

The Source

Your Resource for Modeling and Planning Expertise

ISSUE NO.5 | FIRST QUARTER 2011

Welcome.

With mid-February well under way, our Chicago office continues to recover from a recent blizzard that hit the midwest with whiteout conditions and heavy winds that produced two feet of snow in less than a day. Fortunately, local and national forecasts forewarned millions of commuters and residents. Schools and businesses were able to plan for the approaching storm resulting in fewer than expected calamities. Does the importance of planning and forecasting sound familiar? In this edition of "The Source" we're exploring the benefits of enhanced planning and forecasting capabilities including an article by Blue Stone Director, Jeff Radtke, on the planning, budgeting and forecasting process.

As we head into spring, Blue Stone has a busy schedule planned for upcoming conferences and events.

This month, on February 24th, Blue Stone is offering an exclusive opportunity to participate in a webinar with Oracle Development's Shankar Viswanathan who will share the HSF Roadmap and Strategy. Additionally, we hope you'll let us know if you plan to attend CFO Rising, Collaborate 11 or would like to suggest any other industry-specific conferences we should attend.

This quarter we're also responding to industry demand by offering two new training classes including "M&A Modeling in HSF" and "Crystal Ball for HSF." Blue Stone Director, Brad Malis is helping to keep our HSF skills up-to-date in his article on managing share repurchase. Finally, from the Oil and Gas Industry, the CITGO Client Success Story details how Blue Stone's industry expertise helped provide the modeling skills and the consulting expertise needed to aid in the company's complex refinancing.

Regards,
Jay Laabs
Managing Director, Blue Stone International

BLUESTONE
INTERNATIONAL

EVENTS AND CONFERENCES

Feb 22 2011
San Francisco, CA - Bay Area Businesses - Planning For Success Roundtable

Feb 22 2011
Tampa, FL - Aligning Strategic Planning with Operational Planning: Knowing the Boundaries and Connections

Feb 23 2011
Cleveland, OH - Forecasting Cash Flow & Liquidity in an Uncertain Economy: An Executive Luncheon Featuring Developers Diversified Realty

Feb 23 2011
Jacksonville, FL - Aligning Strategic Planning with Operational Planning: Knowing the Boundaries and Connections

Mar 10 2011
Copenhagen, Denmark- Forecasting Cash Flow & Liquidity in an Uncertain Economy Lunch Seminar

Attending Any Conferences This Quarter?

Schedule a Visit to our Booth and You Might Even Win a Prize.

CFO Rising March 13-16 Booth 210

Collaborate 11 April 10-14 Booth 1065

Plan a visit by contacting Drew Dalziel

ddalziel@bluestoneinternational.com

Using HSF to Manage Share Repurchase

By Brad Malis, Director, Blue Stone International

One of the strengths of HSF is that it allows users to determine what to do with available cash. Most of the time users use excess cash to pay down debt or invest in securities; however, this article discusses another option—share repurchase. There are two ways you can use HSF to purchase shares: one is to determine a specific number of shares to buy and let HSF determine how much cash it has to buy shares and the other is to allocate a specific dollar amount available for share repurchase and HSF will buy the shares it can with that money.

Targeted Number of Shares

In this example, a company has 13.2 million shares outstanding and would like to buy up to 5 million treasury shares if it generates sufficient cash.

	Account Names	2008	2009	2010	2011	2012
	Equity					
2830.00.000	Common Stock (Par Value)	620.300	620.300	620.300	620.300	620.300
		620.300	620.300	0.000	0.000	0.000
3490.00.000	Transaction price for Common Shares	70.330	72.340	75.234	78.243	81.373
		70.330	72.340	4.000	4.000	4.000
3470.00.000	Treasury Shares (Year-End)	0.000	0.000	1.487	3.097	5.000
		0.000	0.000	5.000	0.000	0.000
3470.05.000	Treasury Shares (Wtd. Avg.)	0.000	0.000	0.743	2.292	4.049
		0.000	0.000	None	None	None
2836.00.000	Treasury Stock	0.000	0.000	111.865	237.879	392.695
		0.000	0.000	None	None	None
3400.00.000	Common Shares Outstanding: Year End	13.200	13.200	11.713	10.103	8.200
3410.00.000	Common Shares Outstanding: Wtd. Avg.	13.200	13.200	12.457	10.908	9.151

