

**Invest Smart. Execute with Discipline.
Create Lasting Value.**

Strategic Capital Allocation

Maximizing Shareholder Value Through Disciplined Investment

Agenda

- 1** **What is Strategic Capital Allocation?**

- 2** **Methods for ranking and prioritizing Strategic projects**

- 3** **Key project evaluation criteria.**

- 4** **Sources of Financing**

- 5** **Board approval**

- 6** **Continuous Monitoring and Review**

Strategic Capital Allocation Process

1. Scan for Business Paramount Challenges and Opportunities:

2. Strategic Choices. Generate Project Ideas to overcome challenges and achieve opportunities

3. Identify Capabilities Gaps to achieve Strategic Objectives and deliver a superior CVP,

4. Evaluate available choices and Projects that deliver Strategic CVP. Prioritize and Select Projects.

5. Fund and Execute Projects:

6. Monitor, Review, and Adjust:

7. Agile Capita;
Reallocation

The Allocation Framework

Effective capital allocation isn't magic; it's a structured process that translates high-level strategy into tangible, funded initiatives. It bridges the gap between the boardroom vision and the operational reality.



Introduction: Strategic Capital Allocation

Maximizing Stakeholder Value through Disciplined Investment in Strategic Priorities

- Capital Allocation lies at the very heart of sustainable corporate success.
- In today's dynamic business environment,
Capital is a finite and precious resource.
 - How we deploy it—where to invest?
 - How much, and why?

These Capital Allocation decisions ultimately determines our **competitive position**, our **growth trajectory**, and, critically, the **value we create for our stakeholders**.

- Strategic Capital Allocation is about
Aligning our investment decisions to Strategic Goals and Objectives.

Introduction : Strategic Capital Allocation

Strategy without capital is merely a dream

- A brilliantly conceived strategy remains theoretical if the necessary financial resources are not allocated to **bring it to life**.
- Strategic capital allocation is the bridge between **aspiration and execution**.
- It ensures that the investments directly support company's **strategic objectives**, reinforcing its **competitive position** and driving **long-term value**.

Identifying Strategic Gaps

Where Capex Investments Can Make a Difference

- **Connecting Strategy to Needs:**
Analyze the gap between our current capabilities and our strategic objectives.
- **Ask:** What capabilities (assets, technology, infrastructure) do we *lack* to achieve our strategy?
 - **Example:** Objective = "Increase production capacity by 20%".
Gap = Current machinery limitations.
Potential Capex = New production line.
 - **Example:** Objective = "Improve customer service response time".
Gap = Outdated CRM system.
Potential Capex = New CRM software implementation.
- **Focus:** Identifying areas where *investment* is required to bridge the gap between **current state** and **strategic ambition**.

Resource Allocation - Prioritizing Strategic Investments

The Challenge: Limited capital vs. numerous potential projects.

- **The Process: Strategic Capital Budgeting**
 - Establish clear criteria linked directly to strategic priorities.
 - Categorize potential investments (e.g., Maintenance/Stay-in-Business, Regulatory/Compliance, Efficiency Improvement, Strategic Growth).
 - Rank projects based on strategic fit, urgency, risk, and expected returns.
 - Set overall Capex budget amount based on financial capacity and strategic needs.
- **Finance Role:** Facilitate a disciplined process, ensuring strategic alignment guides allocation.





The Strategic Imperative - Why Alignment Matters

Investments in Capital Expenditure or Capex are Long-term investments in physical assets (property, plant, equipment) or intangibles such as technology expected to generate benefits over multiple periods.

Why Align?

- Ensures finite resources are directed towards activities creating the most **strategic value**.
 - **Prevents wasteful spending** on projects disconnected from core objectives.
 - Supports **long-term competitive advantage** and sustainable growth.
 - Maximizes **Return on Invested Capital (ROIC)**.
-
- Consequences of Misalignment:
Stranded assets, missed market opportunities, inefficient operations, erosion of shareholder value.

Example: Apple Inc.

Apple strategy is built on innovation, premium products, and a strong ecosystem.

Their capital allocation reflects this:

- massive **R&D investments**,
- strategic **acquisitions** (like Beats Electronics), and
- significant spending on **retail presence** and
- **supply chain** optimization.

Every investment decision reinforces their core strategy.



