

# Capital Budgeting Methods

*Unlocking Financial Success:  
A Carousel Journey*



**STEVEN TAYLOR**



# Let's explore

Hop on as we dive into the  
four powerful methods that  
pave the way for  
prosperity!

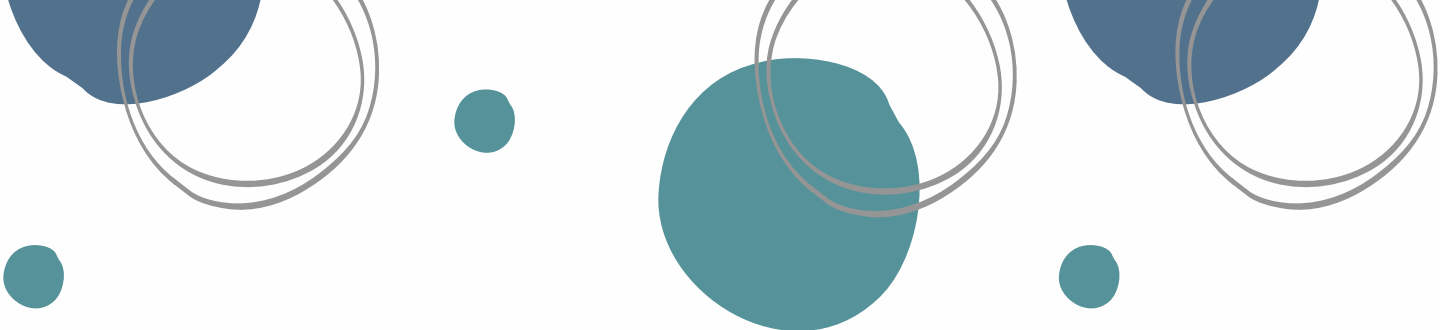
1

# Payback

## The Speed Racer



Follow @ Steven Taylor



Meet Payback, the Speed Racer  
of capital budgeting!

Payback Period measures how  
quickly an investment can  
recover its initial cost.



Follow @ Steven Taylor





## Example

**Imagine launching a new tech venture with an upfront investment of \$150,000. With Payback, we'd know exactly when we'd break even and start making profits!**





## **PROS:**

- Lightning-fast decision-making.
- Emphasizes liquidity for a safety net.

## **CONS:**

- Ignores cash flows beyond the Payback Period.
- Leaves the time value of money in the dust.





## **BEST PRACTICE TIPES:**

- Set a maximum Payback Period based on your company's risk appetite.
- Blend Payback with other methods for a balanced financial strategy.



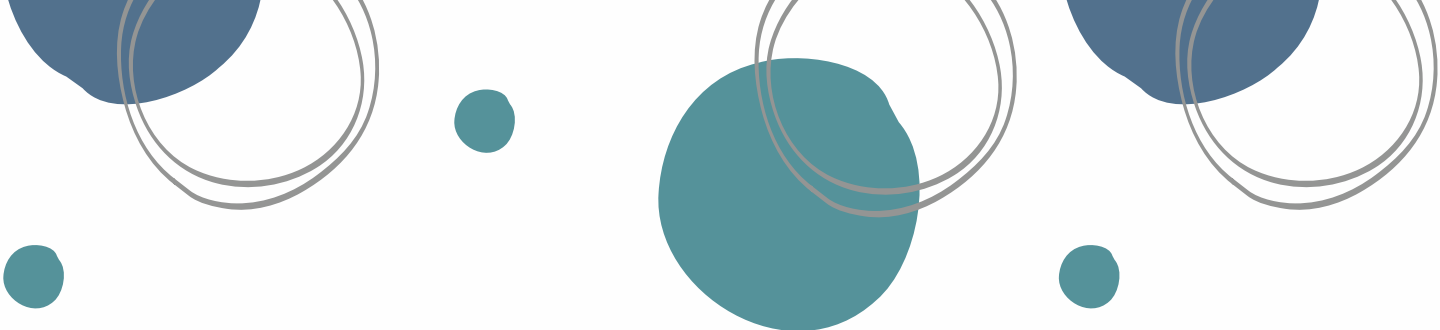
2

# NPV

## The Treasure Hunter



Follow @ Steven Taylor



Ahoy, Treasure Hunters!  
Net Present Value (NPV) leads  
us on a quest to uncover the  
hidden gems of profitability by  
considering the time value of  
money.



Follow @ Steven Taylor





## Example

**Picture investing \$250,000 in a renewable energy project. NPV will reveal whether the treasure chest of returns awaits us!**





## PROS:

- Accounts for time value of money.
- Captures all cash flows throughout the project's life.



## CONS:

- Complex calculations for multiple cash flows.
- Assumes reinvestment at the cost of capital – a pirate's life is rarely that predictable!



## **BEST PRACTICE TIPES:**

- A positive NPV means gold coins await!
- Test different discount rates to spot hidden doubloons in your investment strategy.