In the accounts tab, the user has to enter a few pieces of data. First is v3490, the transaction price. In this example, the stock trades at 72.34 in the last historical period and is expected to grow at 4% in each forecast period. The next field is v3470, which is the amount of treasury shares that can be purchased. In this example, we have forecasted



Mar 13 2011 - Mar 16 2011
Orlando, FL - CFO Rising

Mar 17 2011
Calgary, Alberta- Oil and Gas Seminar

Mar 29 2011
Milwaukee, WI - Wisconsin Hyperion User Group

Mar 29 2011
Brussels, Belgium OBUG Benelux Connect 2011

Apr 11 2011 - Apr 14 2011
Orlando, FL - Collaborate 11

Apr 13 2011 - Apr 14 2011
Stockholm, Sweden Nordic Applications Day 2011

WEBINARS

Feb 23 2011
Forecasting Cash Flow and Liquidity Despite Financial Uncertainty

Feb 24 2011
Oracle Development HSF Roadmap and Strategy

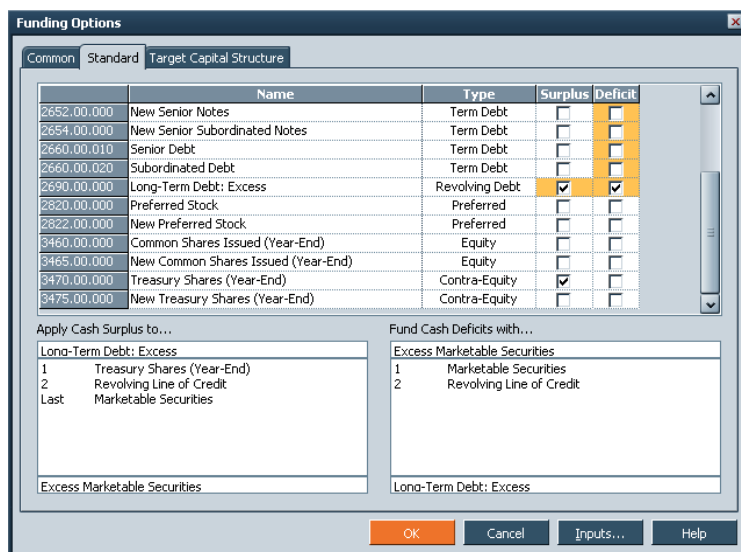
Mar 3 2011
Financial Modeling Integrity, Driver-Based Forecasting and Scenario Analysis within Public Higher Education Institutions

Mar 10 2011
Travel and Transportation Webinar

For more information on upcoming events contact Greg Szpalik at gszpalik@bluestoneinternational.com 866.224.2841

v3470 as the change in treasury shares. Having 5 million in the first year with no change in subsequent periods means that the maximum treasury shares that can be purchased with excess cash is 5 million. That completes the data entry requirement.

You have to use funding options to tell HSF to buy the shares.



You have to check the Treasury Shares item in the Surplus column. Then you have to put it in the right order in the Apply Cash Surplus to... list box. In this example, we placed it first to make sure that it gets the allocation of excess cash.

After you enter the data and set Funding Options, calculate the model.

In each of the three forecast years, there is enough cash to purchase shares. In year three, it gets to its maximum and cannot purchase more shares. The cash goes to the next item in the Funding Options list. HSF uses the transaction price per share to determine the value to put into v2836, treasury stock, which goes on the Balance Sheet as a contra equity item. HSF also calculates the number of shares, which adjusts the shares outstanding in v3410, which is used in EPS calculations.

Specified Dollar Amount

In this example, the company will spend \$100 million to purchase treasury shares in each of the next three years.

Blue Stone would like to welcome a recent addition to the organization.

Joining Blue Stone from HSBC, **Christopher Tonkin** is on the Consulting Team focusing on Essbase initiatives.