Case Study: Amazon's Logistics Network

Amazon's strategic priority has always been:
customer obsession and rapid delivery.

Their capital allocation has consistently poured billions into building a vast, sophisticated **logistics and fulfillment network**, including warehouses, delivery vehicles, and drone technology.



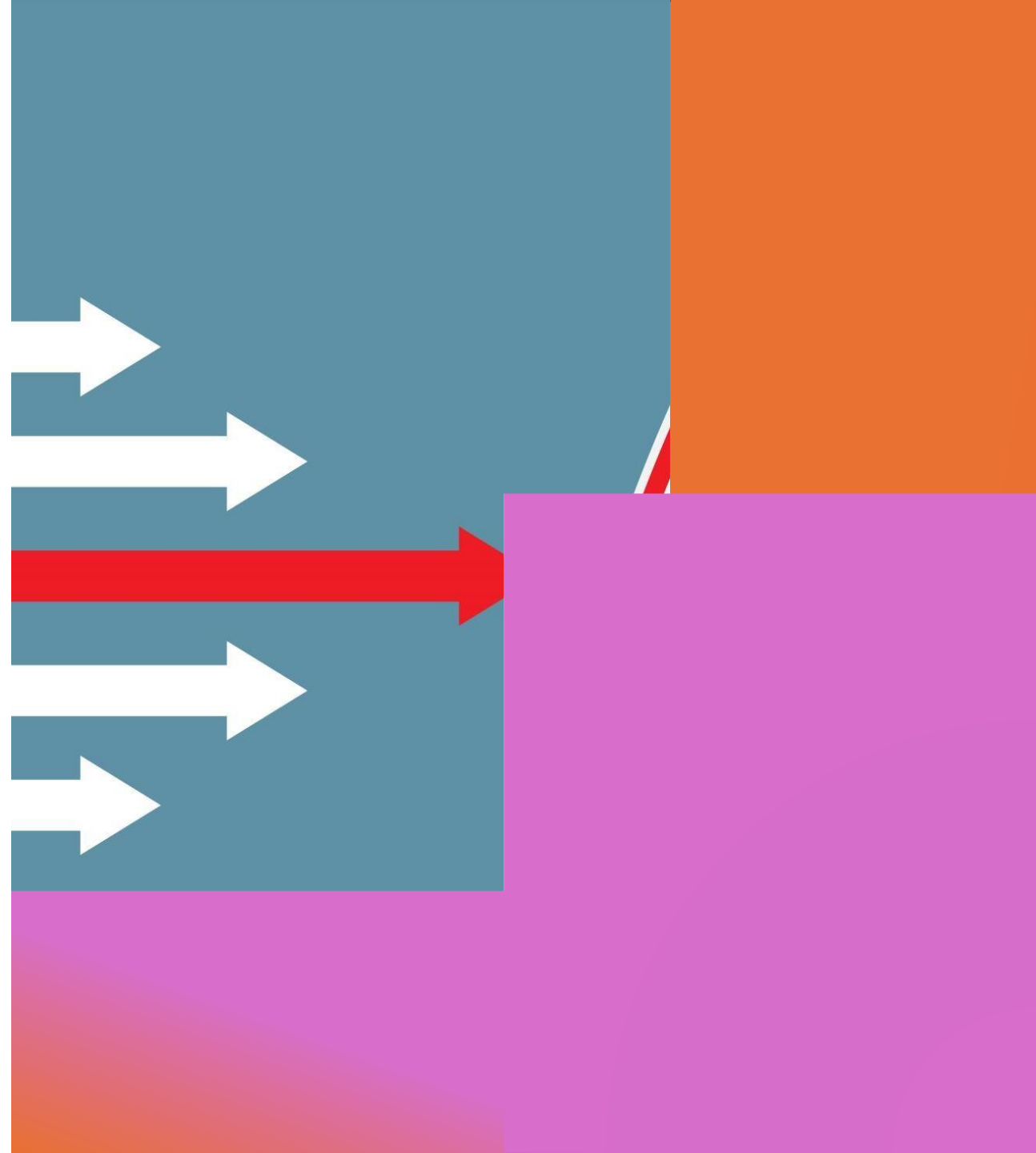
This disciplined investment, though initially costly, directly supports their strategic goal of unparalleled customer convenience, creating a formidable competitive moat and maximizing long-term shareholder value.