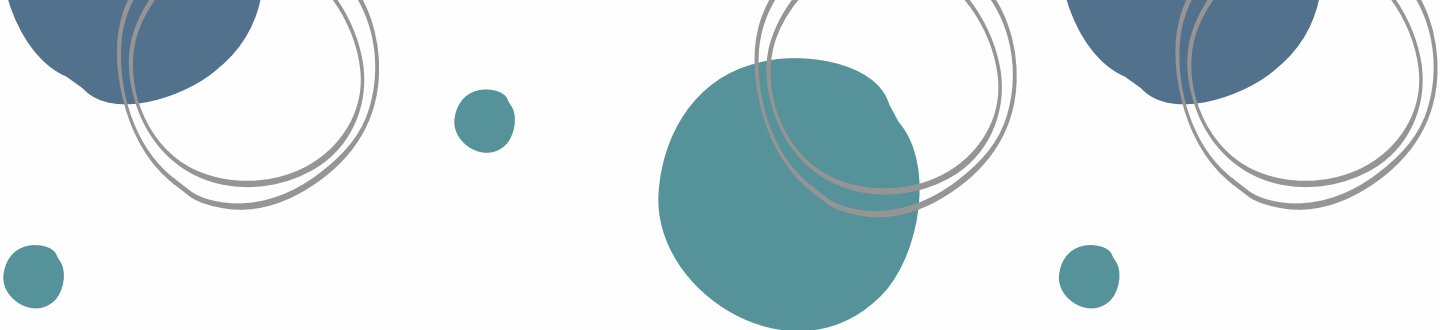
3

# IRR

## The Magic Alchemist



Follow @ Steven Taylor



Enchanting Alchemists, behold  
the Internal Rate of Return  
(IRR)! It conjures the mystical  
discount rate where NPV  
transforms into a glittering zero.



Follow @ Steven Taylor





## Example

**Imagine investing \$200,000 in a fashion startup. With IRR, we'll discover the enchanted rate that makes our investment a magical success!**





## ✓ PROS:

- Factors in time value of money.
- Unveils the mystical rate of return.

## ✗ CONS:

- Complex for projects with multiple IRRs.
- Can't rank mutually exclusive projects solely based on IRR.



## **BEST PRACTICE TIPES:**

- Seek an IRR higher than your cost of capital for bewitching profits.
- Let IRR dance alongside NPV to brew a powerful potion of decision-making.



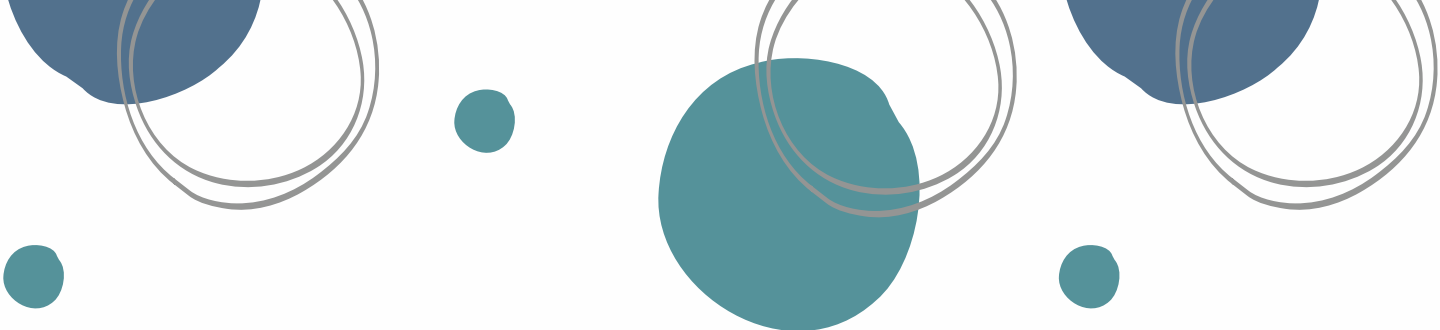
4

# Sensitivity Analysis

## The Risk Tamer



Follow @ Steven Taylor



Brave Risk Tamers, meet  
Sensitivity Analysis – the lion  
tamer of capital budgeting!  
It reveals how variations in  
variables impact the project's  
outcomes and helps us ride  
safely through uncertainty.



Follow @ Steven Taylor





## Example

**Exploring a real estate venture?  
Sensitivity Analysis will help us  
predict how changes in property  
prices and costs might affect our  
roaring success!**





# PROS:

- Identifies critical variables influencing success.
- Guides in risk management and decision-making.



# CONS:

- Doesn't predict future outcomes with certainty.
- May not capture complex interdependencies.



## **BEST PRACTICE TIPES:**

- Tame the lion by analyzing key variables with the most impact.
- Use conservative and optimistic scenarios to conquer the jungle of risks and opportunities.



Let's connect,  
collaborate,  
and unlock  
financial  
excellence  
together!



# STEVEN TAYLOR



**FOLLOW** 



Ring The Bell  
To Never Miss  
a post!