



THE BIZ BUCKS QUARTERLY

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Smile Time

A man walking along a road in the countryside comes across a shepherd and a huge flock of sheep. Tells the shepherd, "I will bet you \$100 against one of your sheep that I can tell you the exact number in this flock." The shepherd thinks it over; it's a big flock so he takes the bet. "973," says the man. The shepherd is astonished, because that is exactly right. Says "OK, I'm a man of my word, take an animal." Man picks one up and begins to walk away.

"Wait," cries the shepherd, "Let me have a chance to get even. Double or nothing that I can guess your exact occupation." Man says sure. "You are an economist for a government think tank," says the shepherd. "Amazing!" responds the man, "You are exactly right! But tell me, how did you deduce that?"

"Well," says the shepherd, "put down my dog and I will tell you."

Word Swamp Revisit

Infrastructure an underlying foundation required for performance. This is a relative term and depends on the context and what is needed to perform. A table and a chair is infrastructure for an office where work is performed. A road, a bridge, and a dam is infrastructure for a county, state or country.

The electric energy industry is infrastructure for many other industries.

A TASTY NPV PROBLEM...

CHOCO-HOLLICK CANDY INC. (PART B)

This is the second and final part of the Choco-Hollick case study.

In Part A, two enterprising Private Equity analysts (Choco and Hollick) determined the Pro Forma Income Statement to form a new confectionary company. The Pro Forma is shown here. In Part B, they continue finish their analysis.

several items, as shown on the table on Page 4:

1. The Net Income is repeated for the year. (Line 1)
2. The primary adjustment is the add back the (non-cash) depreciation that was subtracted on the Income Statement. (Line 2)
3. Any dividends forecasted over the five year period

5. The net change in Accounts Receivable must be reflected (Line 5)
6. The net change is Accounts Payable must be reflected. (Line 6)
7. Any debt retirements must be included. (Line 7)

These six adjustments yield the change in the balance sheet cash account for each

Choco - Hollick Candy Company Inc. Income Statement Pro Forma					
Year>>>	1	2	3	4	5
INCOME STATEMENT					
Revenue	3,000,000	7,000,000	10,000,000	12,500,000	15,000,000
variable costs	(1,200,000)	(2,800,000)	(4,000,000)	(5,000,000)	(6,000,000)
fixed costs	(750,000)	(750,000)	(1,500,000)	(1,500,000)	(1,500,000)
Depreciation Expense	(500,000)	(600,000)	(700,000)	(800,000)	(900,000)
EBIT	550,000	2,850,000	3,800,000	5,200,000	6,600,000
Interest	(320,000)	(320,000)	(200,000)	(90,000)	(90,000)
Pre Tax Margin	230,000	2,530,000	3,600,000	5,110,000	6,510,000
Taxes	(92,000)	(1,012,000)	(1,440,000)	(2,044,000)	(2,604,000)
Net Income	138,000	1,518,000	2,160,000	3,066,000	3,906,000

The next steps of the analysis is to adjust the Net Income from the Income Statement to true cash flow projections...over the five year pro-forma period. This requires

several items, as shown on the table on Page 4:

4. A five year capital project projection must be subtracted. (Line 4)

year. (Line 8) However, for Years 2 through 5, there is a dividend planned. This adds to the free cash flow to investors. Thus, Line 9 is Line 8 with the dividend (line 3) added back.

(Continued on page 4)

A BIZ BUCKS GUY OPINION

WHO'S ON YOUR MT. RUSHMORE?

Here is an provocative question. Who would you put on your own Mt. Rushmore? The names of people might rush through your mind. Parents, teachers, religious leaders and even a few politicians. So let's limit the thinking a bit, just for fun. Let's say these four names must have lived since the Reformation. They must be dead. They must

have made a contribution to many people, even nations and perhaps the entire world. Because this is not a religious publication, let's limit ourselves to one with spiritual accomplishments. Also, let's try to avoid the well known names, just in the interest of getting some lesser known folks their due. So who are your four? Here's *The Biz Bucks Guy's*:

Julian Simon, Norman Borlaug, Nicoli Tesla, and William Tyndale.

Simon was a population economist in the last half of the 20th century. He refuted the prevailing status quo in academia. The status quo was based on limiting population because, allegedly, more people are bad. His famous walk in Arlington National Cemetery turned his mind on...as he

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"With vision in hand, you can be the leader that make a difference with your folks."

LEADERSHIP'S FIRST SKILL THINK ABOUT IT...

What is a real leader? How are they grown or do they come naturally, all tooled up to do important things? Of course, natural ability is necessary, but it is simply not sufficient. These four skills can be learned. Those with less natural ability can succeed in "boss-hood" by applying these principles. This issue we return to the first skill: the ability to have a vision.

One might say that this "vision thing" is for the big bosses...not me, the lowly supervisor of Accounts Payable or Mechanical Engineering. After all, what I am all about is supporting my bosses up the chain with their vision.

May *The Biz Bucks Guy* politely differ. If you are a boss...at any level...and you don't have some sort of a guiding vision for your team, department, group, or crew, *The Biz Bucks Guy* suggests that you are probably a really BORING person to work for!

