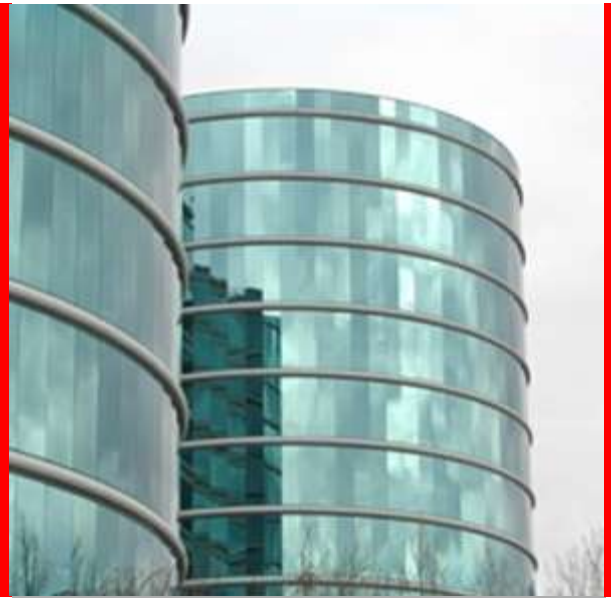


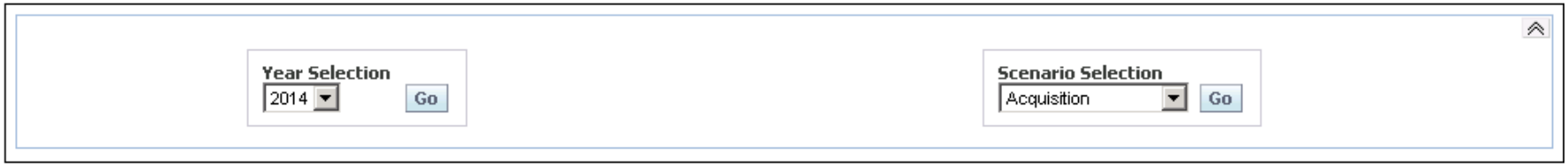
ORACLE

Add Risk Measurements to Key Metrics During the Strategic Planning Process

A Hyperion Strategic Finance and Oracle Crystal Ball integrated demo

- The Executive Dashboard highlights the key metrics that Eden (our example corporation) uses to evaluate its strategies. Detailed financial models that have been forecast out 5 years provide the results for this dashboard. By looking at the Corporate Value chart, we can see that Eden is evaluating a potential *Acquisition*, expanding into a *Digital Video* product line, and looking at what impact a couple of recession scenarios (*Recession and Recession Package*) would have on the Digital Video expansion (lowering the company's value).
- We can compare the value of these scenarios to our *Baseline* scenario, or the forecast of the existing business before new investments or strategies are evaluated. We can also compare the resulting Earnings Per Share results over to the right.
- In this demo, we will show how adding a measure of the risk inherent in the key metrics vastly improves the decision making process.

Executive Dashboard: Acquisition



Scenario Comparison

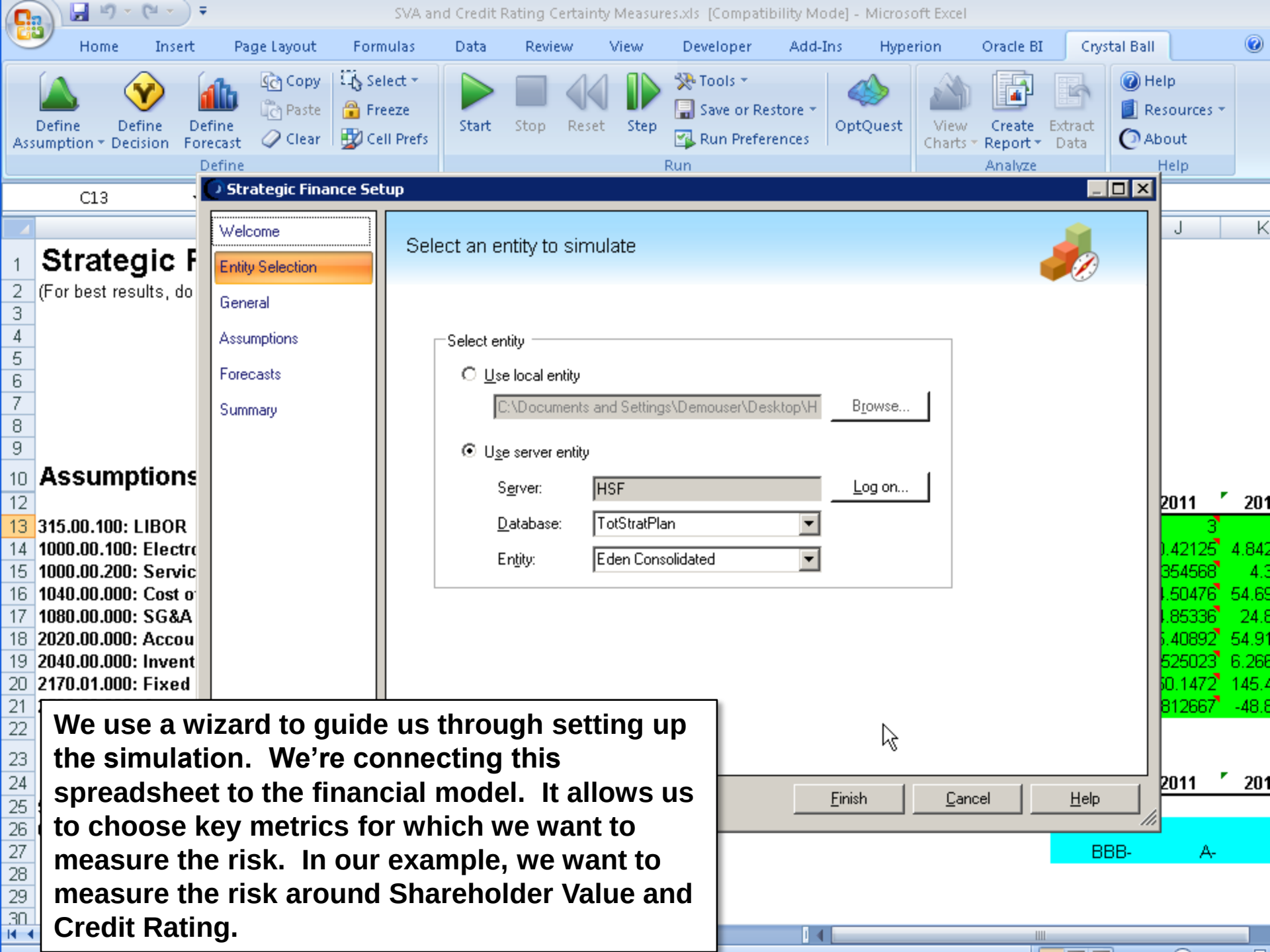
	Acquisition	Baseline	Variance
Revenue (in MM)	$3,635	$2,912	$723
Operating Profit Margin %	16.52%	13.57%	2.95%
Net Income (in MM)	$352	$210	$143
Shares Outstanding	31,864,811	32,351,357	-486,546
EPS	$11.05	$6.48	$4.58
Total Capital (in MM)	$2,774	$1,785	$989
ROIC	19.17%	18.33%	
Interest Coverage	12.73	5.99	
Debt/Capital %	44.20%	29.44%	
Excess Debt	0	0	
Credit Rating	A	A+	
Credit Rating Certainty	48%	47%	

