

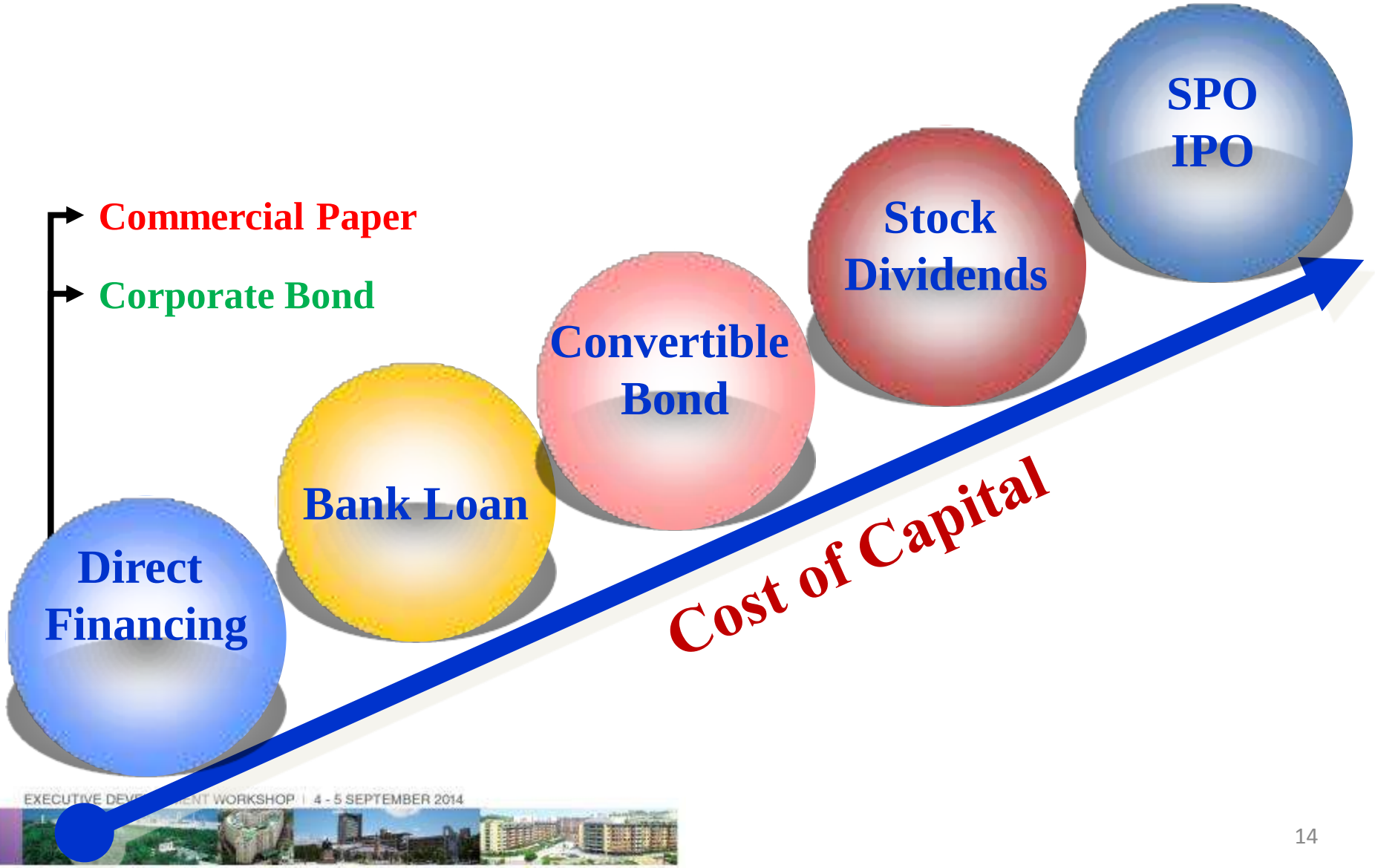


FPG tends to be the Policy Follower

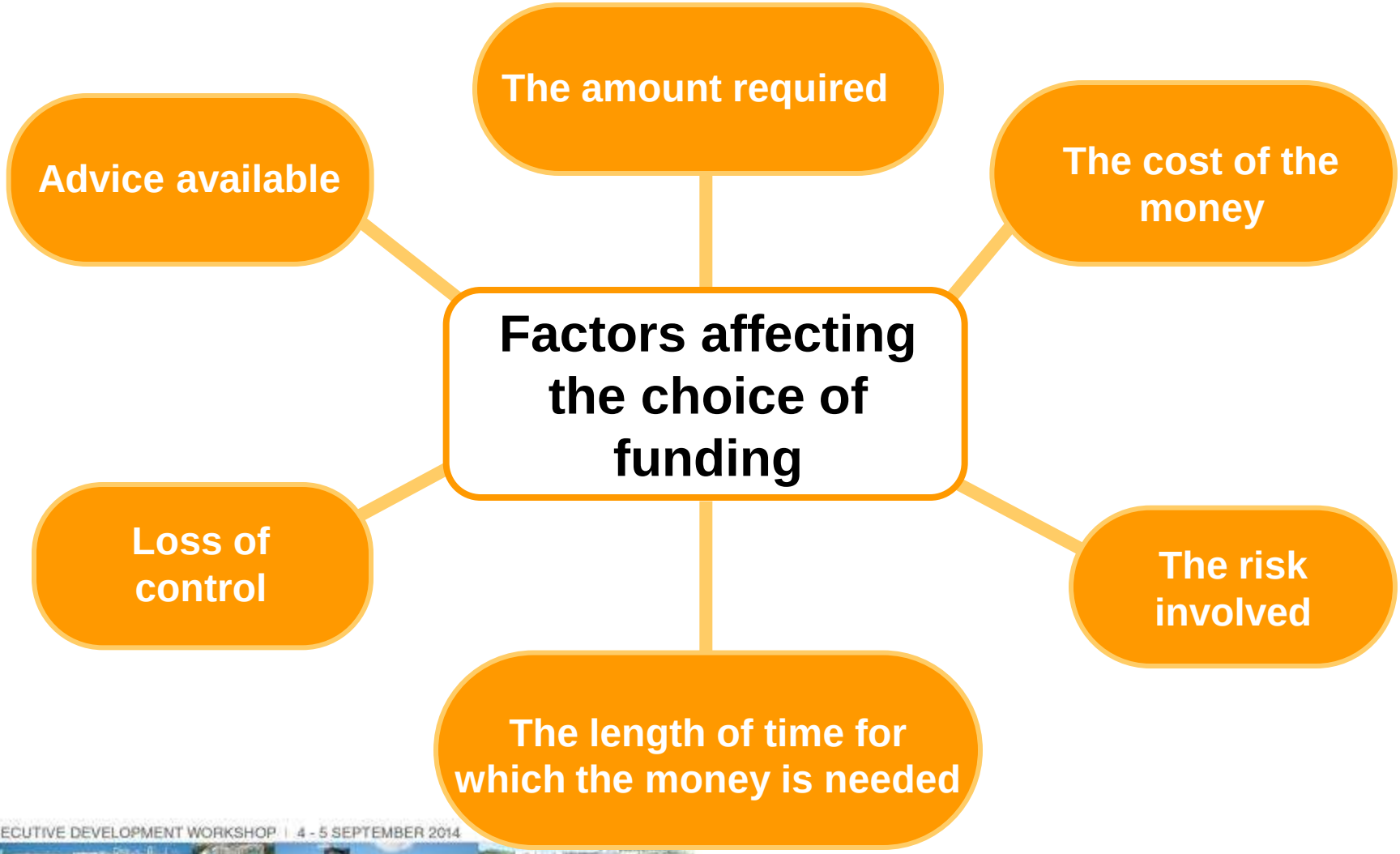
Financing Decision



Pecking Order of Financing in FPG



Financing Choice



Debt Information of Big Four

hundred of million NTD (2013.12.31)

Item \ Company		FPC	NYP	FCFC	FPC	Total	Ratio (%)
C/L	Short-term Loan	34.2	32.0	17.0	288.8	372.0	7.2
	Commercial Paper	31.0	45.0	-	33.0	109.0	2.1
	Sum	65.2	77.0	17.0	321.8	481.0	9.3
L/L	Long-term Loan	177.7	413.8	469.1	872.4	1,933.0	37.2
	Corporate Bond	**598.9**	**740.0**	**578.0**	**860.0**	**2,776.9**	**53.5**
	Sum	776.6	1,153.8	1,047.1	1,732.4	4,709.9	90.7
Total		841.8	1,230.8	1,064.1	2,054.2	5,190.9	100

High Financial Leverage

Big Four - rated 'twAA-'

Year	Financial Ratio	FPC	NYP	FCFC	FPC
2008	Current Ratio(%)	219.8	227.2	133.6	153.6
	Quick Ratio(%)	170.9	170.6	83.9	87.6
	Debt ratio (%)	33.7	35.5	41.0	55.0
2012	Current Ratio(%)	252.6	303.0	219.4	249.8
	Quick Ratio(%)	213.5	235.4	164.9	150.4
	Debt ratio (%)	34.1	37.4	40.7	55.4

You believe it?