Perhaps you have a vision to replace the software support system that you now use with a more efficient and effective one.

Perhaps you are going home late at night and are not comfortable with delegating to your team members. Then, you should have a vision of an im-

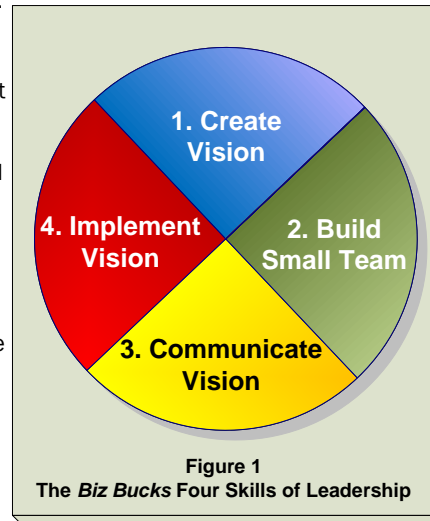
proved team and developing them, starting NOW.

Perhaps you know your department has a bad reputation in the company. Couldn't you find out why and begin working on the issues that restrain people from saying positive things about your folks and you?

Is it time that you make the business case for upgrading the facilities or vehicles for your work crew? Do you know how to write and then sell a business case?

The possibilities are endless for this "vision thing". You only need to get your creative right brain in gear. Get some input from your internal customers, your boss, and yes, your direct reports.

With vision in hand, you can be the leader that make a difference with your folks.



MORE ON CONTINUED FROM PAGE 1

YOUR MT. RUSHMORE

read the inscription on the Iwo Jima monument by a Rabbi, "How many Mozarts and Einsteins have we lost?" He realized people were good, not bad. Now academics in demography have moved to Simon's view point. One of the fundamental problems facing society is population reduction. Simon "got it" first.

Norman Borlaug developed high yielding varieties of essential foods, like wheat. He started in Mexico where his efforts increased production dramatically. He eventually took his skills to Pakistan and India and finally to Africa. He is credited for saving over a billion people from starvation. His work refuted the neo-Malthusians who promoted in the middle of the 20th century that widespread starva-

tion was coming unless we limit our populations dramatically.

Tesla was the inventor and promoter of alternating current. He fought the "War of the Currents" with his former boss, Edison, who favored DC current for power distribution. Tesla developed the theory and equipment for three-phase alternating current. He invented the induction motor. He also became integral with the development of wireless communications which led to radios. He actually filed suit against Marconi who is credited with inventing radio. With Westinghouse as the financial backer, he won the "War of the Currents" and changed electrical engineering forever.

Tyndale is a fine example of one who does things to make a difference, not for personal gain. Tyndale was born the year Co-

lumbus discovered the New World. In his forty-four years, he dedicated himself to bring forth a readable version of the Bible in English. He completed the New Testament and partially translated the Old Testament, for both using the oldest available Greek and Hebrew texts. He was despised for his work which was considered treasonous. Nonetheless, he persevered. He was arrested in Belgium and imprisoned there, before being martyred at the stake for his life's work.

Seven decade later, the King James translators used much of Tyndale's translation in their own. Today we use much of his phrasing in our common English.

So...who's on your Mt. Rushmore? *The Biz Bucks Guy* would like to read some of your ideas.

"So...who's on your Mt. Rushmore? The Biz Bucks Guy would like to read some of your ideas."

FROM THE *LEADERSHIP FOR THE RECOVERING QUANTOID*

PROJECT MANAGEMENT

Projects exist in almost all functions and all walks of life. They are everywhere. Here is just a smattering of examples:

- Designing a new air-pollution control system
- Constructing a bridge
- Building a dam
- Fabricating a new semi-conductor chip
- Describing the human genome
- Hiring a new 401(k) plan administrator
- Implementing a culture change survey
- Replacing merit pay with pay for performance
- Changing the culture of a firm
- Designing a financial model to value capital projects
- Strengthening a balance sheet
- Upgrading the phone system
- Implementing a new training program
- Establishing a program to

lead a multi-project environment

- Improving relations with a troubled customer segment
- Implementing a work management information system
- Adding a new wing to a customer service office
- Taking an alleged criminal to court
- Establishing configuration control for a chemical plant
- Moving to a new home
- Raising good children
- Getting a ring on your left hand
- Taking a ring off your left hand

With the ubiquity of projects, it is utterly amazing more organizations don't require basic project management skills training for all their employees, particularly leaders. Chapter 8 of Leadership for the Recovering Quantoid is an overview to give a budding project manager a head start. Many references and public training courses abound to increase expertise.

Figure 22 specifically relates the common flow of a project. While the terminology often differs, the steps are logical and usually should not be missed in this order. This framework is the basis for Level I of a complete Work Break Down Structure (WBS).

Many managers who don't have a background in projects become frustrated when they spew out a conceptual idea and expect everyone to be working on detail design immediately. They miss the second step which is the most crucial of these six project steps or phases.