Strategic Allocation of Capital

Strategic capital allocation is the process of **distributing an organization's financial resources to various projects, initiatives, and assets** in a manner that **aligns with its overall strategic goals** and maximizes shareholder value.

It's about making tough choices:

- **Where to grow?** (e.g., new markets, product lines)
- **Where to defend?** (e.g., core business, competitive threats)
- **Where to optimize?** (e.g., cost reduction, efficiency improvements)
- **Where to divest?** (e.g., non-core assets, underperforming units)



Example: Investment Criteria

		<u>Weight</u>		Score		Score		Score	
1	Strategic Fit	20%	Life Sciences	3	Nutraceuticals	3	Cosmetics	3	Other
5	Payback	5%	Less than 3 years		3-5 Years		+5 years		
3	Export Potential	15%	High FX Hedge	3	Medium FX Hedge	2	Low FX Hedge	1	
4	Technical Difficulty	10%	Low Tech Difficulty	3	Med Tech Difficulty	2	High Tech Difficulty	1	
5	Access to Local Rawmaterials	10%	High Access	3	Med Access	2	Low Access	1	

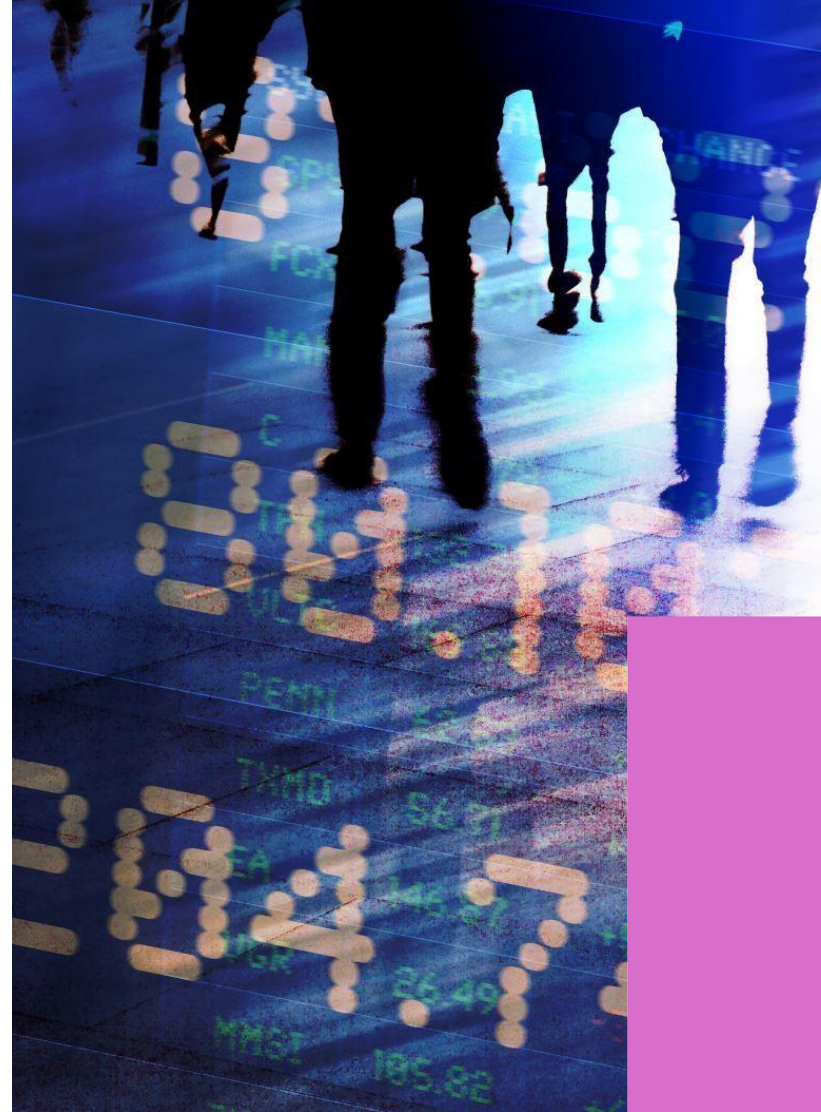
Example: Investment Projects Financial Feasibility Analysis