Three month Libor

+

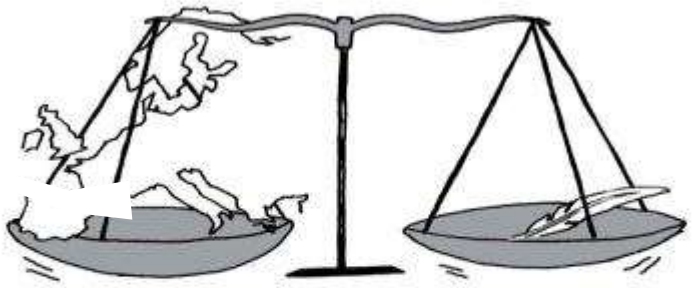
110BP

in 2012

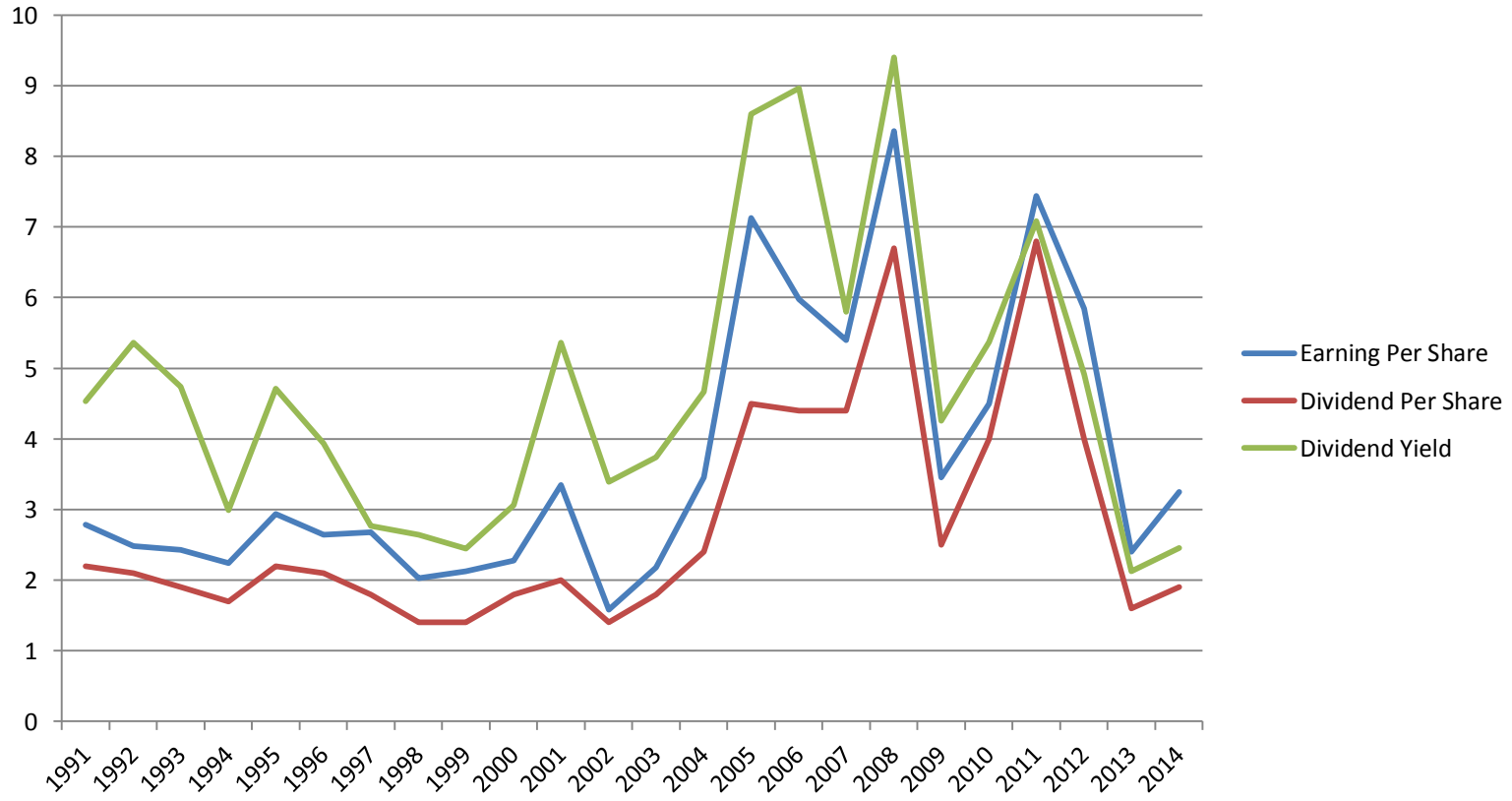
Dividend Decision

Policy

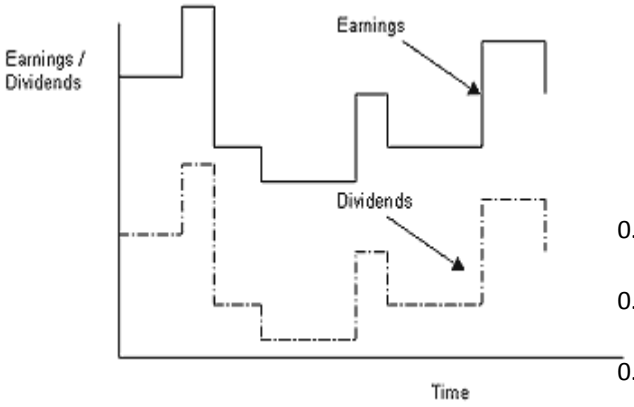
Strikes a balance between current dividends and future growth that maximizes the firm's stock price



Formosa Plastics – Dividend History

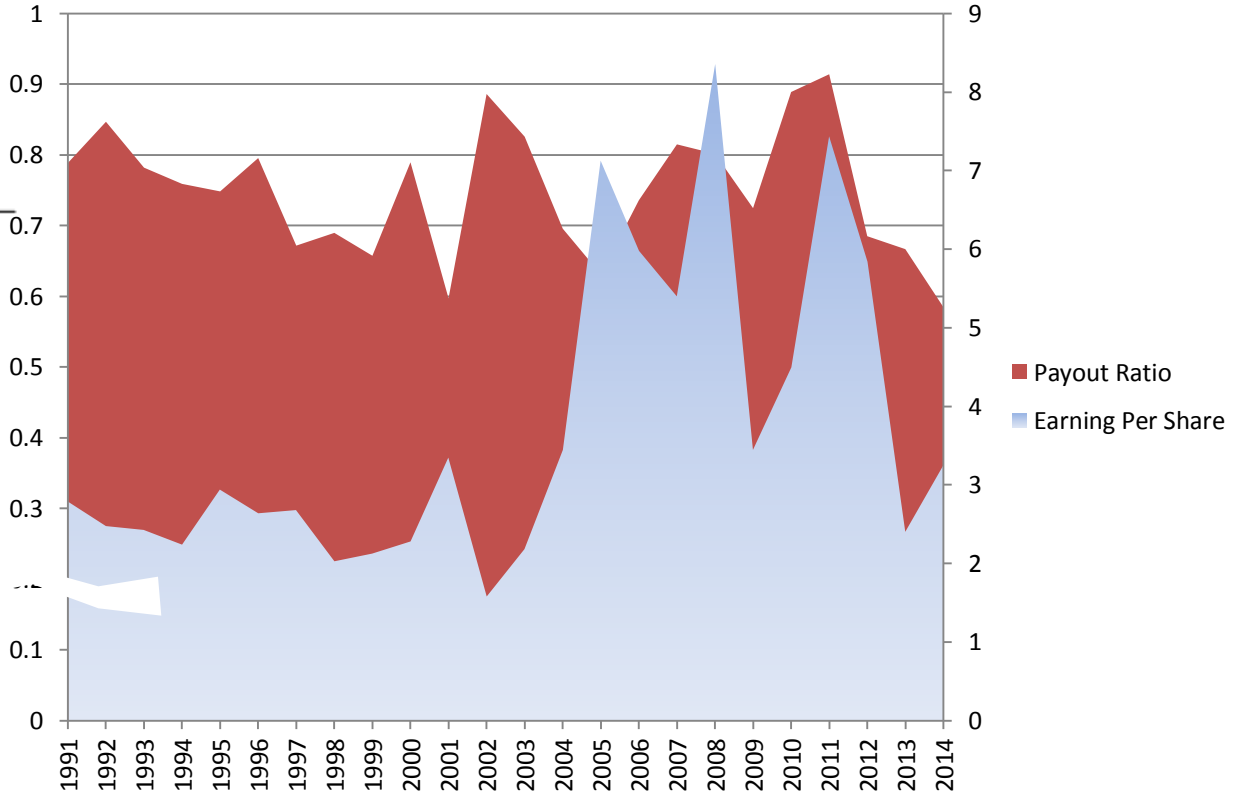


Stable Dividend Payout Policy



Income Statement

Sales	$3,000,000
Net Income	$1,000,000
Dividends Paid	
Addition to RE	

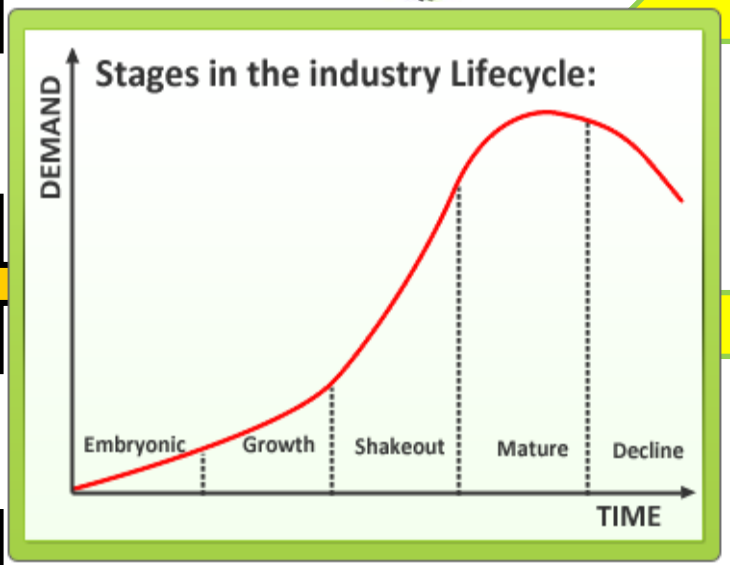


Dividend Decision Determinants

Ownership Structure

Capital Dilution

Capital Demand

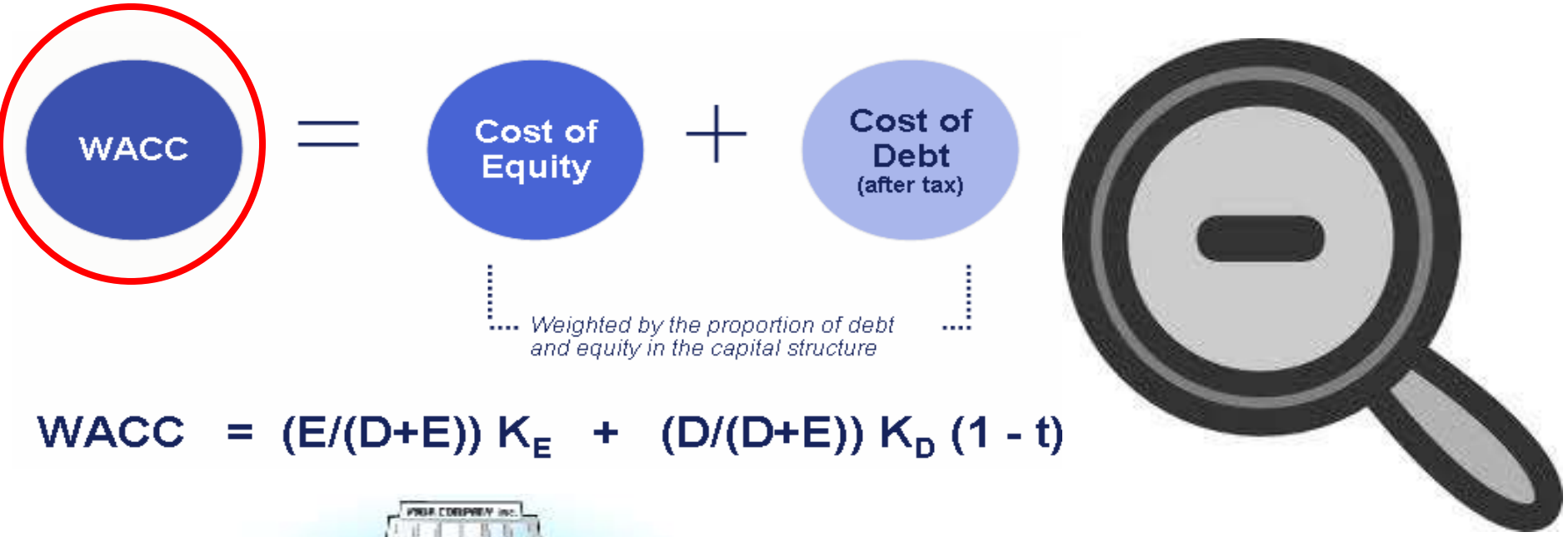


Tax

Stability

Legal Restriction

Lower Cost of Capital



$$WACC = (E/(D+E))\ K_E + (D/(D+E))\ K_D\ (1 - t)$$

Minimize

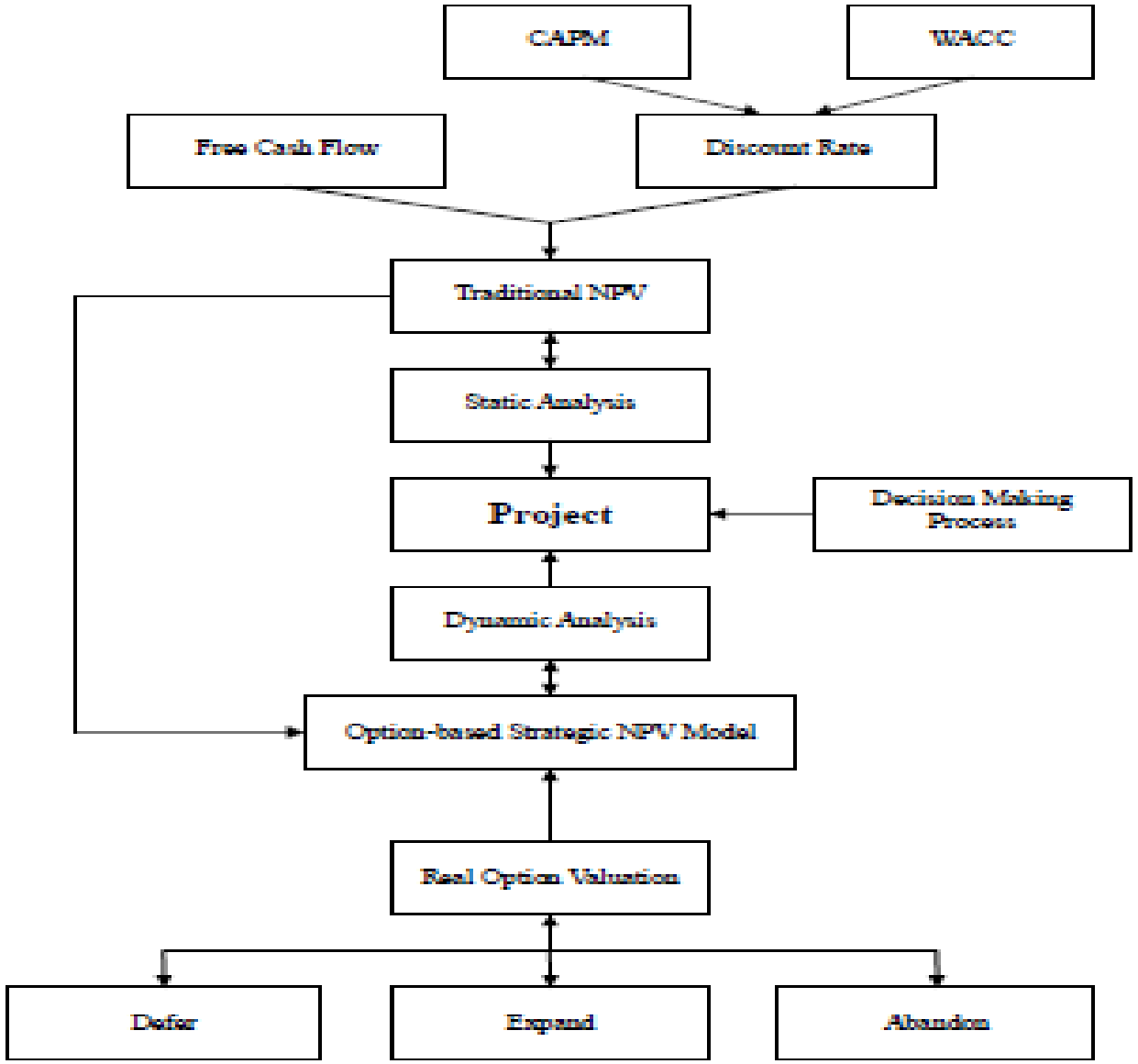
What's the "RULE"?