Market Price Comparison

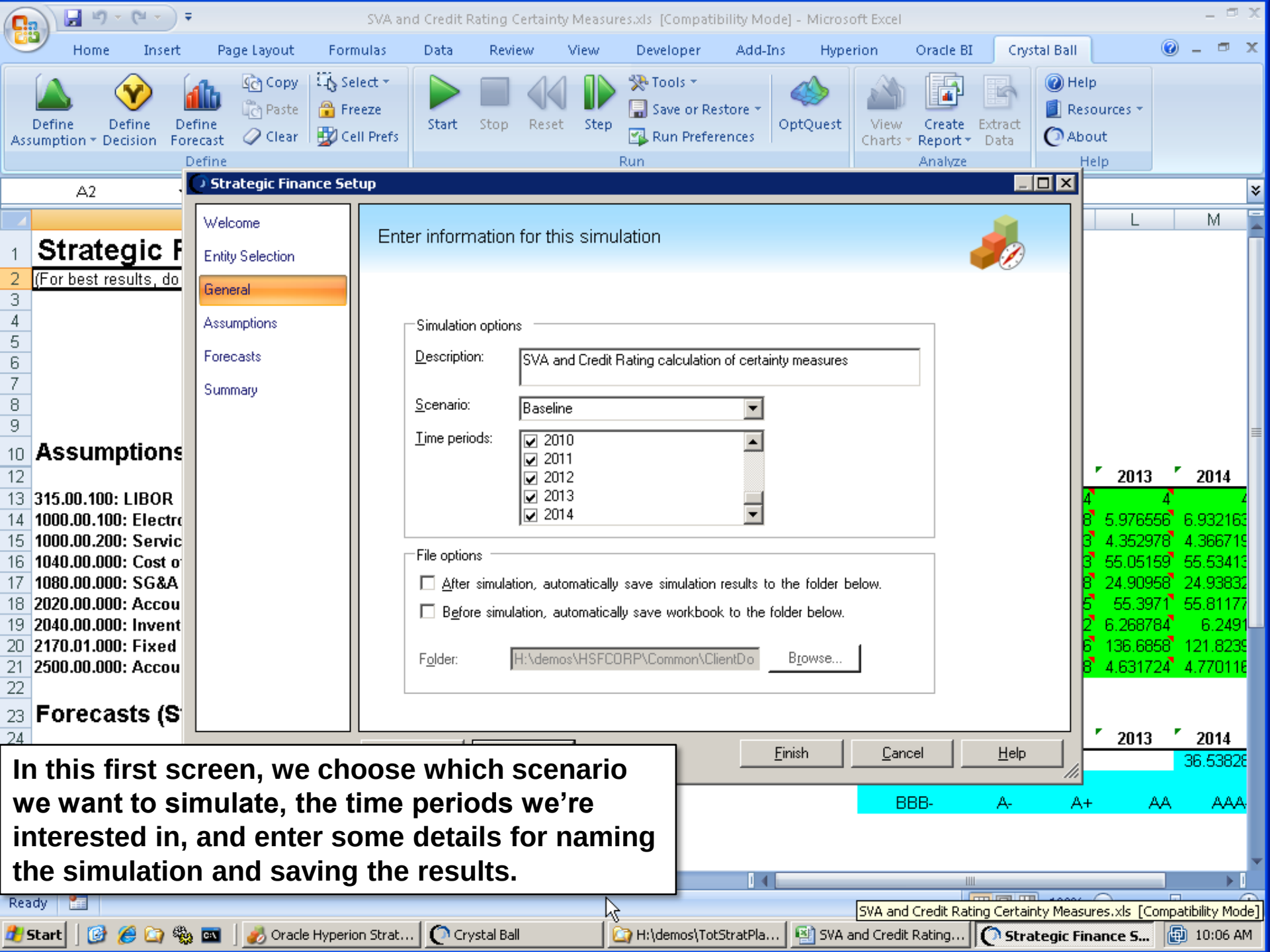
	Acquisition	Baseline
Value per Share	$42.78	$36.54
Current Stock Price	$39.00	$39.00
Variance	$3.78	-$2.46
Variance %	9.70%	-6.31%

Let's assume that for our demonstration, two of the key metrics that management will use to make a strategic decision are:
Shareholder Value (SVA) and Credit Rating.

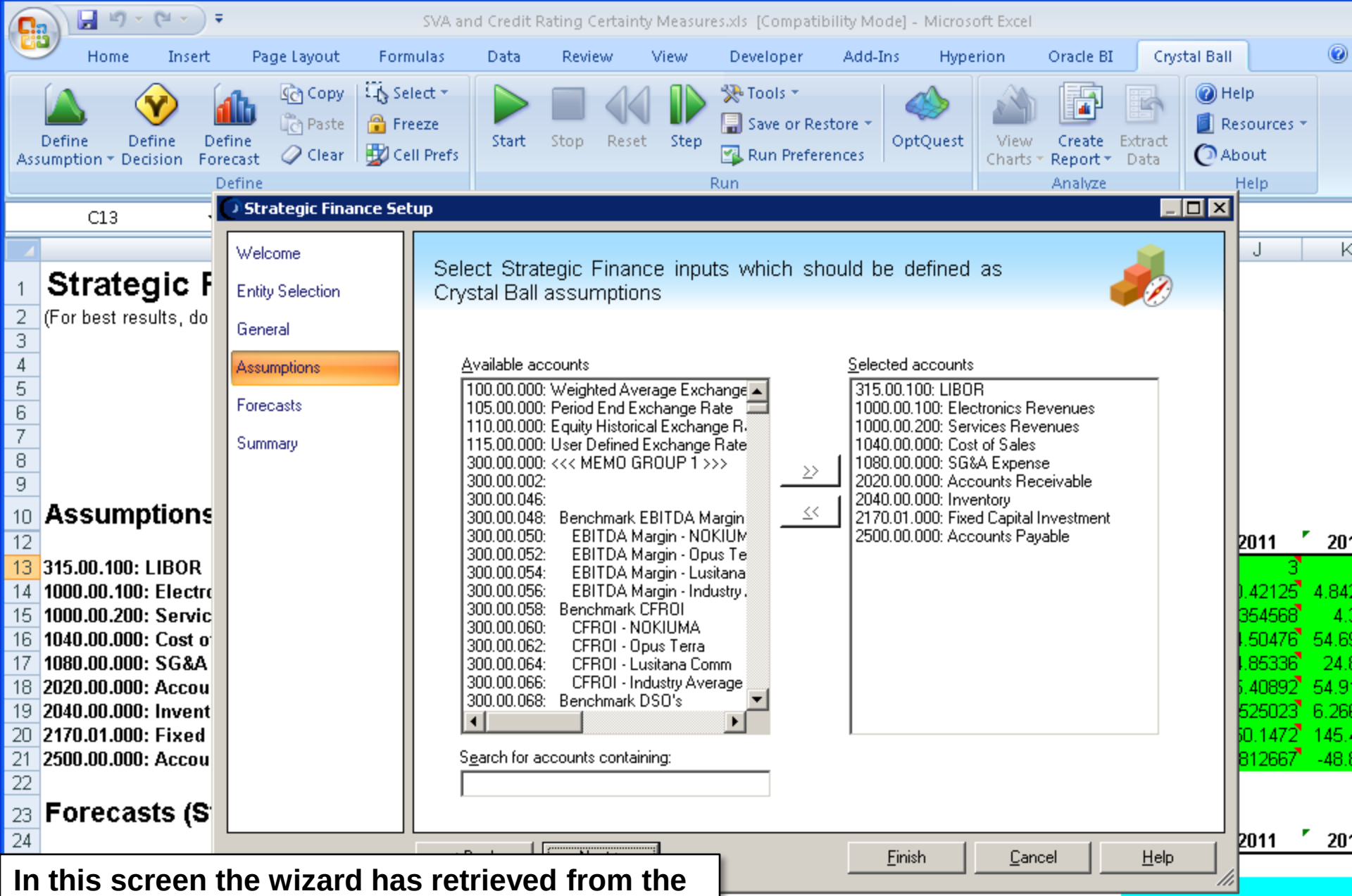
The question is, for each scenario, how certain are we that we will meet or exceed the forecast SVA and the forecast credit rating?