	Project No	1	2	3	4	5	6	7	8	9	10	11
Description		Project A	Project B	Project C	Project D	Project E	Project F	Project G	Project H	Project I	Project J	Project K
Initial Cost	USD M	15	20	25	10	15	5	5	10	15	20	30
NPV	USD M											
IRR	%											
Payback	Years											
Criteria	Weight											
1 Strategic Fit	20%	3	3	3	3	3	3	3	3	3	2	3
2 Competition / Market / Financial Attractiveness	30%	2.5	2.75	2.5	2	2	2	2	2.5	2.5	2	2
3 Export Potential	25%	2	2.5	2.5	2	1	1	1	2.5	1.5	1	1
4 Technical Difficulty	10%	1.5	1.5	2	3	2.5	2.5	2.5	2	2	3	2
5 Access to Local Rawmaterials	15%	3	2.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	2	2
Score	100%	2.45	2.575	2.4	2.225	1.925	1.925	1.925	2.4	2.15	1.85	1.95
Ranking		2	1	3	5	8	8	8	3	6	11	7

Strategic Allocation of Capital

Why is it critical?

- **Value Creation:** Directs capital to high-return opportunities.
- **Strategic Alignment:** Ensures investments support the company's long-term vision.
- **Risk Management:** Balances growth investments with risk mitigation.
- **Competitive Advantage:** Funds initiatives that strengthen market position.
- **Resource Optimization:** Prevents wasteful spending on non-strategic or low-return projects.



Key Approaches to Ranking / Prioritizing Projects

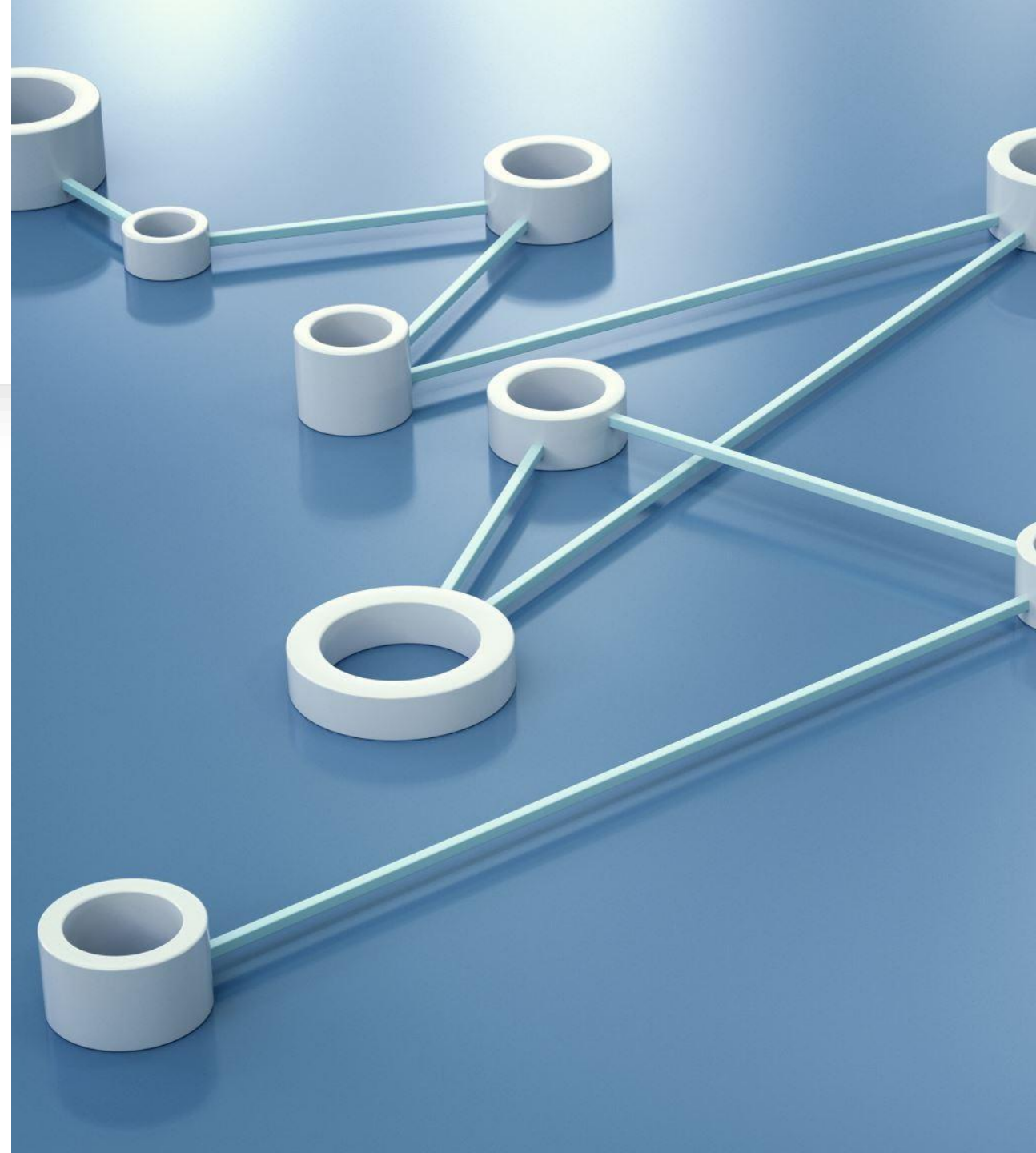
A systematic approach to ranking and prioritization is essential; it's about strategic fit.