ROIC

WACC

CASE STUDY SOLUTIONS

Exhibit TN-2: Analytical Framework for the Case



that debt and equity are the two main sources of capital available to project investment. Suppose that the 10-year government bond yield in 2004 was 2.66% while the market return was approximately 11% based on the past 10 years of market index return data. Thus, the cost of equity capital for Inotera is calculated using the CAPM formula, as follows, and equals 16.75%.

$$K_s = R_f + \beta (R_m - R_f)$$

$$= 2.66\% + 1.69 \times (11\% - 2.66\%)$$

$$= 16.75\%$$

where K_e is the cost of equity capital, R_f is the expected risk-free return, β is the sensitivity of the project to market risk, and R_m is the historical market return. After determining cost of debt and cost of equity, their combination (50% vs 50%), the weighted-average cost of capital (WACC), can be calculated. This WACC can be used directly in the discounted cash flow techniques as the discount rate, which is regarded as a financial cost of capital, that is, the cost of raising the funds needed to start the project and to keep it running.

$$WACC = 0.5\ (1\text{-}t)\ K_d + 0.5\ K_e$$

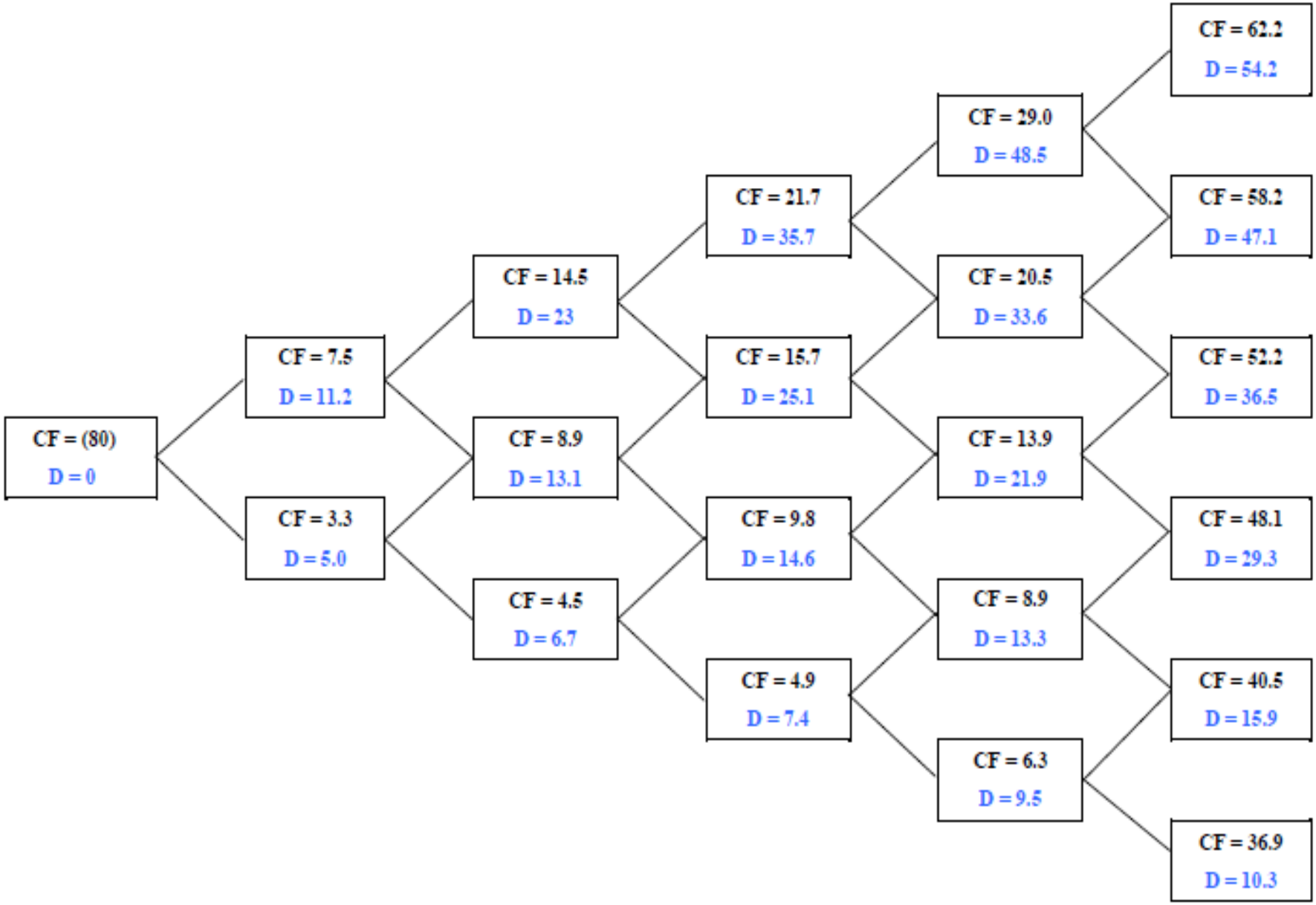
$$= 0.5 \times 0.85 \times 1.55\% + 0.5 \times 16.75\%$$

$$= 9.03\%$$

Exhibit TN-1: Free Cash Flow from Investing Project

(billions)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Sales		7.7	12.9	18.4	21.1	29.3
Variable Cost (30% of Sales)		2.6	4.3	6.1	7	9.8
Depreciation		10	10	10	10	10
EBIT		(4.9)	(1.4)	2.3	4.1	9.5
Tax (15%)		0	0	0.3	0.6	1.4
EBIAT		(4.9)	(1.4)	1.9	3.5	8.1
Depreciation		10	10	10	10	10
Salvage Value						30
CAPEX	(80)	0	0	0	0	0
Free Cash Flow	(80)	5.1	8.6	11.9	13.5	48.1
Present Value	(80)	4.7	7.2	9.2	9.5	31.2
NPV at WACC	(18.2)					



Note: D denotes demand while CF represents cash flows (units in billions of NTD).

Figure TN-1: Event Tree Showing the Cash Flows for the Precommitted Project

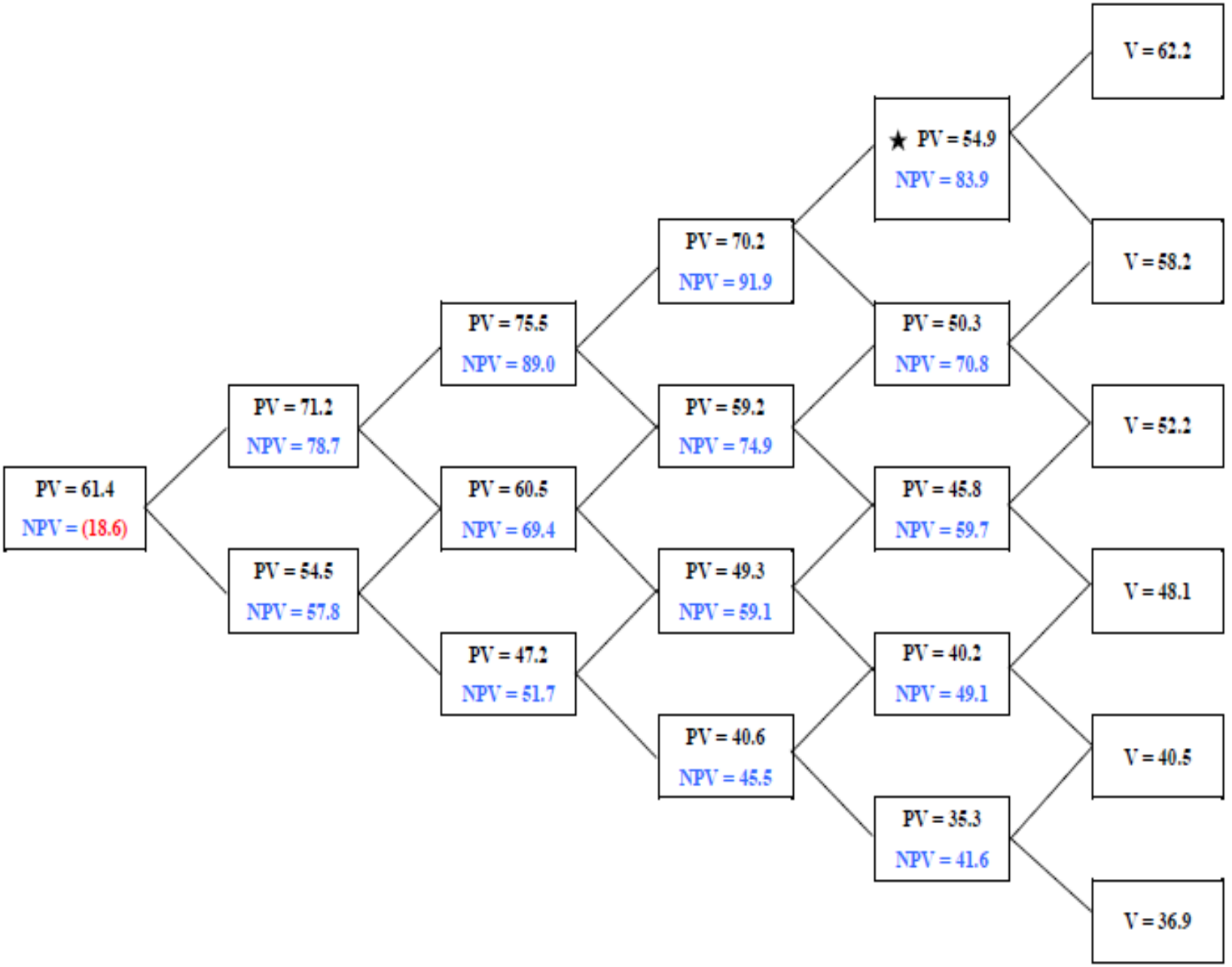


Figure TN-2: Event Tree Showing the Present Value and NPVs for the Precommited Project