	Account Names	2008	2009	2010	2011	2012
	Equity					
2830.00.000	Common Stock (Par Value)	620.300	620.300	620.300	620.300	620.300
		620.300	620.300	0.000	0.000	0.000
3490.00.000	Transaction price for Common Shares	70.330	72.340	75.234	78.243	81.373
		70.330	72.340	4.000	4.000	4.000
3470.00.000	Treasury Shares (Year-End)	0.000	0.000	1.329	2.607	3.836
		0.000	0.000	None	None	None
3470.05.000	Treasury Shares (Wtd. Avg.)	0.000	0.000	0.665	1.968	3.222
		0.000	0.000	None	None	None
2836.00.000	Treasury Stock	0.000	0.000	100.000	200.000	300.000
		0.000	0.000	100.000	100.000	100.000
3400.00.000	Common Shares Outstanding: Year End	13.200	13.200	11.871	10.593	9.364
3410.00.000	Common Shares Outstanding: Wtd. Avg.	13.400	13.400	12.735	11.432	10.178

Like the previous example, the model will purchase a certain amount of treasury shares at a price. Instead of telling the model to use available cash to buy a defined number of shares, you tell the model how much money you plan to spend on treasury shares. To do this, model v3490 as in the previous example. Then, in v2836, enter the amount of money you plan to spend on treasury shares. Since the model isn't using funding options to determine the amount of available cash, it will spend the money that you enter in v2836.

The other item you need to model is the number of treasury shares issued. In v3470, create the following free form forecast method:



This will calculate the number of shares purchased. You also need to calculate the average treasury shares in v3470.5. These accounts will allow HSF to calculate the shares used in EPS and other calculations based on outstanding shares. The net result in 2010, for example, is that the company will spend \$100 million to acquire 1.329 million shares at a transaction price of \$75.234/share.

Other Share Repurchase Issues

Share repurchase is an important technique to help manage your company's cash and other financial performance measures. In addition to the above options, HSF also offers other techniques for share repurchase. Other options include: combining the above concepts such that it will dynamically buy shares in some time periods and use a stated amount in other time periods; setting a cumulative amount of dollars or shares to buy across time and keeping a running count to

ensure you don't exceed the caps; and providing the ability to re-sell treasury shares.

For more information on how you can use HSF to share repurchase, please contact Brad Malis at bmalis@bluestoneinternational.com.

Enhance Your Skills with New Blue Stone Training Classes

Introduction to HSF March 14-17
Advanced HSF March 18-19
Crystal Ball and HSF March 22-23 *new*
M& A Modeling for HSF March 21 *new*

Reserve your seat by emailing Greg Szpalik at gszpalik@bluestoneinternational.com

What is the point of Planning, Budgeting and Forecasting?

The answer may surprise you.

By Jeff Radtke, Director, Blue Stone International

The Planning, Budgeting and Forecasting (PBF) process is a Finance department function that is time consuming, often misunderstood and generally disliked. So, why is it needed and what is it supposed to accomplish? The answer varies depending on who you are talking to and to what aspect of P-B-F you are referring to.

The PBF process is actually three unique sets of activities often grouped together:

Planning

Planning provides the overall venue and process for stating the direction and financial objectives of an organization. Most companies put together an annual plan that is part of the larger strategic plan of the company, usually covering three to five years. This is where the senior executives lay out their vision for 'what is possible'.

Jeff Radtke is a Director at Blue Stone International and leads the Global Consulting Organization. He also focuses on global business development and the overall operations of the firm.

His experience includes leadership roles at Hyperion Solutions (now part of Oracle), Ernst & Young and Deloitte Consulting.

Mr. Radtke graduated from Michigan State University with Bachelors of Science degrees in Finance and Accounting. He is also a Certified Public Accountant and a Certified Hyperion Essbase consultant.

The overall planning picture is commonly comprised of two or three main components:

1. **Strategic Plans:** Set overall long-range goals and objectives – often are both qualitative and quantitative in nature.
2. **Long-Range Plans:** Typically set financial targets over a three to ten year horizon – the quantified financial plan for the strategic plan above.
3. **Annual Plans:** This is the first year of the long-range plan and provides the high level targets to guide the budget.

Budgeting

Budgeting supplies the execution path for the plans with a detailed, operational and short-term view. Whereas planning provides ‘what is possible’, budgets outline ‘what is expected’ from the business, based on the approved annual plan.