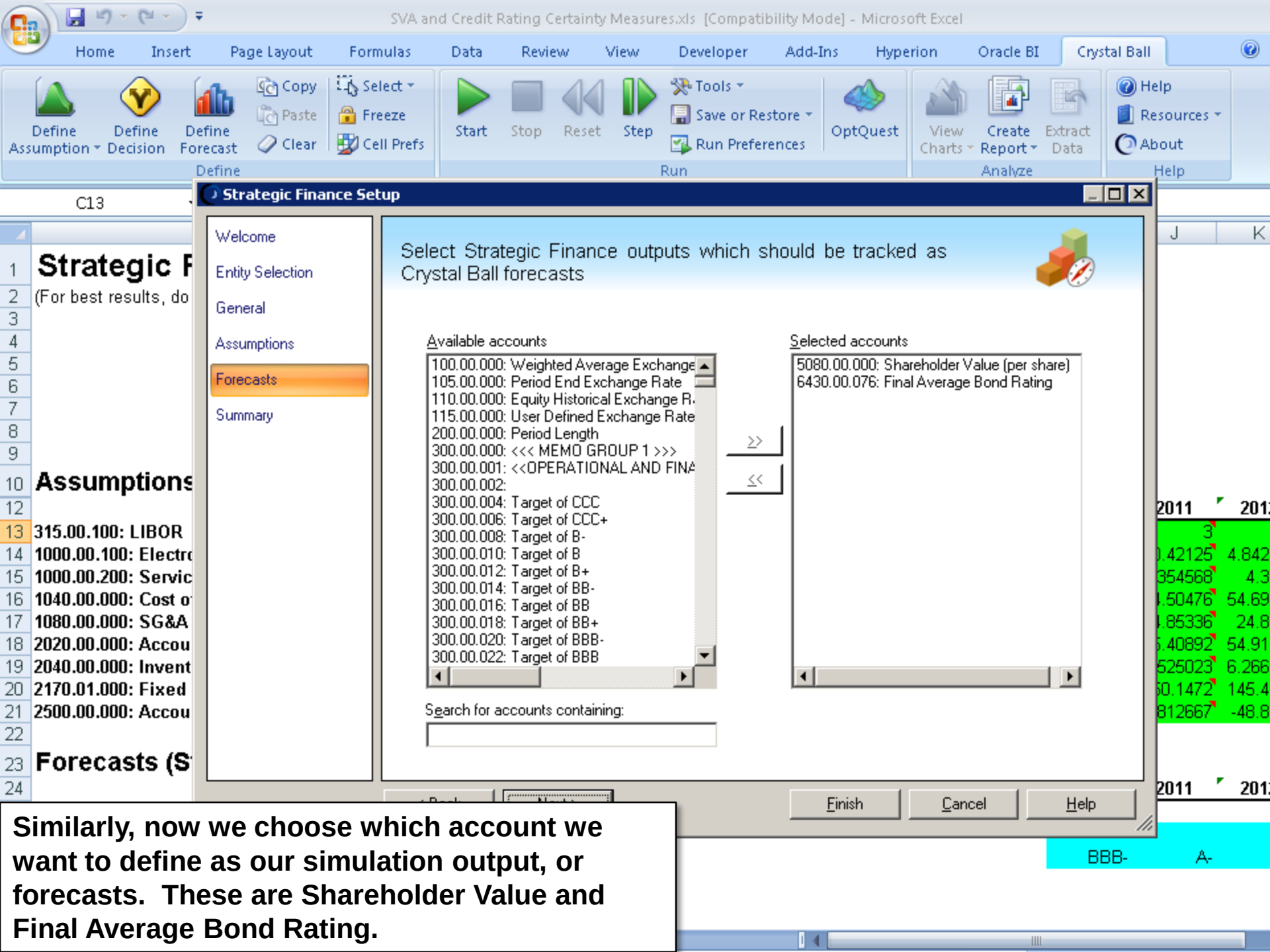
We use a wizard to guide us through setting up the simulation. We're connecting this spreadsheet to the financial model. It allows us to choose key metrics for which we want to measure the risk. In our example, we want to measure the risk around Shareholder Value and Credit Rating.



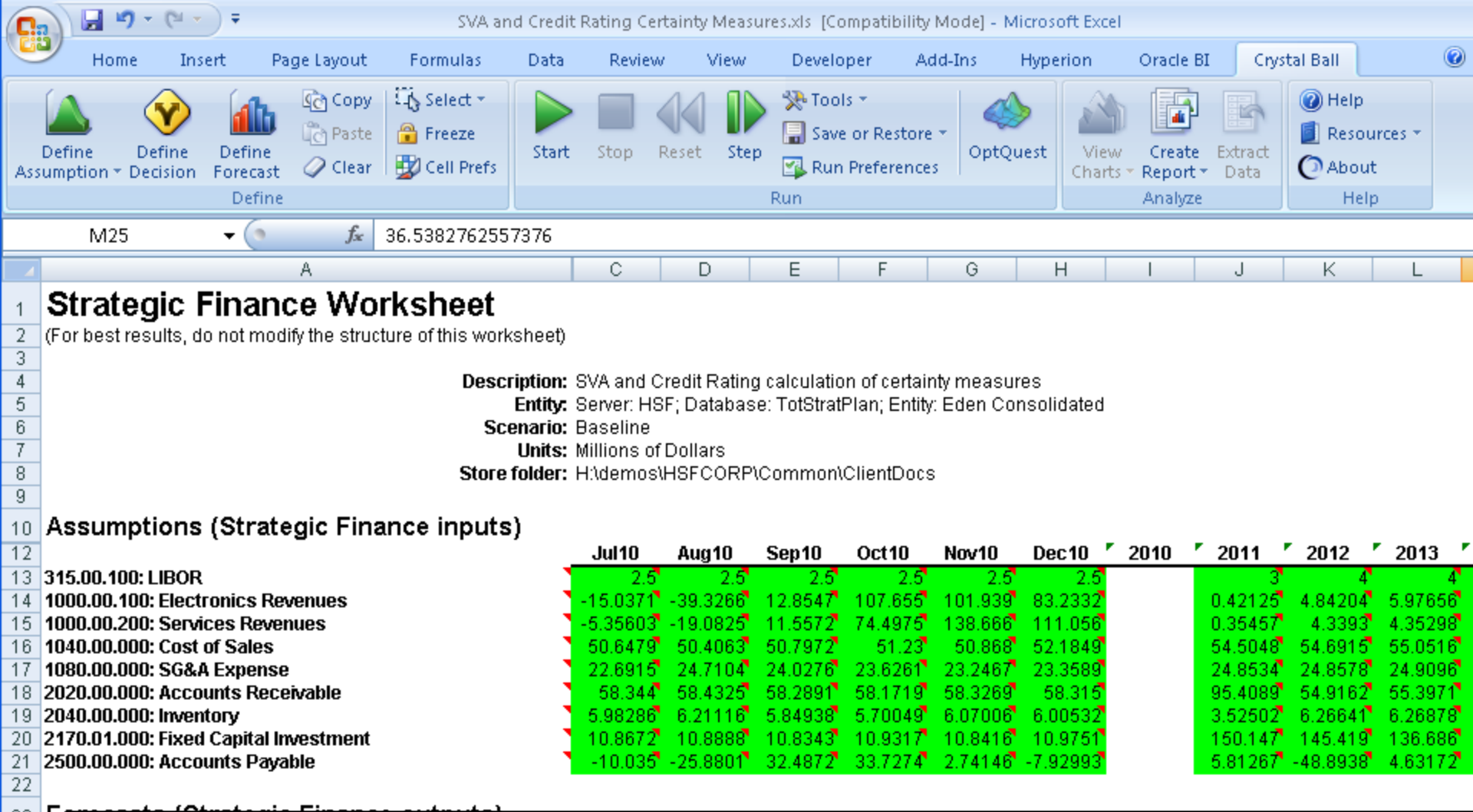
In this first screen, we choose which scenario we want to simulate, the time periods we're interested in, and enter some details for naming the simulation and saving the results.