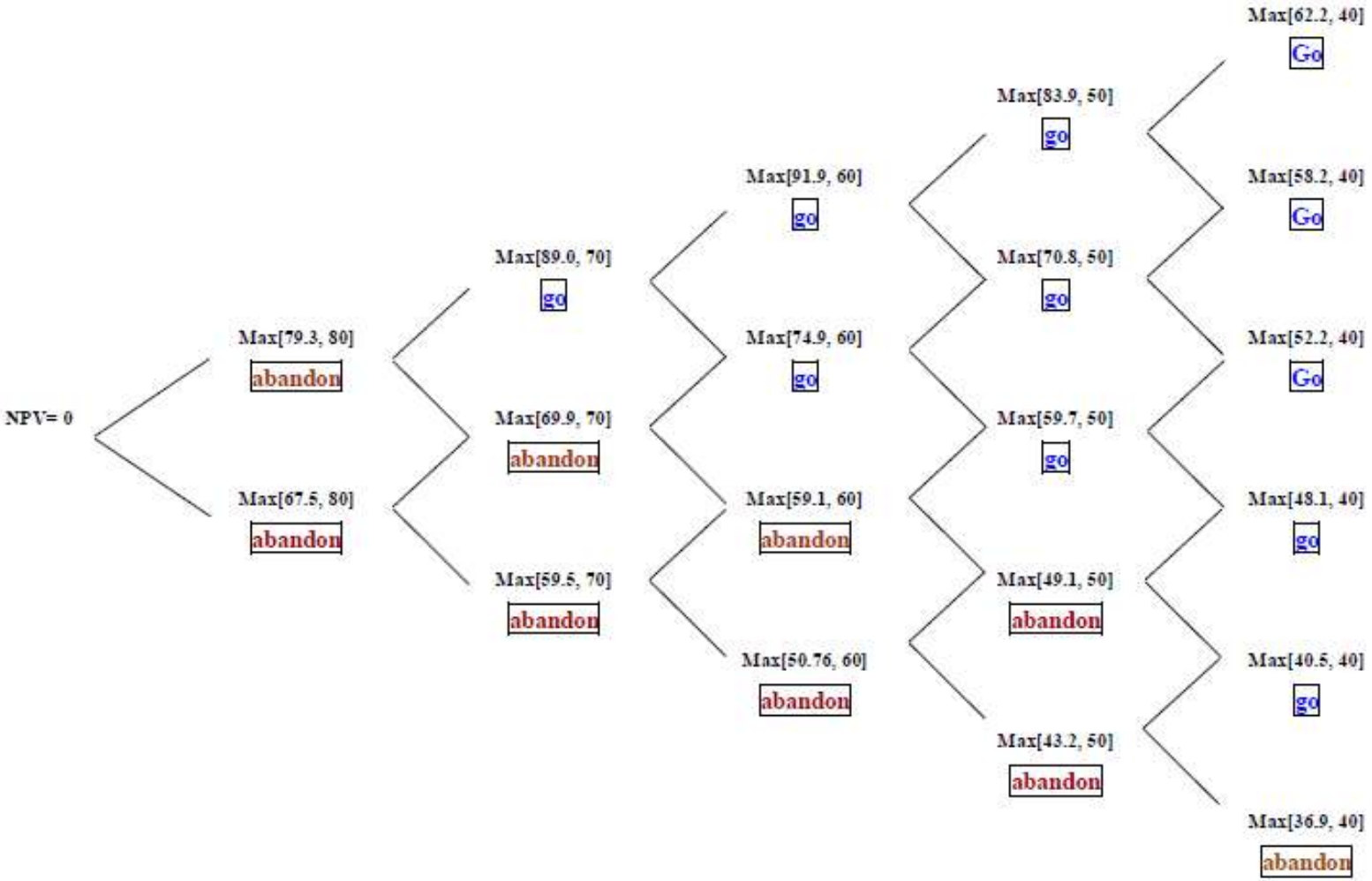


Figure TN-3: Valuing the Abandonment Option

Analysis of Dan-Yuan Costing in FPG (Unit Element Cost)

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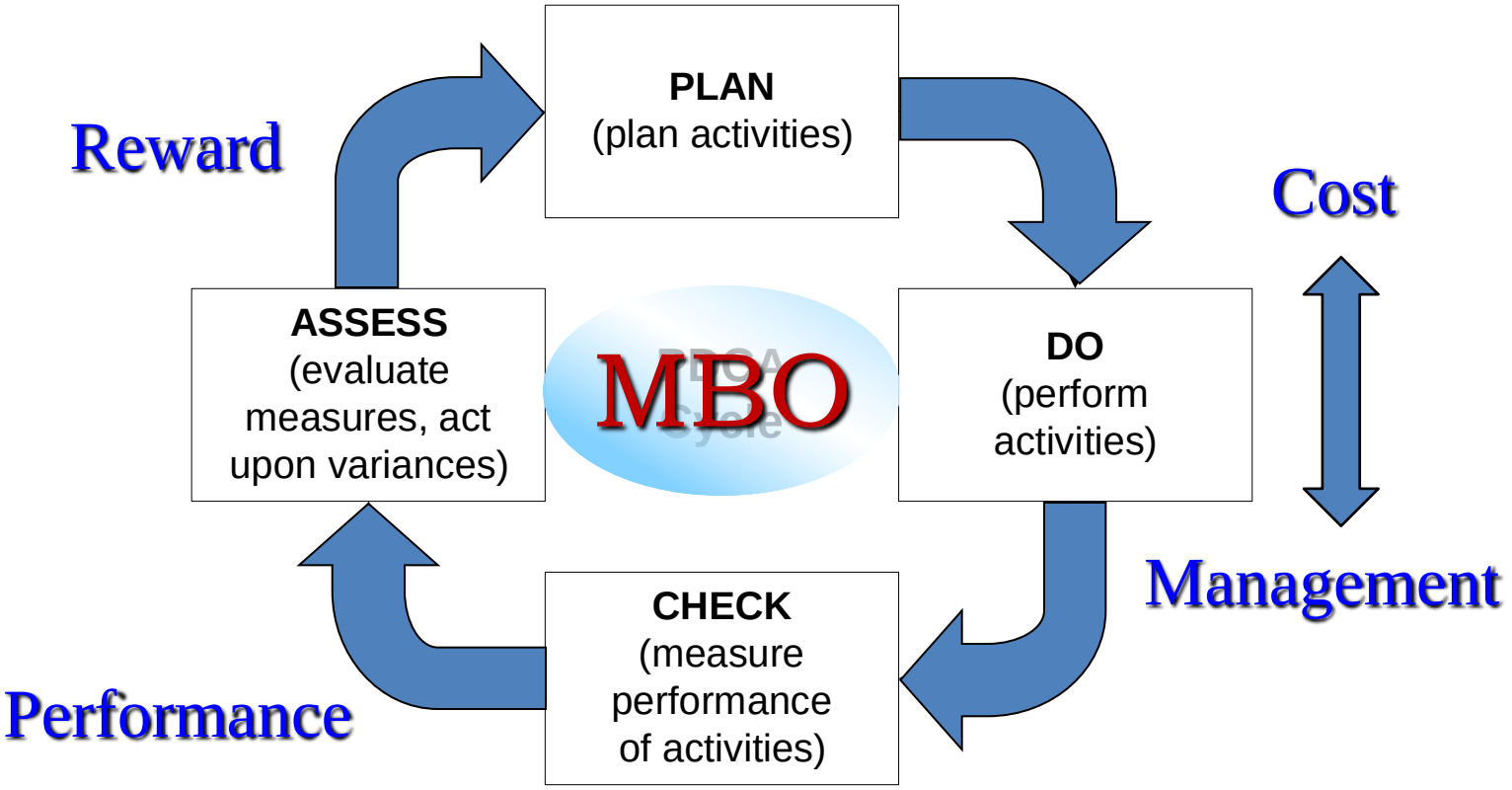
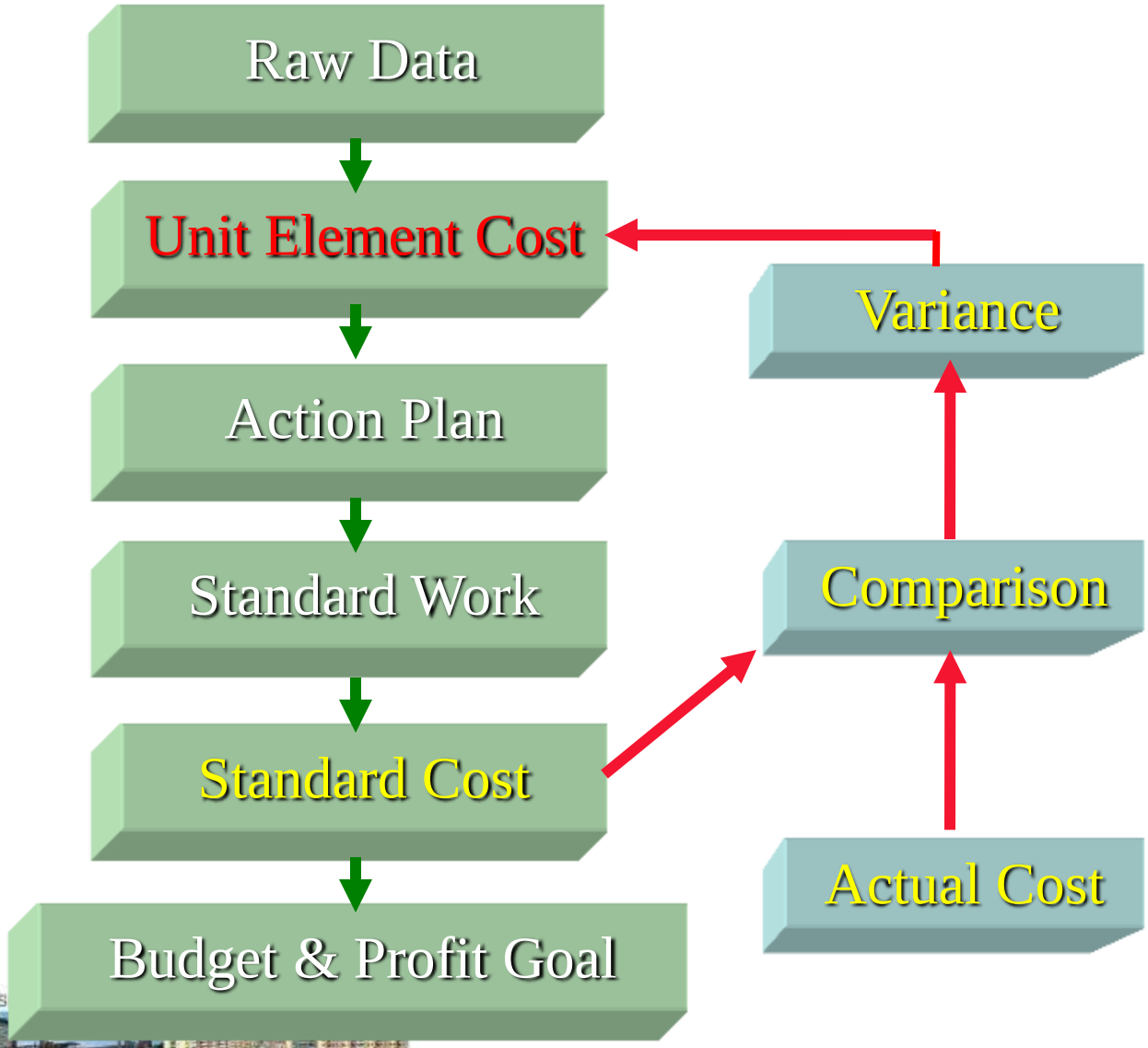
Cost Is Everything in FPG

Concept

Standard Cost



Process Flow of Cost Management



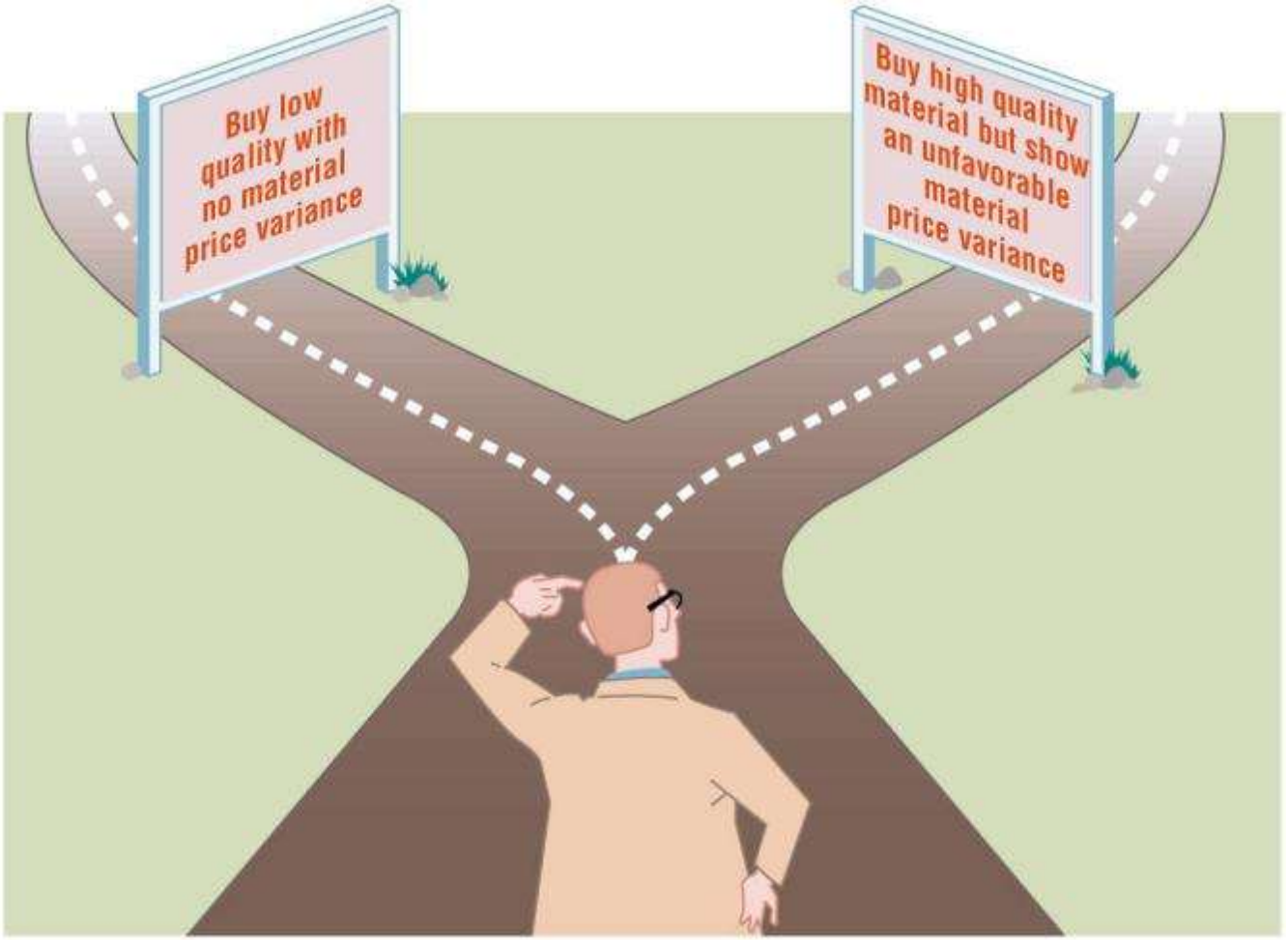
Dig Deep to Get the Truth
Get to the Root of the Matter

