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Digital Area for Networking
Teachers and Educators



Co-funded by
the European Union

Introduction

Capital structure, CapEx vs OpEx, Gross vs Net investments



Capital structure

Mix of securities that a company chooses to finance its operations:

- **Debt** **(tax shield, lower cost)**
- **Equity** **(higher cost)**

so what?



Capital structure – broader context

Theory: (narrow focus) what combination of debt and equity maximize the value of the company

Reality: (broad focus, especially large companies) formulating numerous financial policies jointly – capital structure is set jointly with dividend and payout policies, tax policies, risk management regulations, capital planning and budgeting policies



EIBTDA vs FCF





CapEx vs OpEx

CapEx refers to a **Capital expenditure** while OpEx refers to an Operational expenditure. Capital expenditure is incurred when a business acquires assets that could be beneficial beyond the current tax year. CapEx is also known as a Capital expense.

Operational expenditure consists of those expenses that a business incurs to run smoothly every single day. They are the costs that a business incurs while in the process of turning its inventory into an end product. Hence, depreciation of fixed assets that are used in the production process is considered OpEx expenditure. OpEx is also known as an operating expenditure, revenue expenditure or an operating expense.



CapEx examples

- **Purchase of fixed assets,**
- **Preparation of the purchased asset so it can be appropriate for business use,**
- **Fixing of asset's problems,**
- **Restoration of an asset's value through upgrading,**
- **Adapting a machine to a different use.**



OpEx examples

- License fees
- Advertising costs
- Legal and attorney fees
- Telephone and power overheads
- Insurance fees
- Property management costs
- Property taxation expenses
- Vehicle fuel and repair costs
- Leasing commissions
- Salary and wages
- Raw materials and supplies
- Office overheads



CapEx – Gross vs Net

Gros investment: sum of all CapEx

Net investment: sum of all CapEx less the depreciation

Positive (Negative) Net Inv. means grow (decline) in investments



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Project Number: 2020-1-CZ01-KA226-HE-094368