In this screen the wizard has retrieved from the financial model all the available accounts. We choose the accounts that we want to define as variable inputs to our simulation model.



Similarly, now we choose which account we want to define as our simulation output, or forecasts. These are Shareholder Value and Final Average Bond Rating.



Strategic Finance Worksheet

(For best results, do not modify the structure of this worksheet)

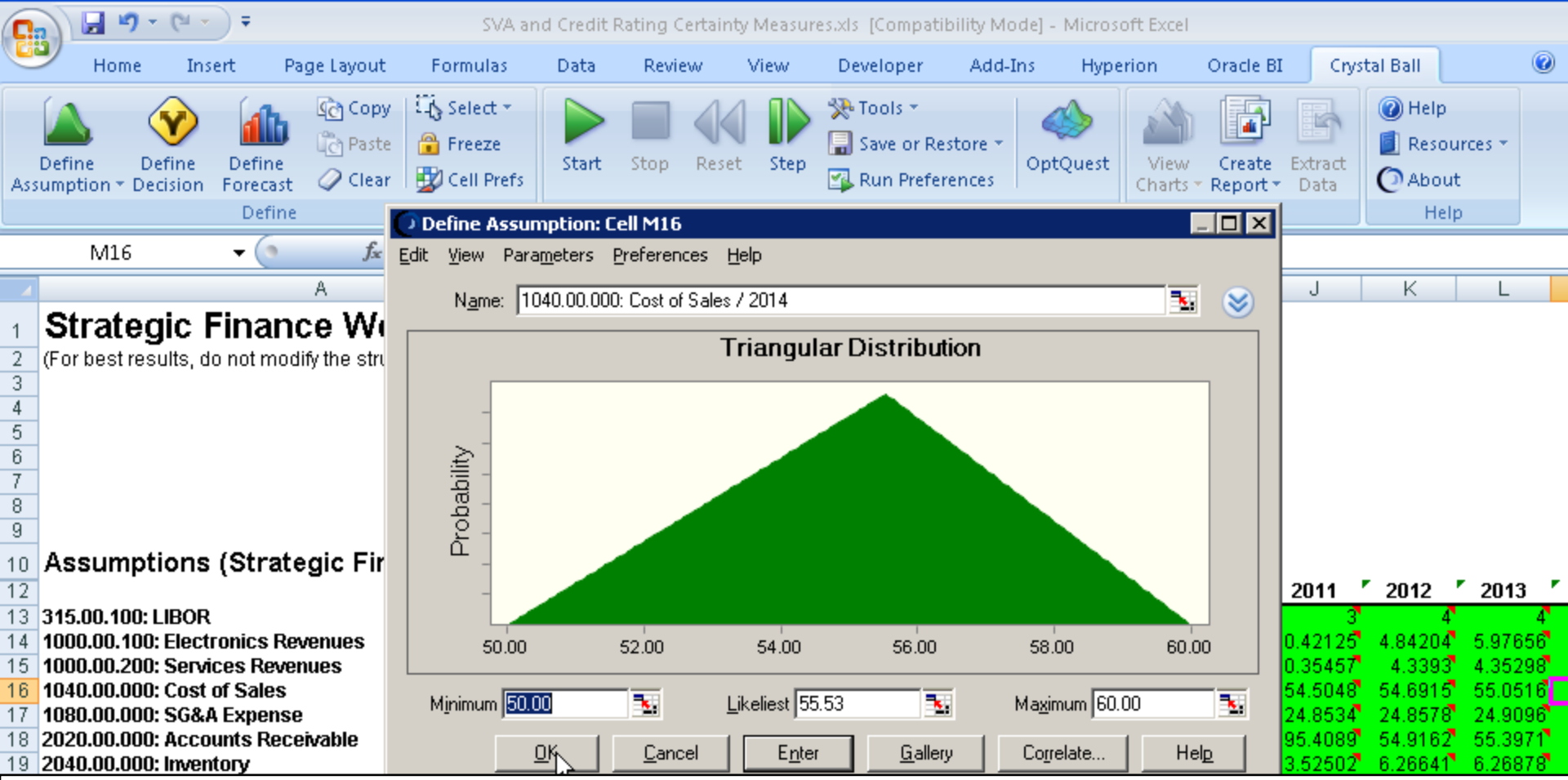
Description: SVA and Credit Rating calculation of certainty measures
Entity: Server: HSF; Database: TotStratPlan; Entity: Eden Consolidated
Scenario: Baseline
Units: Millions of Dollars
Store folder: H:\demos\HSFCORP\Common\ClientDocs

Assumptions (Strategic Finance inputs)

	Jul10	Aug10	Sep10	Oct10	Nov10	Dec10	2010	2011	2012	2013
315.00.100: LIBOR	2.5	2.5	2.5	2.5	2.5	2.5		3	4	4
1000.00.100: Electronics Revenues	-15.0371	-39.3266	12.8547	107.655	101.939	83.2332		0.42125	4.84204	5.97656
1000.00.200: Services Revenues	-5.35603	-19.0825	11.5572	74.4975	138.666	111.056		0.35457	4.3393	4.35298
1040.00.000: Cost of Sales	50.6479	50.4063	50.7972	51.23	50.868	52.1849		54.5048	54.6915	55.0516
1080.00.000: SG&A Expense	22.6915	24.7104	24.0276	23.6261	23.2467	23.3589		24.8534	24.8578	24.9096
2020.00.000: Accounts Receivable	58.344	58.4325	58.2891	58.1719	58.3269	58.315		95.4089	54.9162	55.3971
2040.00.000: Inventory	5.98286	6.21116	5.84938	5.70049	6.07006	6.00532		3.52502	6.26641	6.26878
2170.01.000: Fixed Capital Investment	10.8672	10.8888	10.8343	10.9317	10.8416	10.9751		150.147	145.419	136.686
2500.00.000: Accounts Payable	-10.035	-25.8801	32.4872	33.7274	2.74146	-7.92993		5.81267	-48.8938	4.63172

The solution automatically sets up the simulation worksheet, connected to the financial model. We're using Excel only as the user interface – all the mathematical equation, or business rules, are in the financial model.