Reasonable Cost?
Trace it to its Source

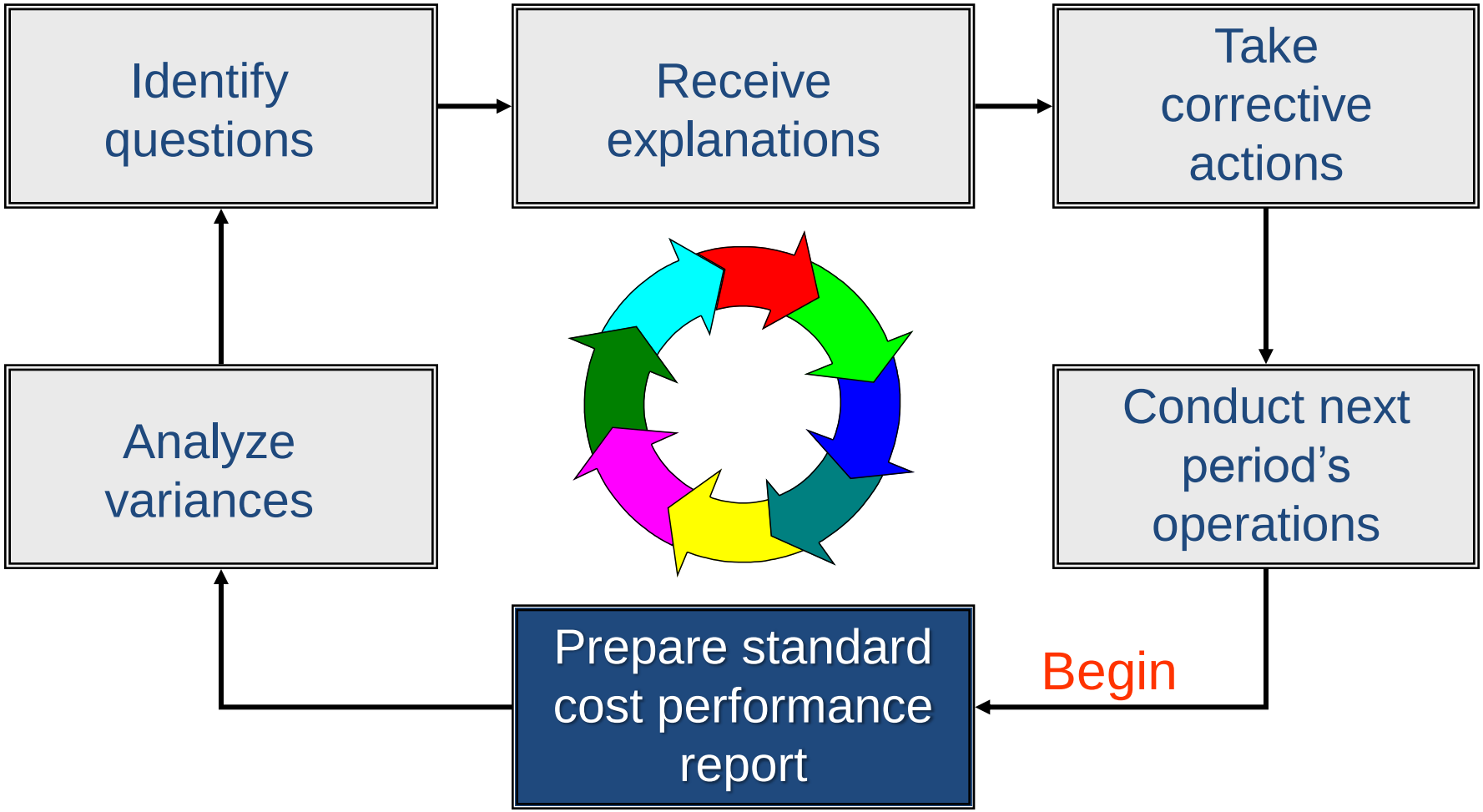

Convert Waste Reduction
into Cost Saving

You Get What You Measure

Benchmark → Standard Cost

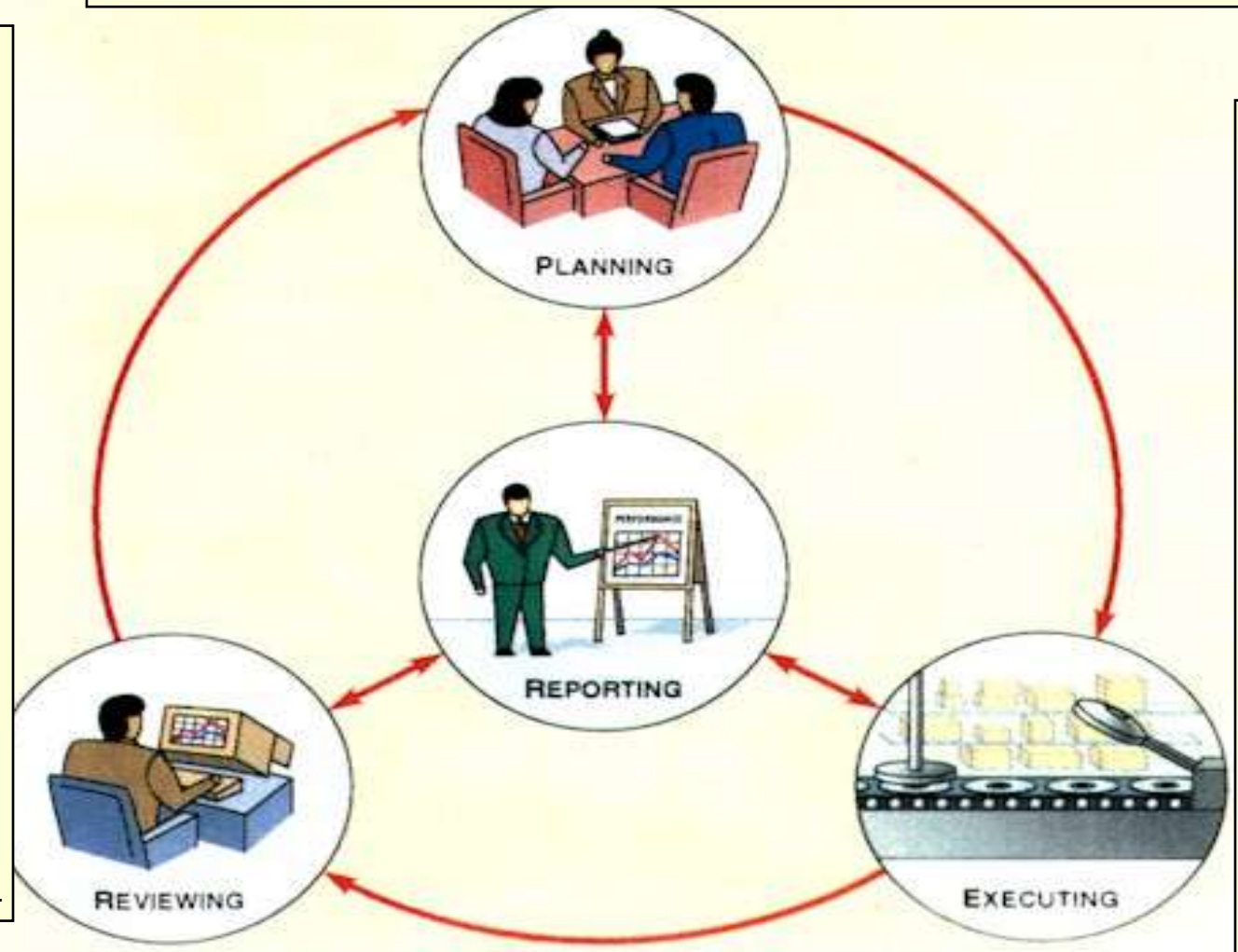


Variance Analysis



Use standard costs to prepare budgets and establish goals for product costing.

Calculate variances between standard and actual costs, determine their causes, identify inefficient operations, and take corrective action. Use variances to evaluate managers' performance.



Use standard costs to report on operations and managers' performance.

Apply dollar, time, and quantity standards to work.

Procedure

1. Cause and Effect Analysis
2. Exploration
3. Corrective Action
4. Benefits from Improvement
5. Report
6. Implementation and Follow-up

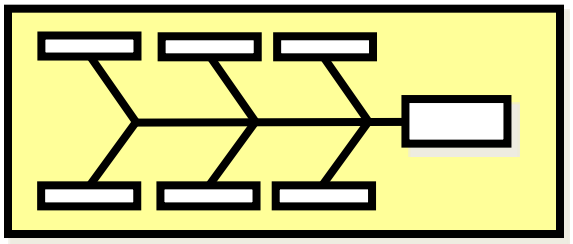
Cause and Effect Analysis

- Identify the Problem
- Work Out the Major Factors Involved
- Identify Possible Causes
- Analyze Your Diagram

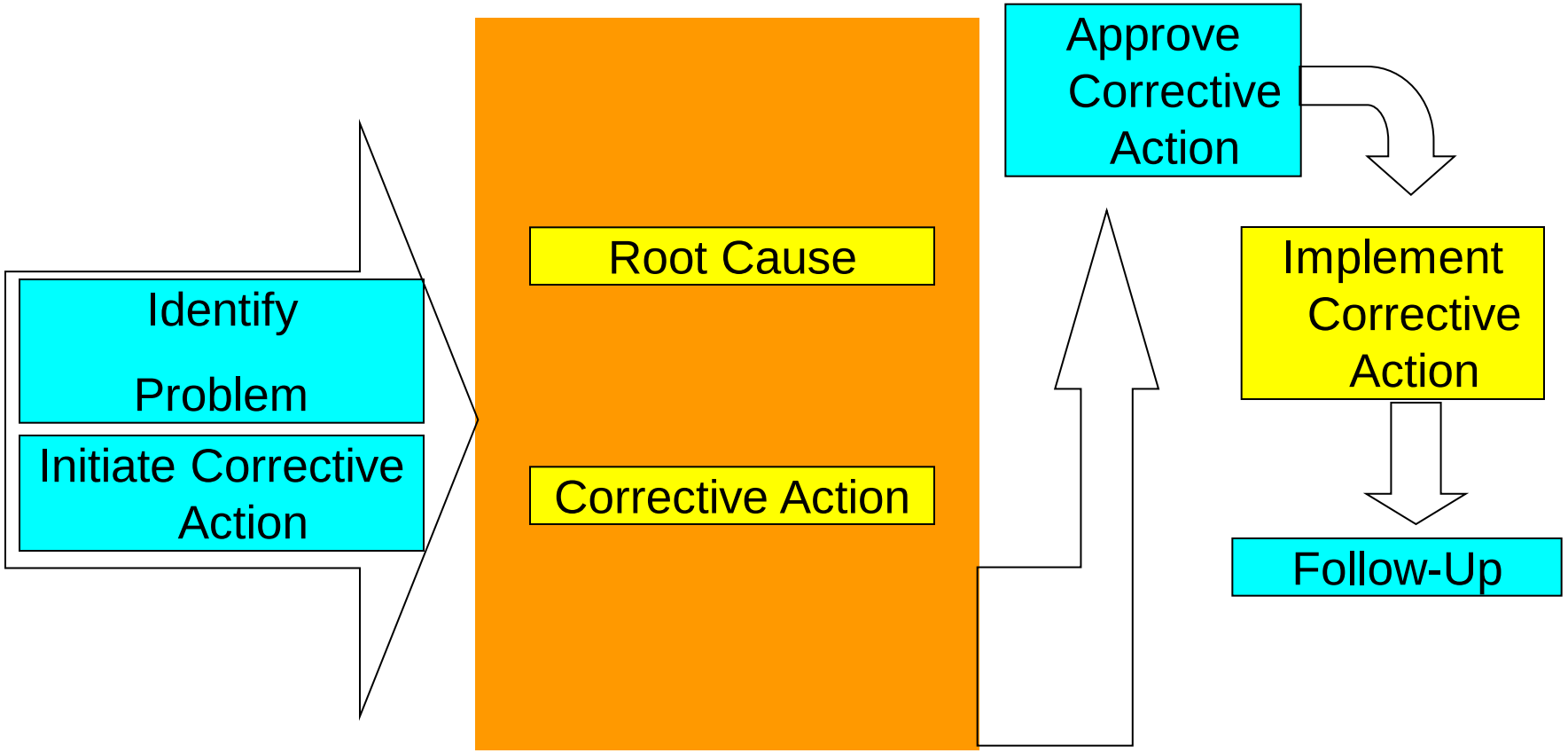
What can be done better

Cause and Effect Diagram (Fishbone)