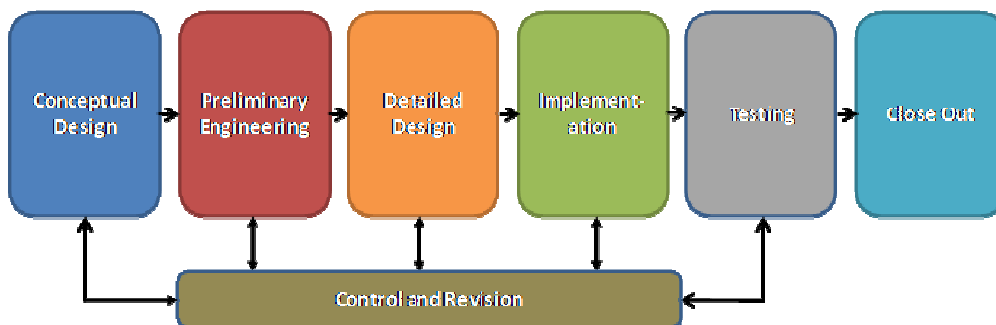
Here called Preliminary Engineering, it is the time that critical thinking about the underlying philosophy of the project is determined. It is often the time that the bigger decisions about the specified product of the project are made.

If the preliminary engineering is not done well, the detailed design and even the implementation may have to be revised when operating and design philosophy mistakes - that should have been discussed and vetted earlier - are recognized. This is very expensive, both in money and time.

If you have not become educated in project management theory it is time to fix that problem with training.

"If the preliminary engineering is not done well,...[it] is very expensive, both in money and time."

Figure 22 - The Biz Bucks Project Process



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The Biz Bucks Guy has now
taught or facilitated busi-
ness-acumen and related
principles to 4754 partici-
pants (thru March 2012)!



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Biz Bucks Quarterly is published quarterly (surprise) by Bob Llewellyn, the "Biz, Bucks Guy" 1) to allow past "Biz Bucks" participants an opportunity to review the principles taught... 2) to possibly entice other unsuspecting victims into the class room...and 3) to give the Biz, Bucks Guy something to do between gigs.

The flagship courses from Llewellyn Consulting are Biz, Bucks & BTUs, a mini-MBA for power-plant professionals and Biz, Bucks & Bucket Trucks, a mini-MBA for electric-"wires" professionals. Both cover all the main points of the first year of a full MBA program and some from the second year. Most examples and case studies reflect power-plant or wires situations. This five-day course covers not only accounting and finance, but strategy (development and implementation), management & organization, and the highly useful decision trees.

Another popular course is Biz, Bucks & Blastoff, a two-day course in financial decision making, based on days 3 & 4 of Biz, Bucks & BTUs. This course is designed for engineers and other technical professionals who make or recommend financial decisions. It is for those who are unable to attend the full five-day experience.

Other courses can be tailored to clients needs, particularly for other functions like electric distribution, HR, finance & accounting, gas distribution, and nuclear plants.

CHOCO-HOLLICK CANDY COMPANY

CONTINUED FROM PAGE 1

Assignment

A. Complete the Cash Flow Adjustments for Years 2 through 5. This yields a cash flow to investors for five years.

B. Does the business plan to fold after five years? Of course not. So...the analysts must also add a perpetuity after Year 5. Use the Year 5 Cash Flow to Investors and divide by the discount rate to obtain the perpetuity. This represents cash for Year 6 and beyond.

C. Present value the cash flow, then subtract the original contribution by investors to obtain the forecasted market capitalization.

D. Convert the forecasted market capitalization to a price per share by dividing by the Shares Outstanding.

CASH FLOW ADJUSTMENTS		Year 1
Line 1	Net Income from Income Statement	138,000
Line 2	Depreciation Add Back	500,000
Line 3	Dividend	0
Line 4	Contribution for Capital Projects	(1,000,000)
Line 5	Change in AR	(120,000)
Line 6	Change in AP	100,000
Line 7	Debt Retirement	0
Line 8	Change in Cash (Total for Year)	(382,000)
Line 9	Total Cash to Investors (total Free Cash Flow)	(382,000)

E. Add 20% for intangibles that the market should reward you for.

Assumptions

Equity Discount Rate = 17%

Dividend Forecast: Yr. 2-\$125k, Yr. 3 - \$500k, Yrs. 4&5 - \$1million

Capital Projects: \$1million each year.

Change in Accounts Receivable: Yr 2-(-\$180k), Yrs 3 & 4 -(\$100k), Yr.5 - +\$50k

Change in Accounts Payable: Yr. 2 - +\$150k, Yr. 3-\$50k, Yr. 4 -\$100k, Yr. 5-\$25k.

Debt Retirement: Yr. 3 - \$1.5 million, Yr. 4-\$1million

Original Contribution by Investors: \$10 per share

Share Issued/Outstanding: 500,000

Conclusion

It appears the forecasted value for this candy company is \$17.49 per share. But Choco and Hollick need to be afraid of that beautiful woman, "Rosy Scenario"! For a solution spreadsheet, email Biz Bucks Guy@cox.net.