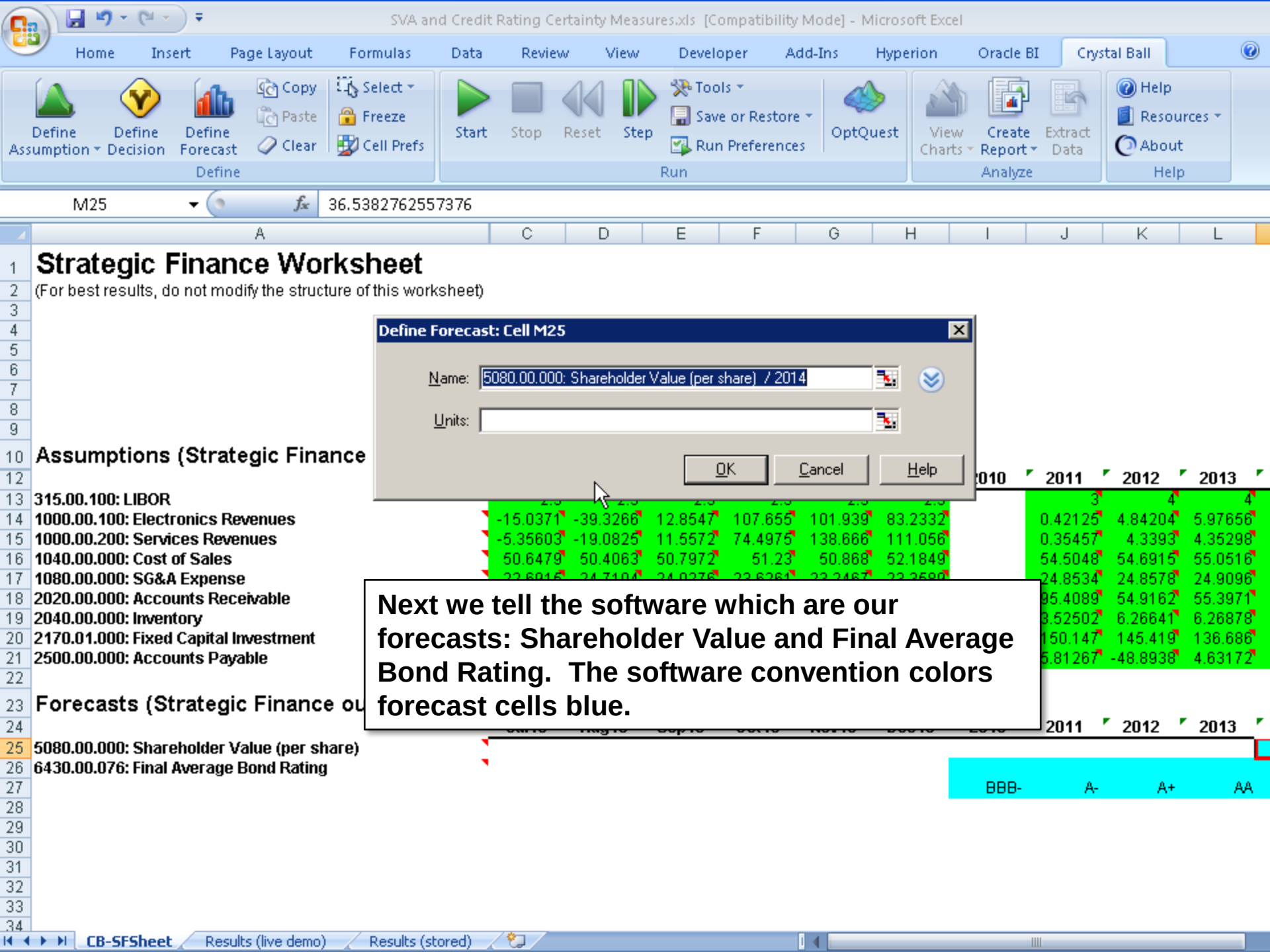
Now that we've chosen our inputs and outputs, and connected to the model, let's do the last two steps required to set up a simulation: defining the variable parameters around ou inputs, and labeling which are the outputs.



For each of our inputs, i.e. what we call assumptions, we assign a probability distribution. In this example, we're saying that Cost of Sales for 2014 should look like a triangle, we a likeliest value of 55

There are many methods that can be used to find the right shape and parameters for our inputs. We either use some of the software tools to fit the right distribution if we have valid historical data, or appl risk elicitation techniques combined with subject matter expertise to define the distributions when we don't have any data.

We can also correlate inputs to one another if required – often an important step in correctly evaluatir


SVA and Credit Rating Certainty Measures.xls [Compatibility Mode] - Microsoft Excel
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Oracle BI
Crystal Ball
Define Assumption
Define Decision
Define Forecast
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Stop
Reset
Step
Tools
Save or Restore
Run Preferences
Run
OptQuest
View Charts
Create Report
Extract Data
Analyze
Help
Resources
About
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M25
36.5382762557376
Strategic Finance Worksheet
(For best results, do not modify the structure of this worksheet)
Define Forecast: Cell M25
Name:
5080.00.000: Shareholder Value (per share) / 2014
Units:
OK
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Help
Assumptions (Strategic Finance
315.00.100: LIBOR
1000.00.100: Electronics Revenues
1000.00.200: Services Revenues
1040.00.000: Cost of Sales
1080.00.000: SG&A Expense
2020.00.000: Accounts Receivable
2040.00.000: Inventory
2170.01.000: Fixed Capital Investment
2500.00.000: Accounts Payable
2011
2012
2013
-15.0371 -39.3266 12.8547 107.655 101.939 83.2332
0.42125 4.84204 5.97656
-5.35603 -19.0825 11.5572 74.4975 138.666 111.056
0.35457 4.3393 4.35298
50.6479 50.4063 50.7972 51.23 50.868 52.1849
54.5048 54.6915 55.0516
24.8534 24.8578 24.9096
95.4089 54.9162 55.3971
3.52502 6.26641 6.26878
150.147 145.419 136.686
5.81267 -48.8938 4.63172
Next we tell the software which are our forecasts: Shareholder Value and Final Average Bond Rating. The software convention colors forecast cells blue.
Forecasts (Strategic Finance ou
5080.00.000: Shareholder Value (per share)
6430.00.076: Final Average Bond Rating
BBB-
A-
A+
AA
CB-SFSheet
Results (live demo)
Results (stored)

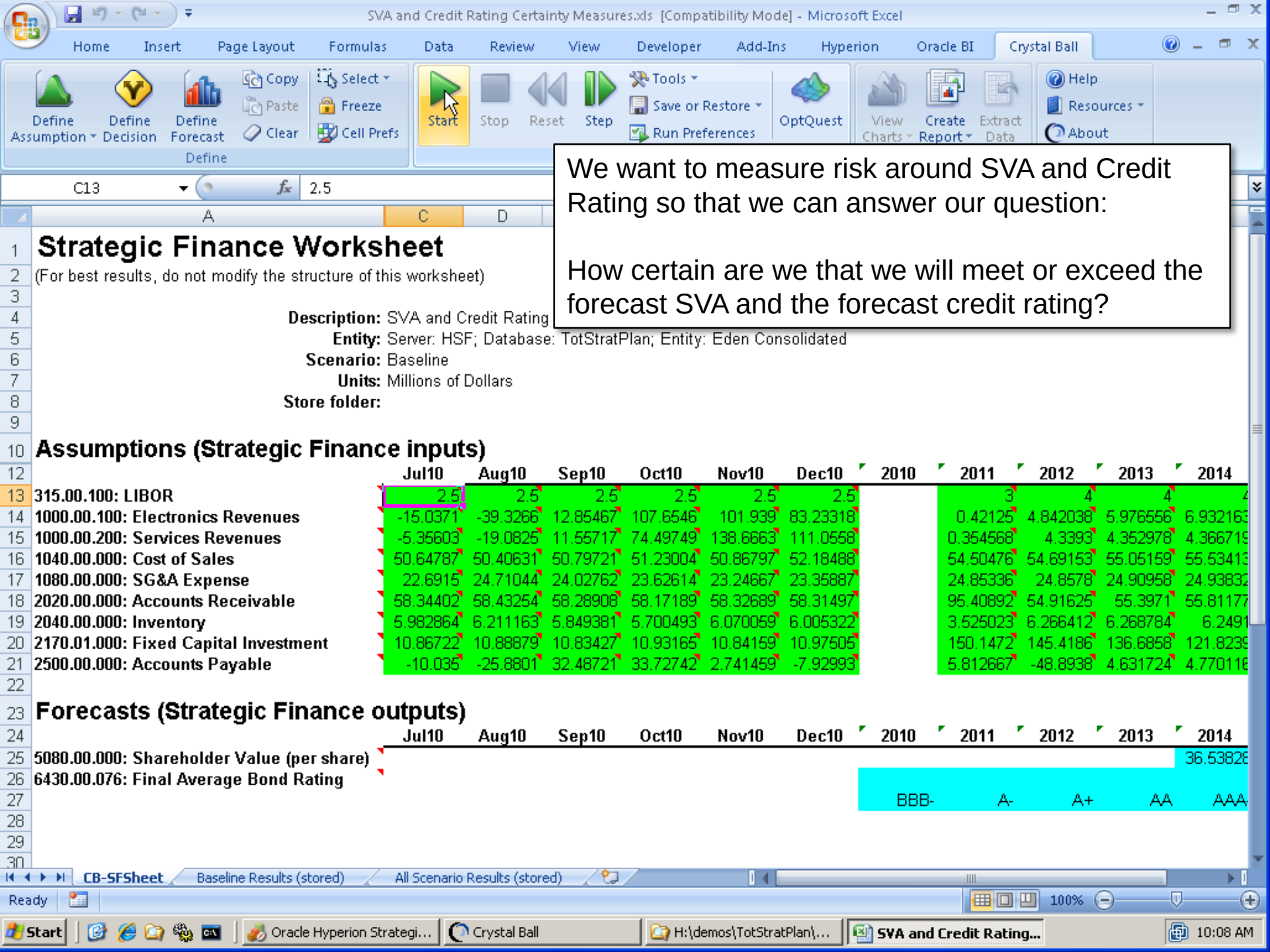
Now we're ready to run a simulation. The software will run what's called a Monte Carlo simulation.