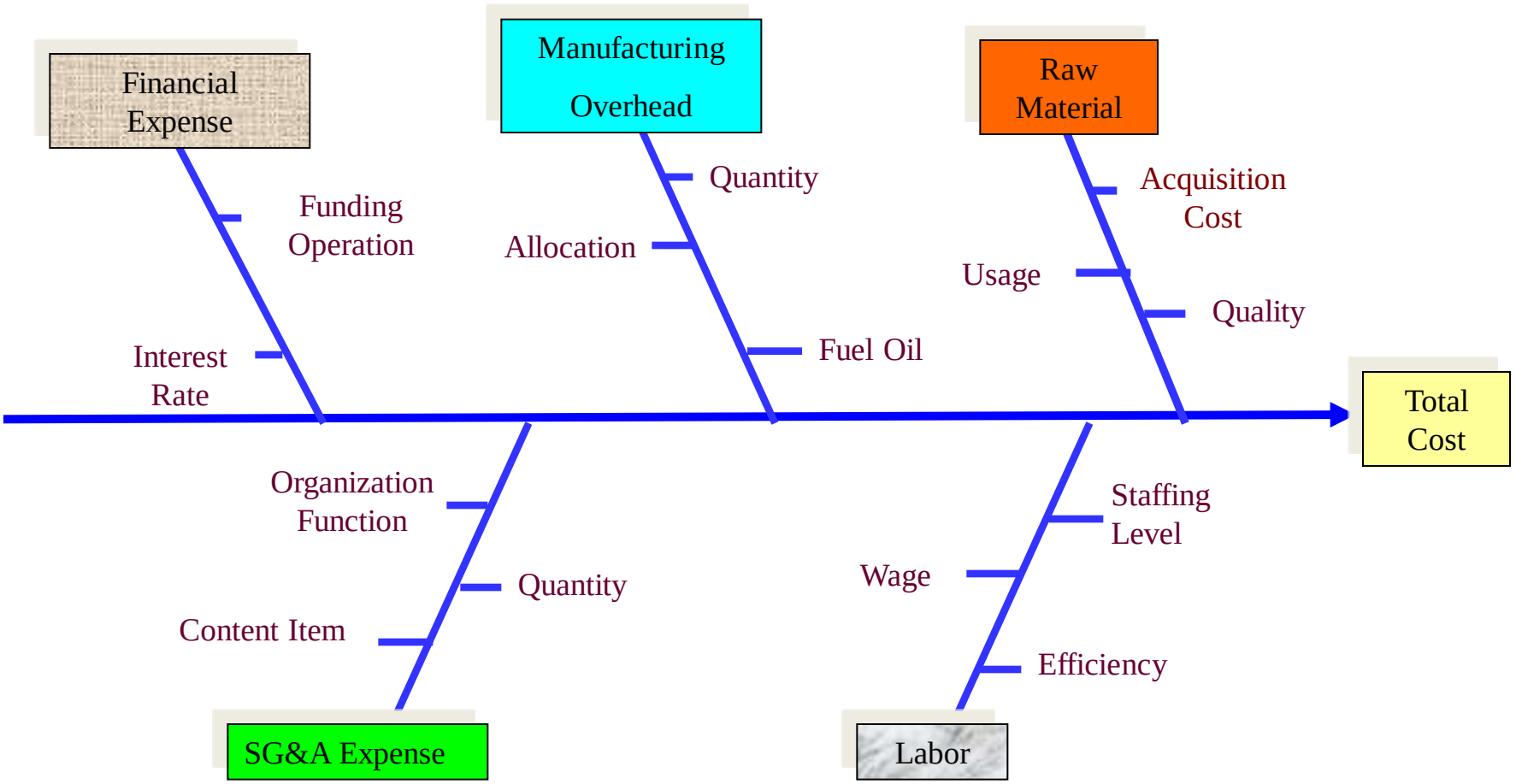
- What
  - A tool to represent the relationship between an effect (problem) and its potential causes by category type.
- When
  - Carried out when a root cause needs to be determined.
- Why
  - To help ensure that a balanced list of ideas have been generated during brainstorming.
  - To determine the real cause of the problem versus a symptom.
  - To refine brainstormed ideas into more detailed causes.



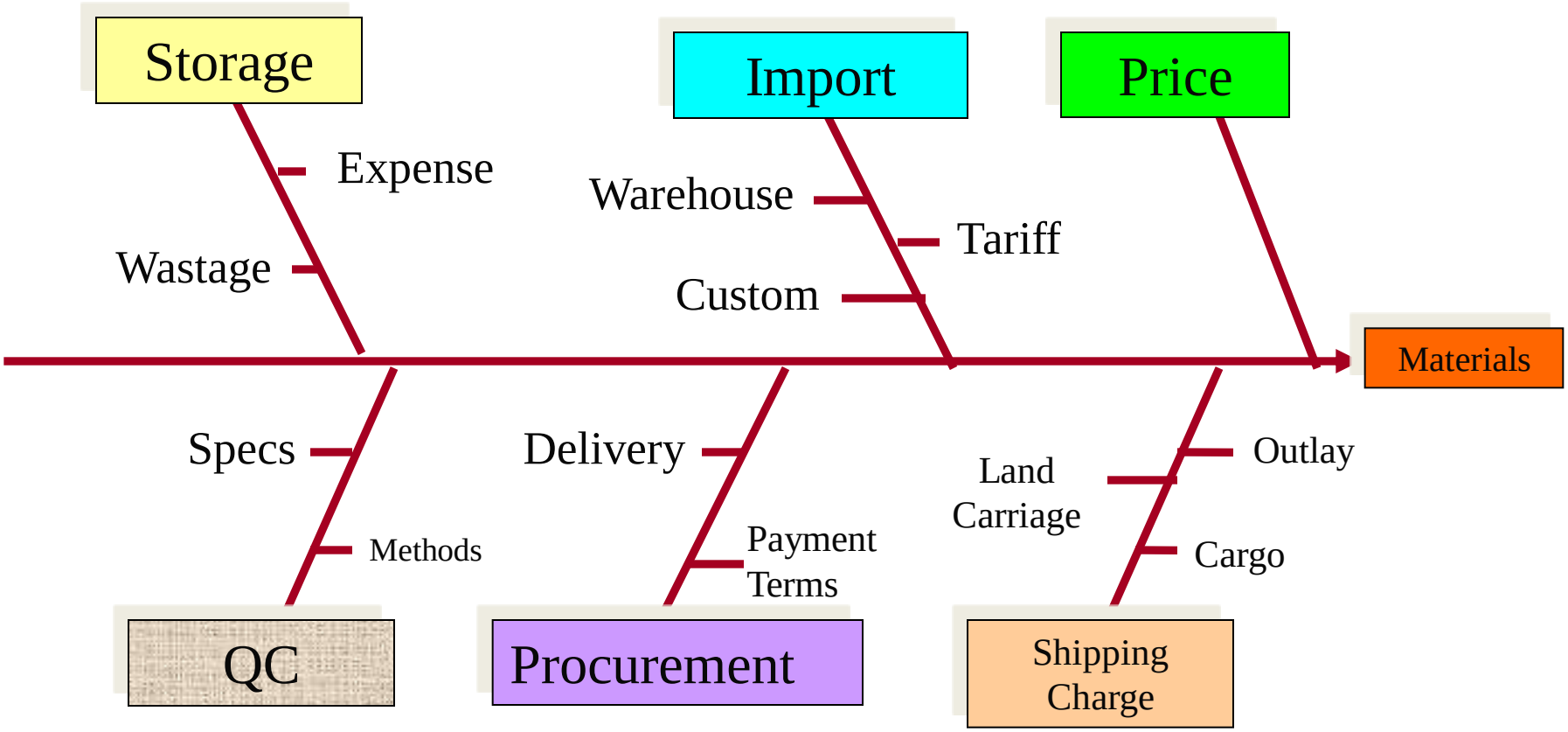
Process


Identify
Problem
Initiate Corrective
Action
Root Cause
Corrective Action
Approve
Corrective
Action
Implement
Corrective
Action
Follow-Up

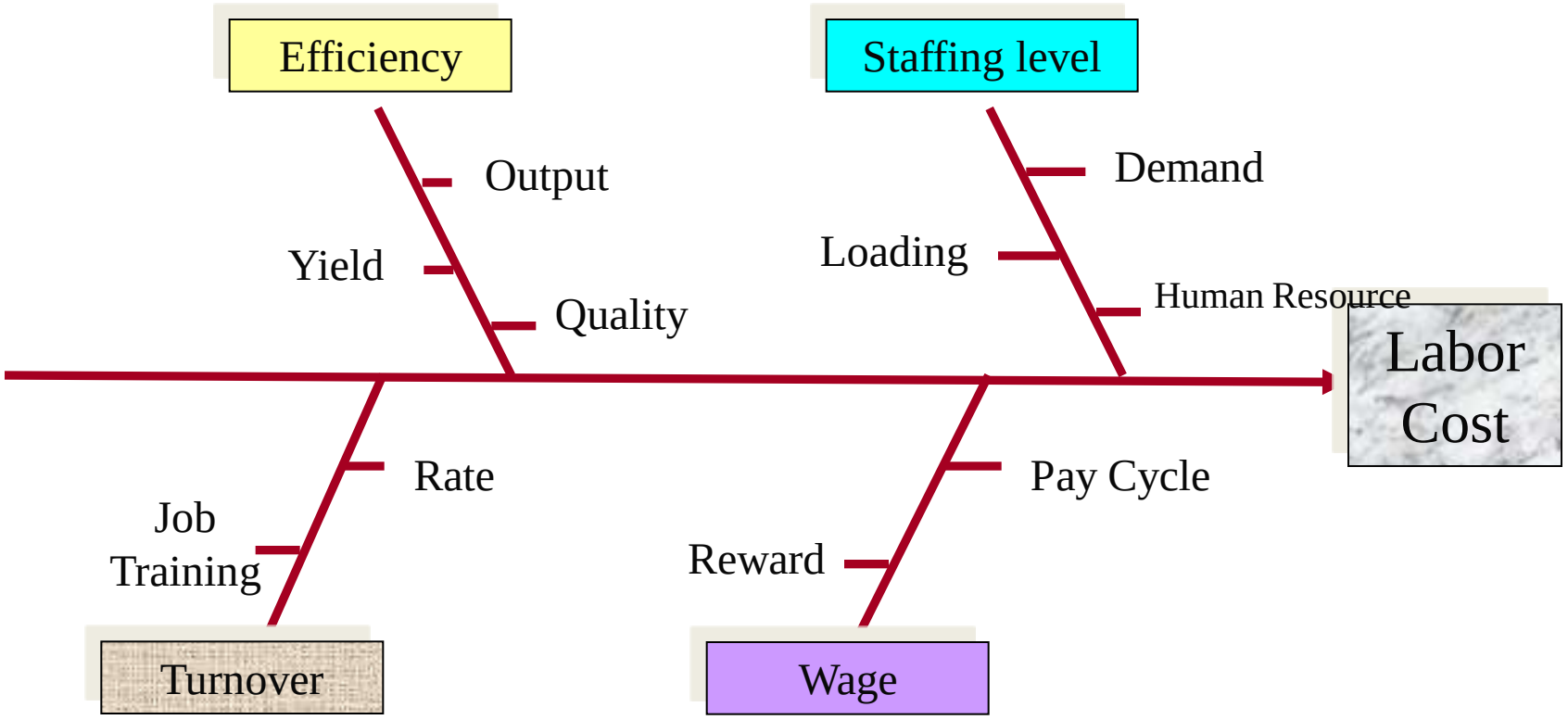
Example(1)