The budgeting process is broadly focused on the following major components:

1. Sales/Gross Margin Budgets
2. Capital Expenditure Budgets
3. Headcount Budgets
4. Operating Expense Budgets

Forecasting

Forecasts typically use actual performance data to project the remainder of the current year’s performance (rolling forecasts are the same concept but reset expectations for some predefined future period, usually twelve to eighteen months). Forecasts are focused on what is happening from a revenue and income statement perspective.

There are three general forecasting methodologies:

1. **Tops-Down Forecasting:** Primarily focused on current demand and operational conditions translated into revenue predictions.
2. **Bottoms-Up Forecasting:** Rely on business managers to enter current and specific line item details per the revenue budget.
3. **Hybrid:** A combination of the above two methodologies, e.g., a tops-down focus coupled with a bottoms-up proportional allocation.

As you can see, the processes are in fact related but they are also distinctly different. Recognizing this is part of understanding the overall purpose behind the general process and what types of improvement opportunities exist. In fact, there are significant points of view and multiple studies that outline all the various issues with the overall PBF process; however, few have tried to answer the title question: what is the main purpose of the overall PBF process?

A few years ago, I was in a meeting with a client reviewing their P&L and associated cash flow forecast. The company was historically profitable with strong cash flow. We thoroughly examined the income statement and all the forecasting logic and were quite pleased with the forecasted profit and P&L-based cash flow implications (e.g. EBITDA). The forecast showed a nice trend of profitability and implied cash flow looked strong. Things started well.

We then started to look at the Balance Sheet. Like most organizations, the forecasted Balance Sheet was relatively simplistic and not substantially integrated with the Income Statement. Our analysis of the Balance Sheet quickly revealed major problems. The 'forecasted' accounts receivable balances were lower than they had historically been. Conversely, Accounts Payable balances were higher than they had ever been and inventory levels were too low. These working capital components just didn't make sense when compared to history and the forecasted Income Statement.

This analysis of the Balance Sheet in a larger context led us to discover discrepancies in the current forecast assumptions and logic. Even though we had a sound P&L forecast, it did not properly provide insight to the cash needs and/or forecast. This lack of a dynamic relationship between the two financial statements becomes an even greater issue when trying to run scenarios. The above example was point in time; imagine running multiple versions of the P&L numbers and trying to ensure everything continues to make sense! Many clients struggle here but this type of analysis is fundamental to providing better financial direction.

In my next article I will discuss how to bridge this common gap in the PBF process, but for now, what are your struggles with the PBF process?

You can continue this conversation about PBF online in the blog on www.strategicfinance.com or we'll finish the discussion in next quarter's edition of The Source.

An Exclusive for Strategic Finance Central Registered Users: The Oracle Development HSF Roadmap and Strategy Webinar

Thursday, February 24th 9:00 a.m. PST

To register for Strategic Finance Central and/or to make your Webinar reservation email Ryan Scott at rscott@bluestoneinternational.com

Want to read more, share a comment or ask a question?

Join the conversation at www.strategicfinancecentral.com

Strategic Finance Central is the Online Hub of the HSF User Community

Blue Stone Brings Industry Expertise and Unique Modeling Solutions to Help CITGO Refine the Process of Restructuring Debt

Client Success Story

THE SITUATION

CITGO Petroleum Corporation, an indirect, wholly owned subsidiary of Petroleo de Venezuela S.A. (PDVSA), is a refiner and marketer of gasoline; diesel fuel, jet fuel, lubricants, petrochemicals and other petroleum based industrial products. CITGO's operations include three refineries located in Texas, Louisiana and Illinois with a combined refining capacity of 749 thousand barrels per day. CITGO is also a supplier of gasoline, diesel fuel and lubricants to over 6,000 branded retailers across the United States.

THE CHALLENGE

Amidst the most significant economic downturn in more than 60 years, the oil and gas industry was struggling to continue to deliver their customers cost effective solutions. At the same time, the industry faced stricter regulatory requirements and extraordinary market fluctuations, including a 75% decline in the price of WTI crude oil over a six-month period. At the same time, refining margins collapsed and made the economic environment especially difficult for the refining industry.