A Monte Carlo simulation is a series of trials. Each trial picks a different number from the allowed inputs (the green cells) recalculates the outputs (the blue cells) and saves the results of each of those trials for analysis. Once you run 500, 1000 or more of those trials, you can calculate things like certainty measures (i.e. risk), sensitivities, percentiles and any number of other statistics.

In evaluating our strategic opportunities, we settled on a number of scenarios and strategies– things that might happen and how we could respond to them. Our financial model gave us the key financial measures or metrics, by which we evaluate the value of each strategy.

With simulation, now we measure the risk of any given strategy.

Right now, "scenario" is a given. The future, good or bad, will happen whether you plan for it or not. Smart companies today evaluate strategies to respond to Scenarios (and EPM gives you the nimbleness to execute changes in strategies efficiently). The absolute best companies will add simulation to strategy in order to evaluate the comprehensive worth (value + risk = worth) of that choice.


SVA and Credit Rating Certainty Measures.xls [Compatibility Mode] - Microsoft Excel
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Define Assumption
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Start
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Reset
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Tools
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Run Preferences
OptQuest
View Charts
Create Report
Extract Data
Help
Resources
About
C13
2.5
We want to measure risk around SVA and Credit Rating so that we can answer our question:
How certain are we that we will meet or exceed the forecast SVA and the forecast credit rating?
Strategic Finance Worksheet
(For best results, do not modify the structure of this worksheet)
Description: SVA and Credit Rating
Entity: Server: HSF; Database: TotStratPlan; Entity: Eden Consolidated
Scenario: Baseline
Units: Millions of Dollars
Store folder:
Assumptions (Strategic Finance inputs)
Jul10 Aug10 Sep10 Oct10 Nov10 Dec10 2010 2011 2012 2013 2014
315.00.100: LIBOR 2.5 2.5 2.5 2.5 2.5 2.5 3 4 4
1000.00.100: Electronics Revenues -15.0371 -39.3266 12.85467 107.6546 101.939 83.23318 0.42125 4.842038 5.976556 6.932163
1000.00.200: Services Revenues -5.35603 -19.0825 11.55717 74.49749 138.6663 111.0558 0.354568 4.3393 4.352978 4.366719