Financial Expense
Funding Operation
Interest Rate
Manufacturing Overhead
Quantity
Allocation
Fuel Oil
Raw Material
Acquisition Cost
Usage
Quality
Total Cost
Organization Function
Quantity
Content Item
SG&A Expense
Staffing Level
Wage
Efficiency
Labor

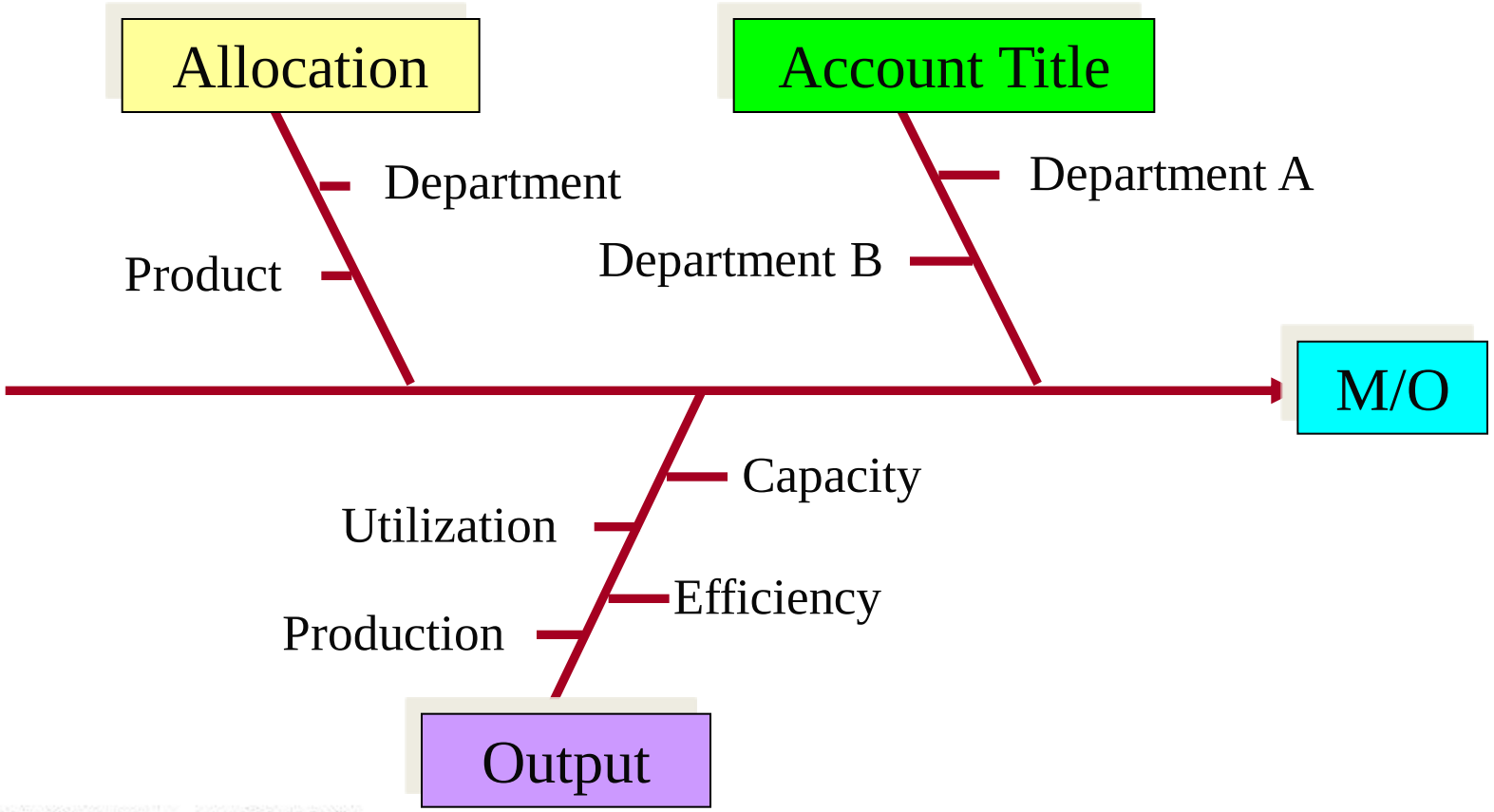
Example(2)


Storage
Expense
Wastage
Import
Warehouse
Tariff
Custom
Price
Materials
Specs
Methods
QC
Delivery
Payment Terms
Procurement
Land Carriage
Outlay
Cargo
Shipping Charge

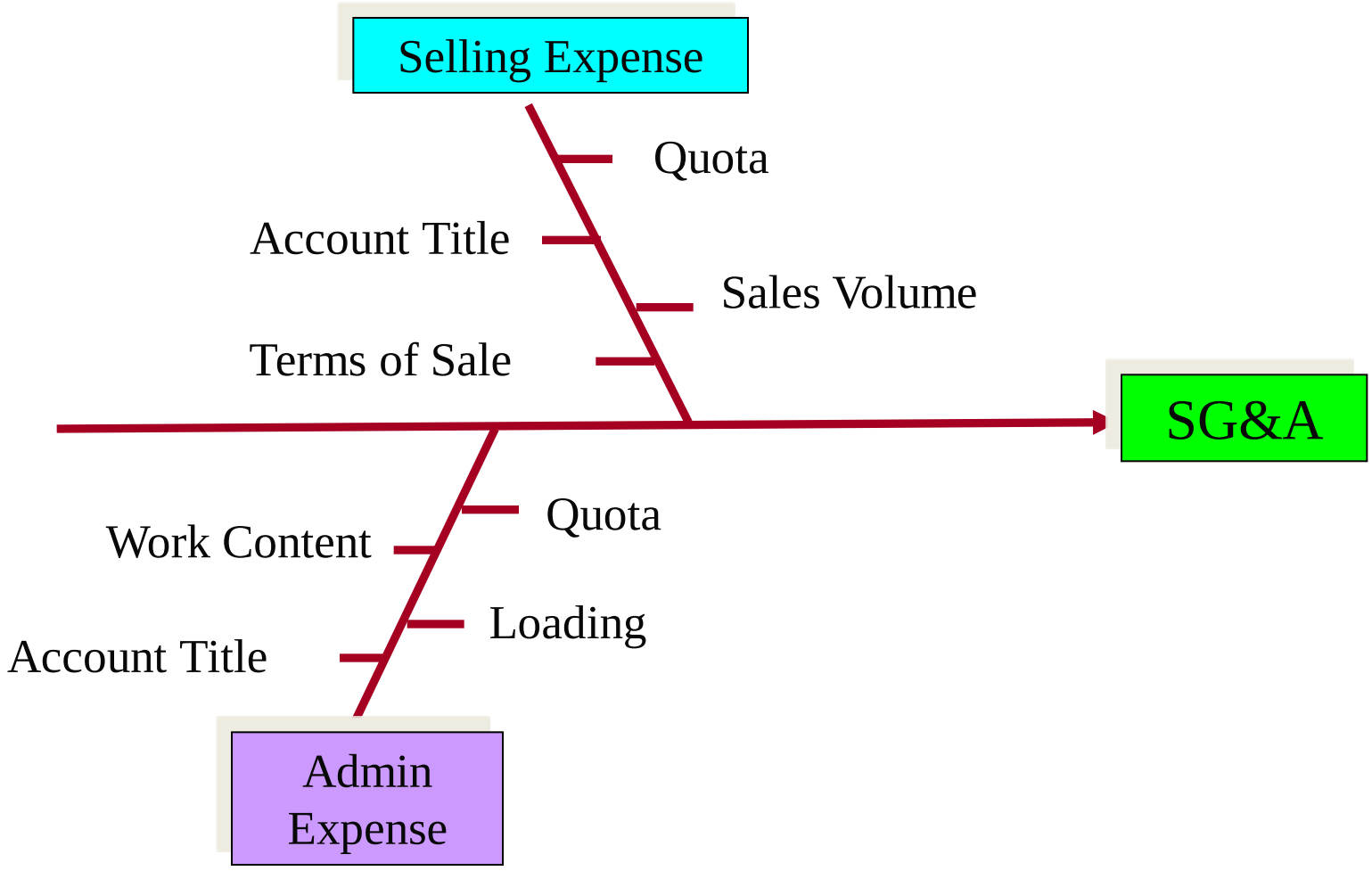
Example(3)


Efficiency
Output
Yield
Quality
Staffing level
Demand
Loading
Human Resource
Labor Cost
Rate
Job Training
Turnover
Pay Cycle
Reward
Wage

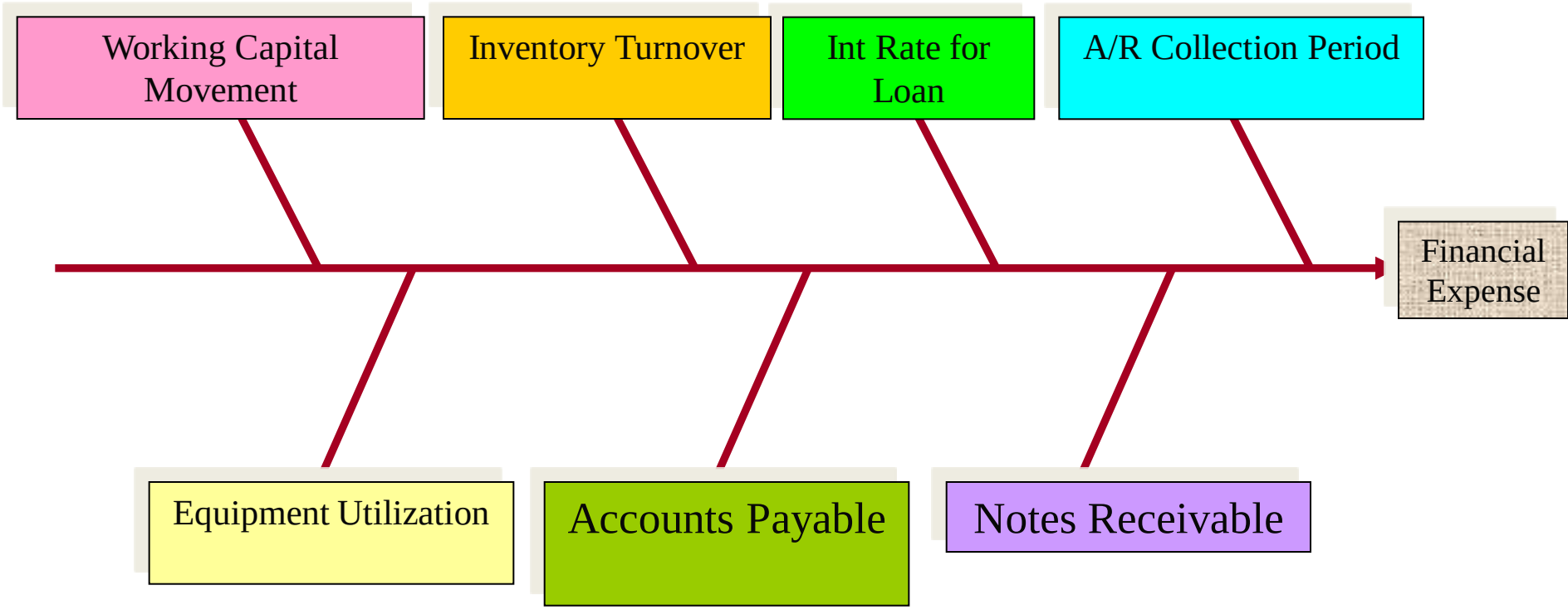
Example(4)


Allocation
Department
Product
Account Title
Department A
Department B
M/O
Capacity
Utilization
Efficiency
Production
Output

Example(5)


Selling Expense
Quota
Account Title
Sales Volume
Terms of Sale
SG&A
Quota
Work Content
Loading
Account Title
Admin Expense

Example(6)


Working Capital Movement
Inventory Turnover
Int Rate for Loan
A/R Collection Period
Financial Expense
Equipment Utilization
Accounts Payable
Notes Receivable