- **Strategic Alignment Scorecards:**
 - Assign weights to strategic criteria (e.g., market growth potential, competitive advantage, innovation, risk reduction).
 - Score each project against these criteria.
 - Combine with financial metrics for a holistic view.
- **Financial Metrics (as a filter):**
 - **Net Present Value (NPV):** The present value of expected cash inflows minus the present value of expected cash outflows. A positive NPV indicates value creation.
 - **Internal Rate of Return (IRR):** The discount rate at which the NPV of all cash flows from a project equals zero. Projects with IRR greater than the cost of capital are generally accepted.
 - **Payback Period:** The time required for an investment to generate cash flows sufficient to recover its initial cost. Useful for liquidity concerns but ignores post-payback cash flows.
 - **Return on Investment (ROI):** Measures the profitability of an investment relative to its cost.
- **Qualitative Factors:**
 - **Risk Profile:** Market risk, operational risk, technological risk.
 - **Resource Availability:** Do we have the people, skills, and technology?
 - **Feasibility:** Can we actually execute this project?
 - **Flexibility/Optionality:** Does the project open doors to future opportunities?

Investment Evaluation - Technical Feasibility

Question: Can this project realistically be implemented and function as intended?

- **Assessment Areas:**
 - **Technology:** Maturity, reliability, integration with existing systems.
 - **Engineering:** Sound design, site suitability, infrastructure requirements.
 - **Operational Impact:** Scalability, maintenance needs, skills required.
 - **Resource Availability:** Internal expertise, vendor capability, supply chain considerations.
 - **Timeline:** Realistic project schedule.
- **Goal:** Ensure the proposed solution is **viable, buildable, and operable**. Involve technical experts early.



Investment Evaluation - Financial Feasibility

Question: Does this project make financial sense and meet our return hurdles?