1040.00.000: Cost of Sales 50.64787 50.40631 50.79721 51.23004 50.86797 52.18488 54.50476 54.69153 55.05159 55.53413
1080.00.000: SG&A Expense 22.6915 24.71044 24.02762 23.62614 23.24667 23.35887 24.85336 24.8578 24.90958 24.93832
2020.00.000: Accounts Receivable 58.34402 58.43254 58.28908 58.17189 58.32689 58.31497 95.40892 54.91625 55.3971 55.81177
2040.00.000: Inventory 5.982864 6.211163 5.849381 5.700493 6.070059 6.005322 3.525023 6.266412 6.268784 6.2491
2170.01.000: Fixed Capital Investment 10.86722 10.88879 10.83427 10.93165 10.84159 10.97505 150.1472 145.4186 136.6858 121.8239
2500.00.000: Accounts Payable -10.035 -25.8801 32.48721 33.72742 2.741459 -7.92993 5.812667 -48.8938 4.631724 4.770116
Forecasts (Strategic Finance outputs)
Jul10 Aug10 Sep10 Oct10 Nov10 Dec10 2010 2011 2012 2013 2014
5080.00.000: Shareholder Value (per share) 36.53828
6430.00.076: Final Average Bond Rating BBB- A- A+ AA AAA
CB-SFSheet Baseline Results (stored) All Scenario Results (stored)
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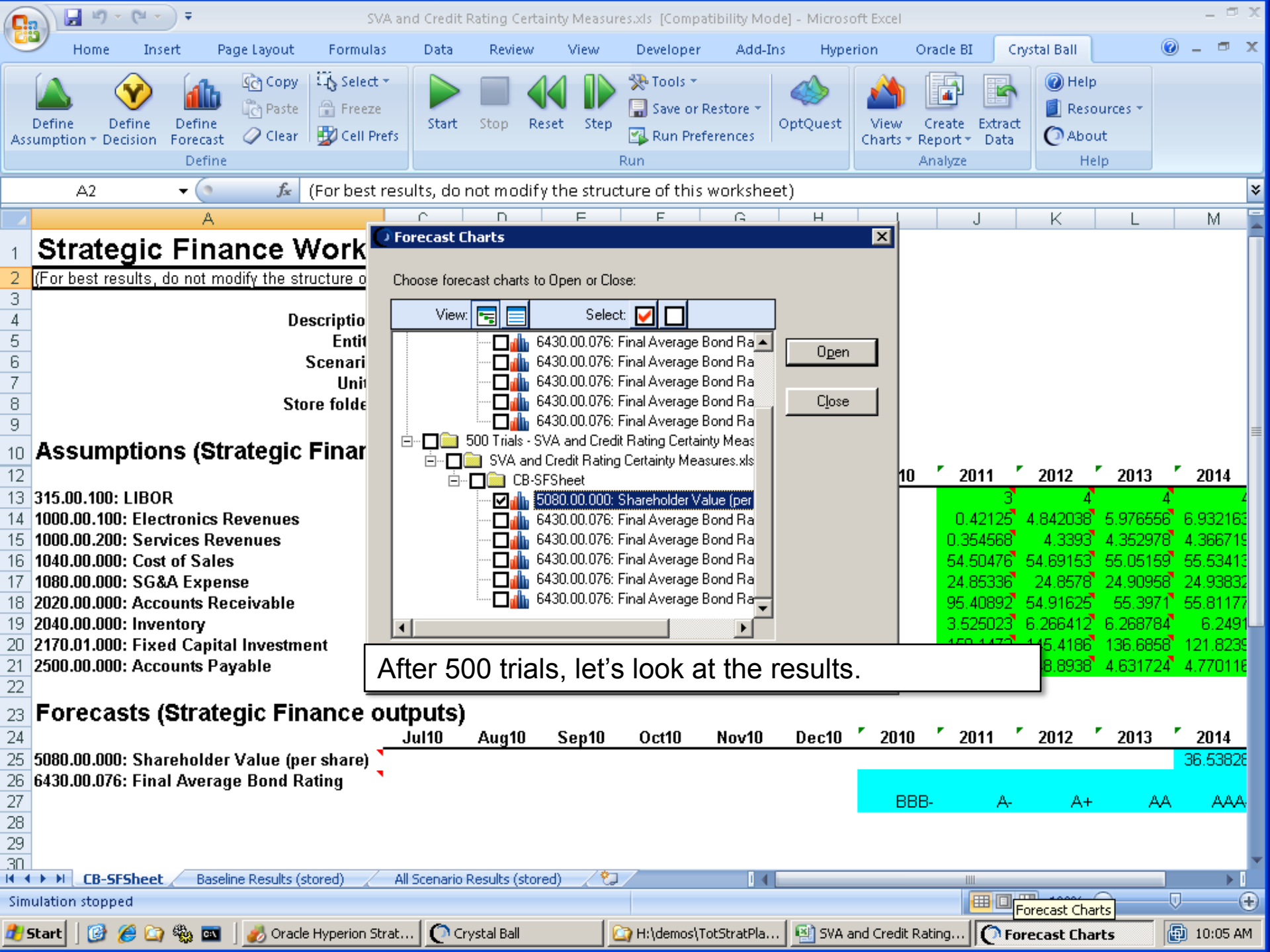
SVA and Credit Rating Certainty Measures.xls [Compatibility Mode] - Microsoft Excel
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1040.00.000: Cost of Sales
1080.00.000: SG&A Expense
2020.00.000: Accounts Receivable
2040.00.000: Inventory
2170.01.000: Fixed Capital Investment
2500.00.000: Accounts Payable
Forecast Charts
Choose forecast charts to Open or Close:
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Select:
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500 Trials - SVA and Credit Rating Certainty Meas
SVA and Credit Rating Certainty Measures.xls
CB-SFSheet
5080.00.000: Shareholder Value (per
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Close
After 500 trials, let's look at the results.
2011 2012 2013 2014
Forecasts (Strategic Finance outputs)
Jul10 Aug10 Sep10 Oct10 Nov10 Dec10 2010 2011 2012 2013 2014
5080.00.000: Shareholder Value (per share)
6430.00.076: Final Average Bond Rating
BBB- A- A+ AA AAA
CB-SFSheet
Baseline Results (stored)
All Scenario Results (stored)
Simulation stopped
Forecast Charts
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Crystal Ball
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SVA and Credit Rating...
Forecast Charts
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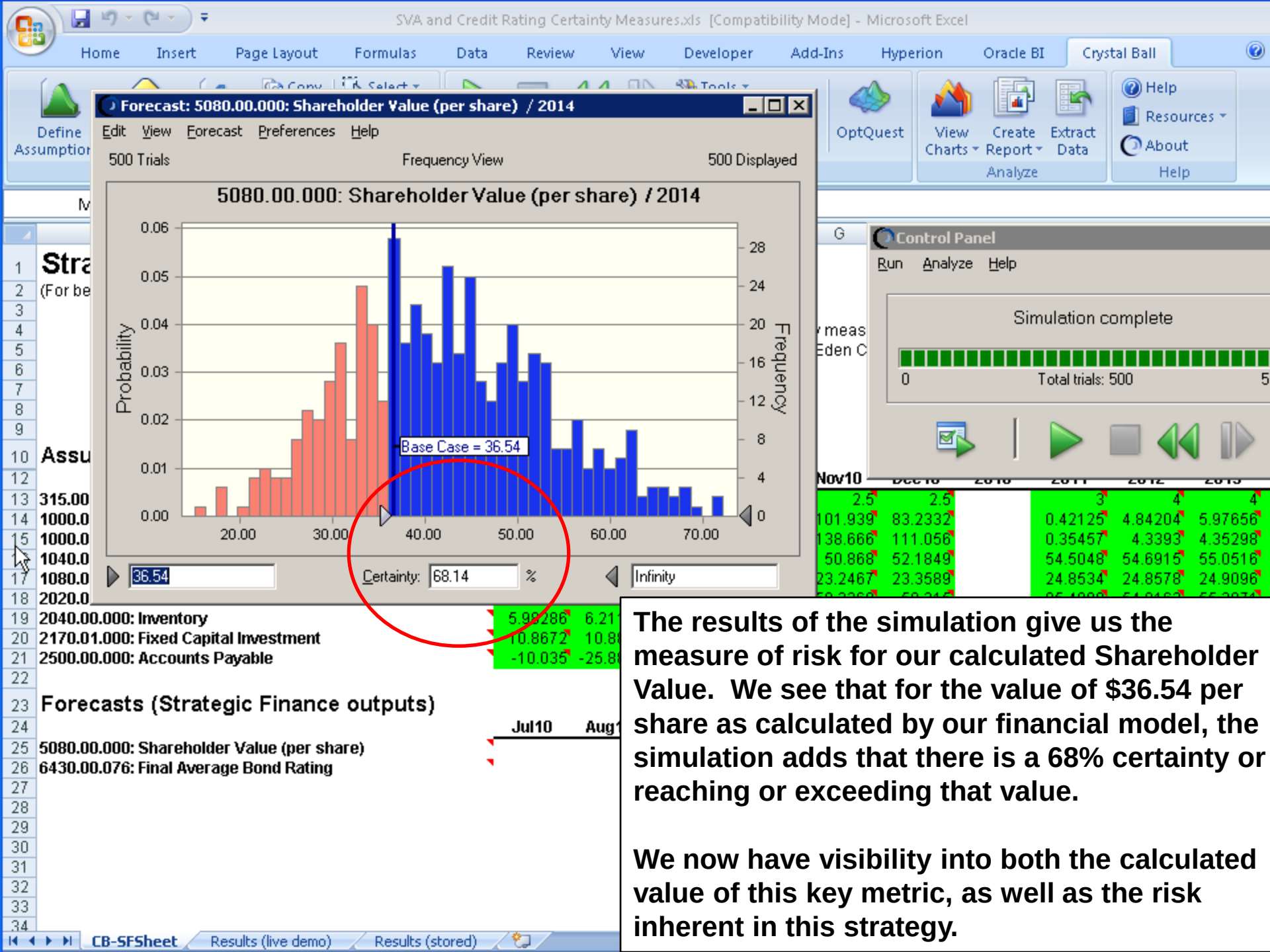
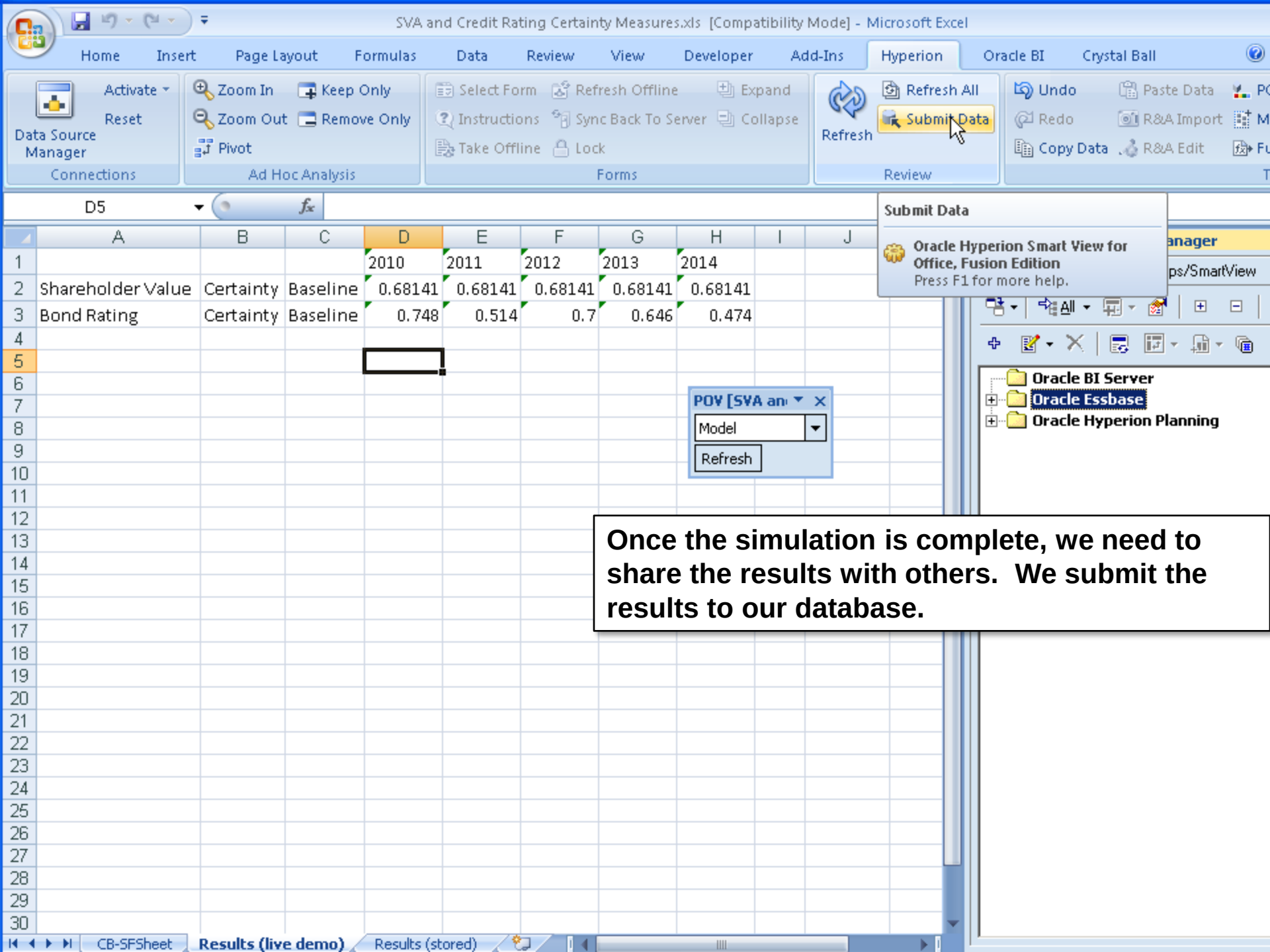
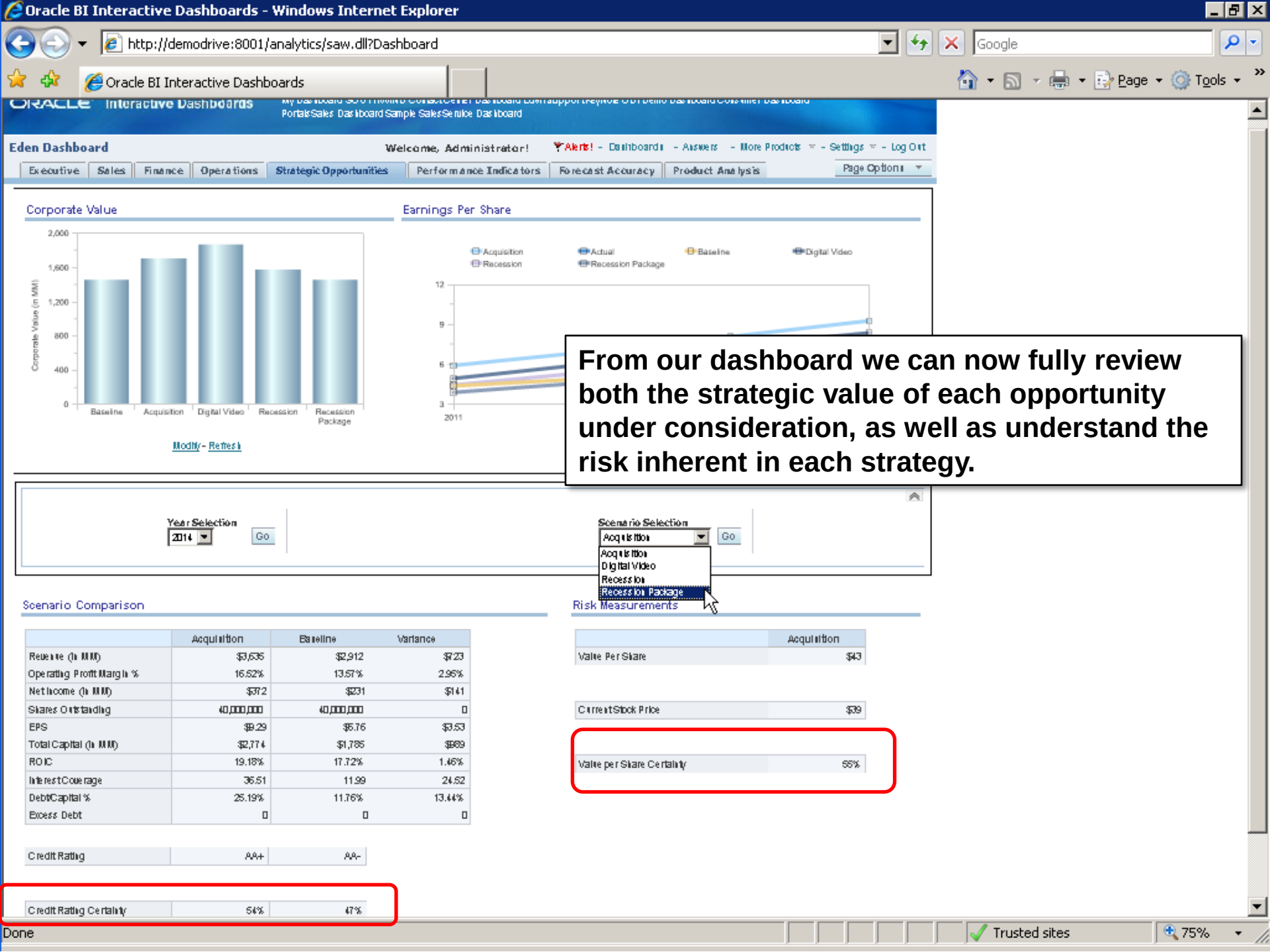


