
INVESTMENTS - DEFINITION

AT THE INDUSTRIAL POINT OF VUE

Financial resources employment to buy durable goods (fixed assets) including the directly connected expenses

AT THE FINANCIAL POINT OF VUE

Transfer of financial resources in the time, with concentrated expenditures in a first phase and distributed collections in a following phase

INITIATIVE

Total amount of investments (in tangible and intangible assets), working capital variations and non-capitalized expenses, necessary to reach a specific goal.

Such a goal has to be indicated (including, where required, the profitability calculation), together with the connection with the investment plan, the cost breakdown, the total amount allocated and its distribution over the time

CLASSIFICATION

PRODUCT

Investments necessary to produce a new product or to significantly modify an existing product. Each Initiative has to include all the specific investments (i.e. tooling, assembly lines, test equipments, ...) the notional investments (machinery share), the expenses (R&D, start up costs, ...) and the working capital variations regarding the product from the concept until the end of the production

PROCESS

Investments needed to increase or maintain the production capacity or to increase the process efficiency also through the introduction of new technologies. They refer to machinery, installations, automation systems, ...

REAL ESTATE

Investments to purchase of land and construction or purchase of buildings, enlargements of the existing ones and extraordinary maintenance expenses. They include buildings, general installations, expenses of urbanization, designing and testing, ...

CLASSIFICATION

R & D

Investments related to all activities of R&D.

They include the design tools (CAD, CAM, ...), means for production and testing of prototypes, laboratory equipments, ...

ITS

Investments regarding all the information systems of the Company, with the exception of those belonging to R&D.

They include accounting systems, field systems, office automation, networks and refer to HW and SW

Ecology and safety

Investments made for the protection of the environment and the safety of the employees

Investments of limited value

Investments of limited value not attached to any Initiative

PLANNING

Every Initiative, whether already in progress or new (subject to approval) has to be included in the Investments Plan. The approval of the Plan authorizes the presentation for approval of the new Initiatives planned in the Budget year and the realization of those in progress within the expenditure limits planned in the Budget.

	Total amount	Expenditures				
		PY	BDG	BP2	.....	BP5
Initiatives in progress						
Initiative 1	T1	E_{p1}	E_{11}	E_{21}	.....	E_{51}
Initiative 2	T2	E_{p2}	E_{12}	E_{22}	.....	E_{52}
.....
Initiative n	Tn	E_{pn}	E_{1n}	E_{2n}	.....	E_{5n}
Initiatives to be approved						
Initiative a	Ta	E_{pa}	E_{1a}	E_{2a}	.....	E_{5a}
Initiative b	Tb	E_{pb}	E_{1b}	E_{2b}	.....	E_{5b}
.....
Initiative k	Tk	E_{pk}	E_{1k}	E_{2k}	.....	E_{5k}
Total			ΣE_i	ΣE_{2i}	.....	ΣE_{5i}

The approval of the Plan authorizes the presentation of these Initiatives

The approval of the Plan authorizes the expenditure of these amounts, subject to the approval of the new initiatives

CLASSIFICATION

Below we will treat only of the product and process initiatives

PRODUCT INITIATIVES

They refer to the specific investments in products:

- Moulds
- Assembly lines
- Test equipments
- Other tooling

A profitability calculation is required

PROFITABILITY CALCULATION

GENERAL RULE

A sum of money available today is worth more than the same amount tomorrow because it can be invested and earning interest

As an investment is characterized by the transfer of resources over the time, with a prevalence of cash-out at a certain time and cash-in in the future, to evaluate the profitability it is necessary to calculate the value that the future cash-in has now (Net Present Value, calculated by executing a discount)

- The NPV is the discounted sum of the cash flows
It expresses the cash generated by the investment valued at the time t_0
- NPV > 0 means that the investment can generate a higher return than the reference return adopted by the Company (discount rate, see the Appendix)

The NPV of an investment with a cash-out in the first period and five cash-in in the following periods, is:

		C_1		C_2		C_3		C_4		C_5	
NPV =	$-C_0$	$+$	$\frac{\quad}{(1+i)^1}$	$+$	$\frac{\quad}{(1+i)^2}$	$+$	$\frac{\quad}{(1+i)^3}$	$+$	$\frac{\quad}{(1+i)^4}$	$+$	$\frac{\quad}{(1+i)^5}$

With i = discount rate

PROFITABILITY CALCULATION

PRODUCT INITIATIVES

The profitability calculation is based on the cash flow generated, taking into account:

- + Product Sales Turnover
- Direct Costs of the product (variable and fixed)
- Indirect Costs allocated to the product on the bases of cost allocation criteria
- Working Capital variations due to production and delivery of the product
- Specific Investments
- Notional investments in share of common assets
- Grants
- Reserves variations

On a 5 years life time of the product; any cash generation after this period is taken into account by the commercial final value attributed to the specific investments (it is not the book value!)

PROFITABILITY CALCULATION

P & L	Y ₋₁	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅
Quantity (nr of pieces)							
Sales turnover							
Variable costs							
Direct material							
Direct labour							
Variable overheads							
Variable cost of sales							
Total variable cost							
Contribution Margin							
cm%							
Fixed direct costs (*)							
Specific Depreciation							
Common Depreciation							
Development costs							
Total fixed direct cost							
PRODUCT PROFIT							
Product profit %							
Fixed indirect costs							
Operating Result							
ROS							
Development expenditures							
Operating self financing							

See BS

We multiply price and cost per unit by the volumes of each year

(*) To calculate the cash flow we must place the expenses in the period they occurred

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