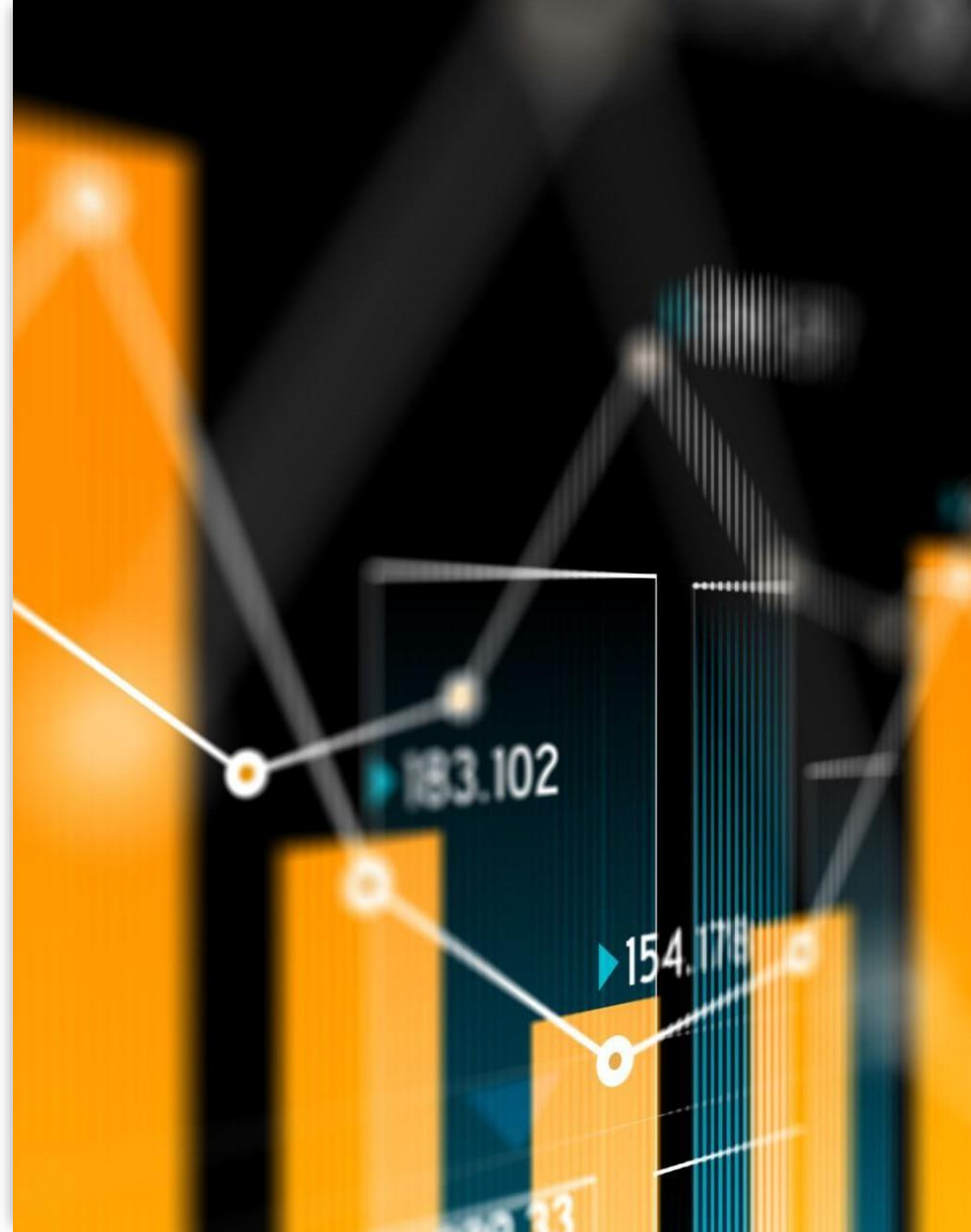
Key Financial Metrics:

- **Total Investment Cost:** Initial outlay + installation + training + contingencies.
- **Operating Costs/Savings:** Ongoing maintenance, utilities, labor changes.
- **Revenue Impact:** Increased sales, new revenue streams (if applicable).
- **Payback Period:** Time to recoup initial investment.
- **Net Present Value (NPV):** Present value of future cash flows minus initial investment (Must be positive).
- **Internal Rate of Return (IRR):** Discount rate where $NPV = 0$ (Must exceed hurdle rate/WACC).
- **Profitability Index (PI):** Ratio of PV of future cash flows to initial investment.
- **Sensitivity & Scenario Analysis:** Assessing impact of changing assumptions (e.g., costs, revenues, timing).



Tools & Frameworks for Alignment

- **Balanced Scorecard:** Linking Capex justification to strategic objectives across Financial, Customer, Internal Process, and Learning & Growth perspectives.
- **Strategic Buckets:** Allocating capital into predefined pools based on strategic themes (e.g., 20% Maintenance, 15% Compliance, 35% Efficiency, 30% Growth). Ensures balance.
- **Stage-Gate / Phase-Gate Process:** Structured review points for major projects, re-validating strategic fit and feasibility at key milestones before committing further funds.
- **Capital Expenditure Request (CER) Form:** Standardized template ensuring all proposals address strategic rationale, technical aspects, financial justification, risks, and alternatives.
- **Portfolio Management Approach:** Viewing all Capex projects as a portfolio to be balanced according to strategic risk and return.