The results of the simulation give us the measure of risk for our calculated Shareholder Value. We see that for the value of $36.54 per share as calculated by our financial model, the simulation adds that there is a 68% certainty or reaching or exceeding that value.

We now have visibility into both the calculated value of this key metric, as well as the risk inherent in this strategy.



	A	B	C	D	E	F	G	H
1				2010	2011	2012	2013	2014
2	Shareholder Value	Certainty	Baseline	0.68141	0.68141	0.68141	0.68141	0.68141
3	Bond Rating	Certainty	Baseline	0.748	0.514	0.7	0.646	0.474


Oracle BI Interactive Dashboards - Windows Internet Explorer
http://demodrive:8001/analytics/saw.dll?Dashboard
Oracle BI Interactive Dashboards
Eden Dashboard
Welcome, Administrator!
Executive
Sales
Finance
Operations
Strategic Opportunities
Performance Indicators
Forecast Accuracy
Product Analysis
Corporate Value
Earnings Per Share
Modify - Refresh
From our dashboard we can now fully review both the strategic value of each opportunity under consideration, as well as understand the risk inherent in each strategy.
Year Selection
2014
Go
Scenario Selection
Acquisition
Digital Video
Recession
Recession Package
Scenario Comparison
Risk Measurements
Acquisition
Baseline
Variance
Revenue (In MM)
Operating Profit Margin %
Net Income (In MM)
Shares Outstanding
EPS
Total Capital (In MM)
ROIC
Interest Coverage
Debt/Capital %
Excess Debt
Credit Rating
Credit Rating Certainty
Value Per Share
Current Stock Price
Value per Share Certainty
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Trusted sites
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