Demo

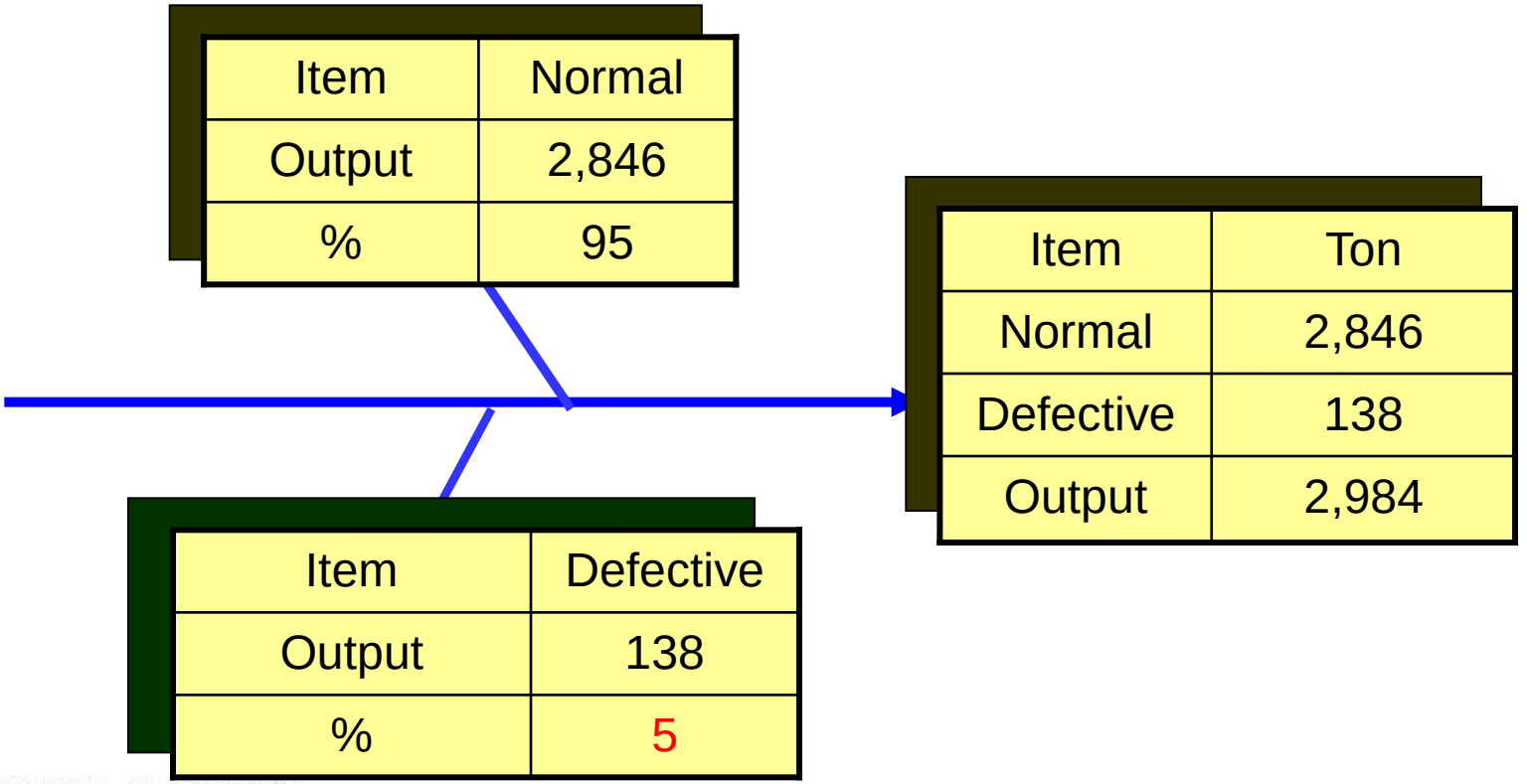
- Cost Summary of Polyester Textured Yarn

Item	2012	2013
Total Cost	100,233(Thousands)	100,087
Output	3,012 ton	2,846 ton
Unit Cost	$33.28/kg	$35.17/kg

What're the Differences?

Example of Unit Element Cost

Output Analysis

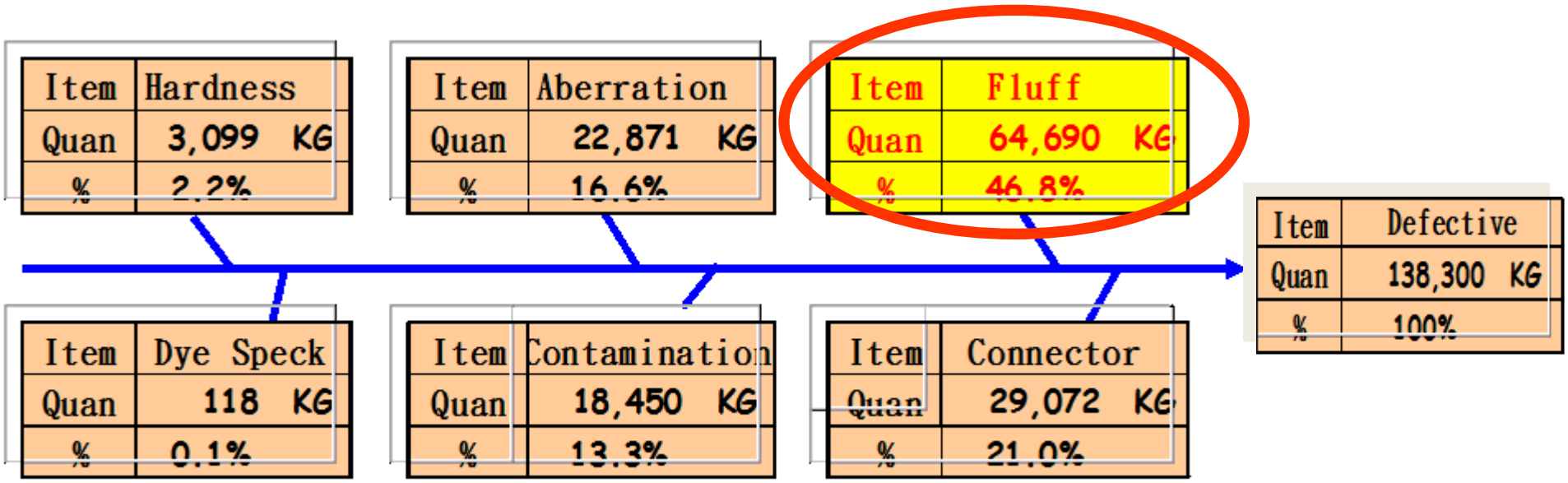


Item	Normal
Output	2,846
%	95

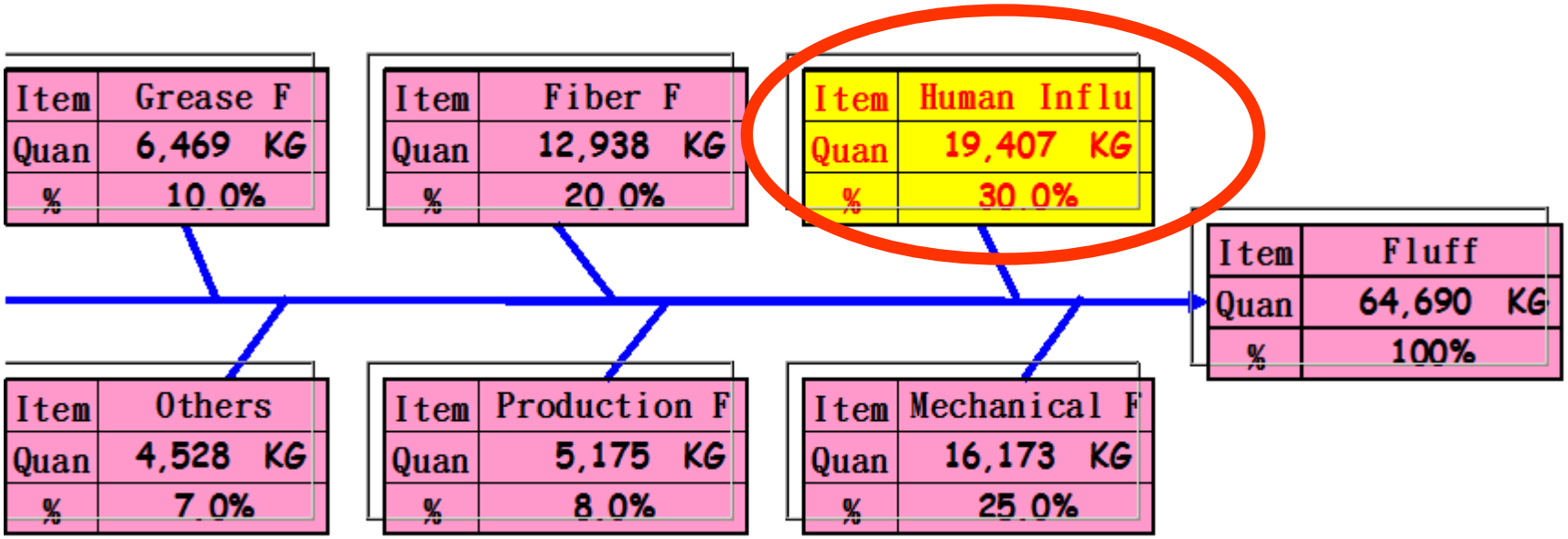
Item	Ton
Normal	2,846
Defective	138
Output	2,984

Item	Defective
Output	138
%	5

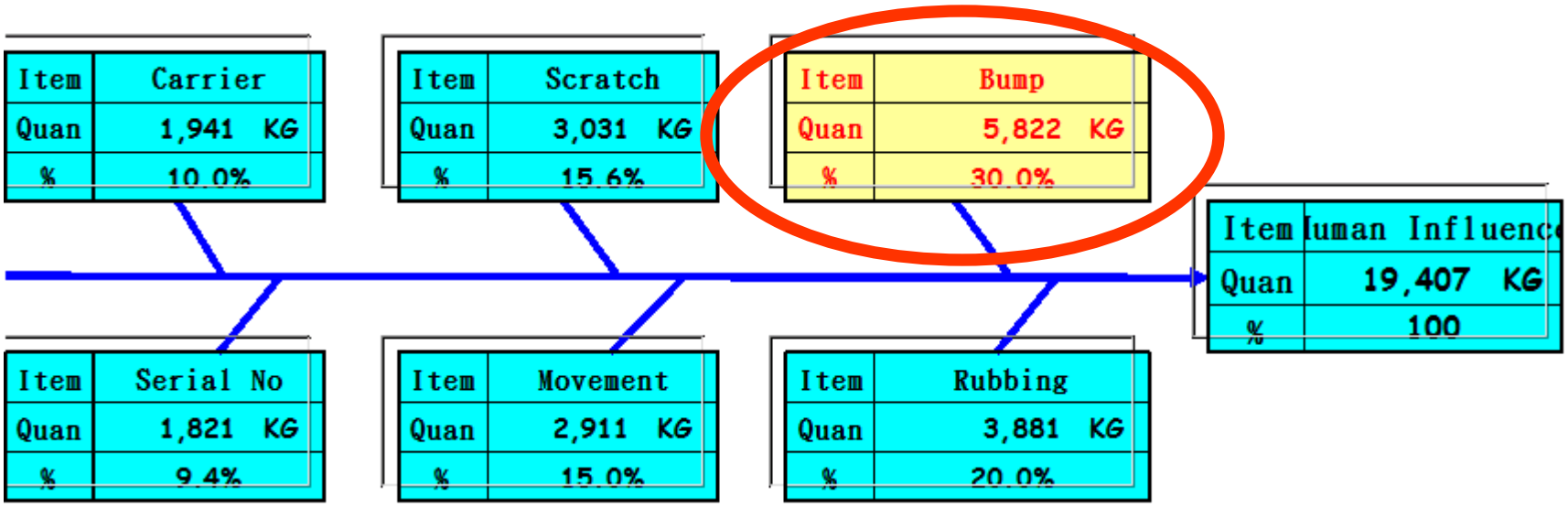
Detective – Cause and Effect Analysis



Fluff – Cause and Effect Analysis



Human Influence – Cause and Effect Analysis



Action Initiation

Item	Quantity		%
Hand Rub	5,822	KG	30%
Fingernail Scratch	3,031	KG	15.6%

Sum Up

(15.6%+30%) x 30% x 46.8% = 6.4%

Wearing Gloves

Follow the Above Process