Examples - Alignment in Action

Scenario 1: Growth Strategy

- **Strategy:** Enter the Southeast Asian market within 3 years.
- **Aligned Capex:** Investment in a regional manufacturing facility in a strategic location (after thorough market, technical, and financial feasibility).
- **Misaligned Capex:** Spending heavily on upgrading domestic RCD labs unrelated to international expansion needs.

Scenario 2: Efficiency Strategy

- **Strategy:** Reduce unit production costs by 15% in 2 years.
- **Aligned Capex:** Investing in robotic automation for a key bottleneck in the production line (demonstrating clear ROI and technical viability).
- **Misaligned Capex:** Purchasing a new fleet of executive cars.



Disciplined Execution - Bringing Strategy to Life

Approval is Not the End: Effective execution is crucial for realizing strategic benefits.

Key Success Factors:

- **Strong Project Management:** Clear scope, budget adherence, timeline management (Gantt charts, milestones).
- **Cross-Functional Teams:** Collaboration between Finance, Operations, Engineering, IT, etc.
- **Vendor Management:** Rigorous selection, contract negotiation, performance monitoring.
- **Change Management:** Communicating impact, training users, addressing resistance.
- **Regular Reporting & Oversight:** Tracking progress against plan, early identification of issues.

Sources of Financing:

- **Internal Sources:**
 - **Retained Earnings:** Profits not distributed as dividends. This is often the most cost-effective source as it avoids external financing costs.
 - **Depreciation & Amortization:** Non-cash expenses that generate internal cash flow.
 - **Sale of Assets:** Divesting non-core or underperforming assets.
- **External Sources:**
 - **Debt Financing:**
 - **Bank Loans:** Term loans, lines of credit.
 - **Bonds:** Issuing debt securities to public or private investors.
 - *Advantage:* Interest is tax-deductible; no dilution of ownership.
 - *Disadvantage:* Fixed payment obligations, increased financial risk.
 - **Equity Financing:**
 - **Issuing New Shares:** Selling ownership stakes to investors (e.g., through a public offering or private placement).
 - *Advantage:* No fixed payment obligations; strengthens balance sheet.
 - *Disadvantage:* Dilution of existing ownership, higher cost of capital (as equity investors demand higher returns).

The choice of financing mix significantly impacts the **Weighted Average Cost of Capital (WACC)**, which is the average rate of return a company expects to pay to its investors. Minimizing WACC while maintaining a healthy capital structure is key.

Board Approval

For significant strategic investments, **Board approval is paramount.**

The Board of Directors provides oversight, ensures alignment with shareholder interests, and holds management accountable.

Their role includes:

- Reviewing the strategic rationale and financial projections.
- Assessing the risks involved.
- Ensuring appropriate governance and controls are in place.
- Approving the capital expenditure budget.