CITGO, a private refiner and distributor of gasoline and distillates in the United States, was challenged to effectively manage cash flows to fund existing operations and complete a large regulatory capital program while maintaining acceptable financial ratios. With its principal revolving credit facility expiring in the near future, and facing a challenging industry environment, CITGO looked to refinance its existing debt instruments to achieve an optimal capital structure. Operating in a market with eroding margins while facing large cash demands to fund capital projects, the current CFO needed better visibility into the projected cash flows to determine the most appropriate capital structure to pursue going forward.

THE SOLUTION

With significant expertise and reputation as the premier consultants in forecasting for the Oil and Gas industry, Blue Stone was selected to provide technology and advisory services for CITGO. **By implementing HSF, the CFO's team can model profitability and performance at each individual refinery.** Scenarios are run to view the effects of different crude pricing assumptions, refining margins and volumetrics (throughputs) to analyze the related impacts to earnings and the balance sheet as well as deriving cash flows at the refinery level.

Industry:
Oil and Gas

Needs:
Cash flow Forecasting
Liquidity Forecasting
Long Range Forecasting

Product Solution:
Hyperion Strategic
Finance
Essbase



INDUSTRY SPOTLIGHT

HSF and Oil & Gas

Financial modeling for companies in oil & gas industry requires a tool that can address the industry specific modeling needs: commodity price volatility, shifts in production volume, reserve analysis, capital expenditures, economic modeling for exploratory drilling, portfolio optimization, hedging strategies, acquisition or divestiture activities – all of which impact profitability and cash flow. Most financial models lack the cross-functional integration needed to effectively evaluate complex business decisions and strategic growth alternatives.

Blue Stone offers a comprehensive O&G modeling toolkit that integrates Strategic Planning, FP&A, M&A, Treasury and Investor Relations onto a single common modeling platform and eliminates the traditional disjointed silos of spreadsheets. With Strategic Finance, this common platform provides users with real time data and one version of the truth.

Offering more than just modeling expertise, Blue Stone put in place a technology-enabled finance solution which assisted CITGO in the completion of a multi-billion dollar refinancing. Over the course of one month, Blue Stone supported CITGO's running through over 1,200 simulations of alternative financing assumptions. Through modeled simulations of alternative financing structures, CITGO could review the ability to service the debt, capital adequacy and capital structure. The new model also provides the ability to view multiple scenarios and run stress tests for a proposed budget and long term plan.

By implementing a common modeling platform to leverage and facilitate financial inquiries, Blue Stone supports CITGO's interactions and data requests from both internal and external groups. The refinancing brought together multiple banks, each with their own set of pricing assumptions, stress tests and other data requests, as well as various requests from the principal shareholder. **The common modeling platform provided by HSF enabled CITGO the ability to spend more time analyzing information and running scenarios and less time compiling excel spreadsheets to deliver results to the syndicate and principal shareholder.** HSF enabled CITGO to respond to these requests accurately and quickly, thereby expediting the time it took to successfully complete the refinancing.

THE RESULTS

CITGO was able to leverage Hyperion Strategic Finance to model alternative capital structures around various market price and other driver assumptions. **With the new model in place, CITGO now has quantifiable results which assist them in the negotiation process with the bank.** The new model allows the team to reduce the time for creating scenarios for debt refinancing from days to minutes. CITGO was able to quickly determine their capital requirements and efficiently respond to bank requests while successfully completing their debt refinancing.

“Blue Stone’s expertise and understanding of the Oil and Gas industry were essential in providing CITGO with a forecasting solution that went beyond just helping us meet regulatory requirements and market fluctuations but also worked to address critical business issues.”

Brian O’Kelly, CFO

About Blue Stone International

Blue Stone International, LLC is a strategy and financial consulting firm offering a unique balance of financial, industry and technical expertise, to enhance the way our clients manage their financial processes. Our teams develop financial models and streamline processes for CFO-related activities, such as strategic planning, mergers and acquisitions, divestitures, corporate valuation and treasury management. We leverage the unique balance of our financial and technical skills to provide practical business solutions and processes to support the underlying initiatives that drive these modeling activities. As the leading Oracle Certified Advantage Partner for Hyperion Strategic Finance, Blue Stone International is trusted for more than 75% of all implementations of Hyperion Strategic Finance. Blue Stone International's specialized financial and strategic consulting services are globally recognized and valued for the results we help our clients achieve.