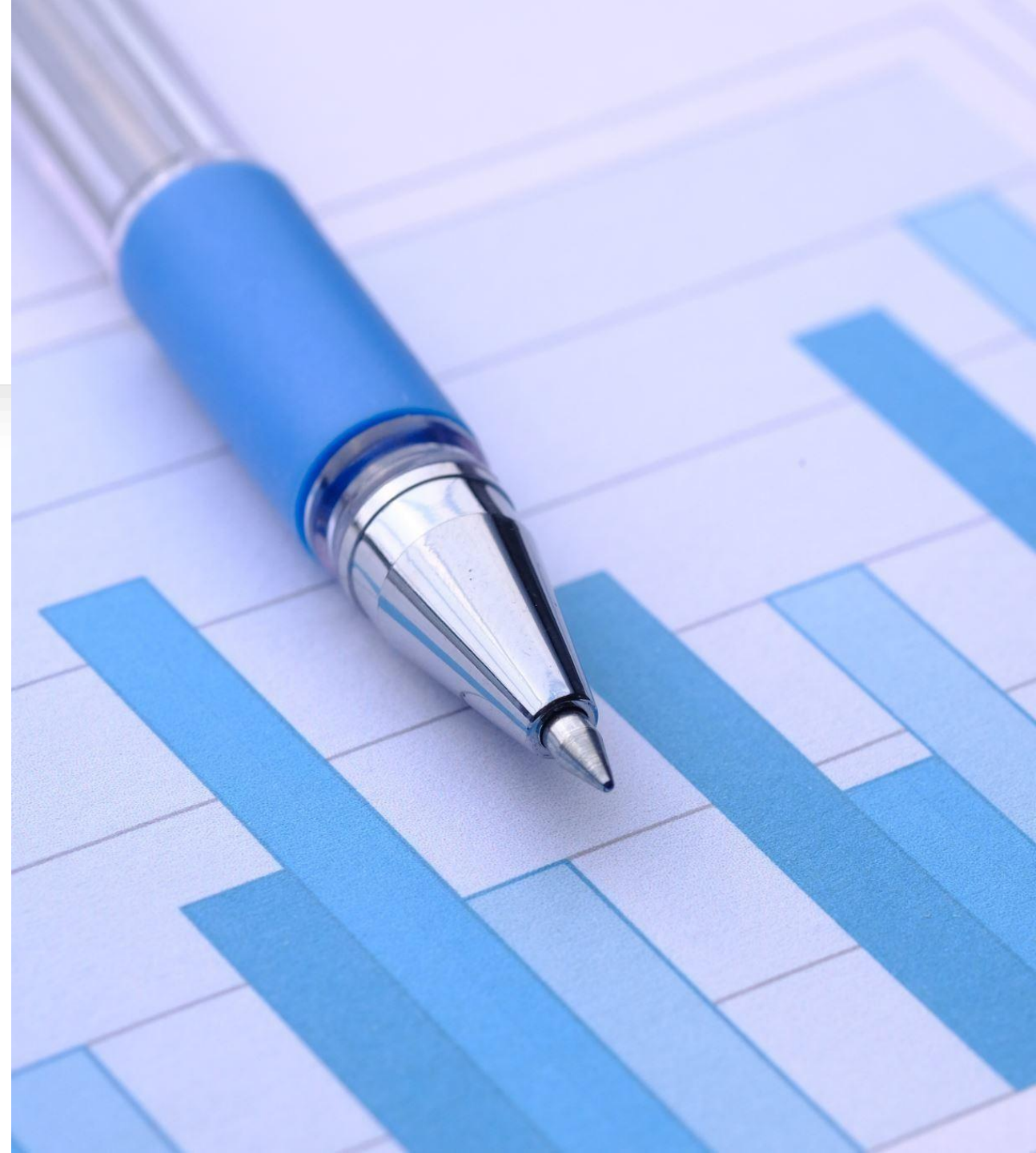


Post-Capex Controls s Monitoring - Validating Strategic Impact

Closing the Loop: Did the investment deliver the intended strategic and financial benefits?

Mechanisms:

- **Post-Implementation Review (PIR):** Conducted 6-18 months after project completion.
 - Compare actual costs and benefits vs. original business case.
 - Assess if strategic objectives were met.
 - Capture lessons learned for future projects.
- **Ongoing KPI Tracking:** Monitoring metrics linked to the project's justification (e.g., production output, cost per unit, system uptime, market share).
- **Accountability:**
Holding project sponsors accountable for delivering promised results.



Key Risks s Mitigation Strategies

Risk Category	Example Risks	Mitigation Strategies
Strategic Fit	Changing market conditions, Strategy shift	Regular strategic review, flexible project design, scenario planning, clear Go/No-Go criteria
Financial	Cost overruns, Benefits not realized, Funding issues	Robust estimation, contingency budgets, sensitivity analysis, strong financial controls, PIRs
Technical/Operational	Technology failure, Integration issues, Delays	Thorough due diligence, pilot projects, skilled project teams, expert consultation
Execution	Poor project management, Scope creep, Vendor failure	Strong PMO, clear scope definition, change control process, robust vendor selection
External	Regulatory changes, Economic downturn	Environmental scanning, flexible planning, contractual protections



Key Takeaways

- **Strategic Alignment** is Paramount: Capex must directly support and enable the achievement of business strategy.
- It's a **Continuous Cycle**: Strategy -> Gap ID -> Allocation -> Evaluation -> Execution -> Monitoring -> Feedback into Strategy.
- **Requires Discipline**: Robust processes, rigorous analysis (technical & financial), and strong governance are essential.
- **Cross-Functional Effort**: Success depends on collaboration across the organization.
- **Finance's Role**: Strategic partner, facilitator, guardian of financial prudence, and validator of value creation.

Thank You and QsA.

Thank you.

I welcome
your
questions.