

Valuation and Financing of Lady M Confections

Name: Hari Om

Date: August 16, 2025

Analysis

1. Break-even Analysis

Lady M needs to sell **23,625 cakes per year** to cover fixed costs including rent, utilities, and labor. With Year One projected sales of **36,500 cakes per year**, the break-even point is achievable. This indicates a feasible business model and suggests that the firm can comfortably cover its fixed costs and generate profit.

2. Recommendation: Opening a WTC Location

Considering net income, profit margin growth, and projected demand, opening a new location at the World Trade Center is financially viable. Year One net income is **\$5,16,006**, with margins increasing from 17.67% to 23.9% over five years. However, the WTC may have higher rent and operational costs than projected, so a sensitivity analysis is recommended. Overall, the expansion aligns with Lady M's growth strategy and can be profitable if sales targets are met.

3. Enterprise Value and Equity Stake

Using the Perpetuity Growth Method:

- **PV of FCF (Years 1–5)** = \$26,17,960
- **PV of Terminal Value** = \$7,54,20,773
- **Enterprise Value (EV)** = \$7,80,38,733
- **PV of TV as % of EV** = 96.7%

Using a perpetuity growth formula captures long-term free cash flow growth more accurately than a simple EBITDA multiple. The equity stake for Chinese investors should correspond to the proportion of their investment relative to the EV to avoid over-dilution of existing ownership.

4. Evaluation of Baseline Assumptions

Baseline assumptions include 10% annual cake growth, 50% COGS, 5% labor escalation, and 3% rent/utilities escalation. While these assumptions are generally reasonable, the projected sales growth may be optimistic. Market conditions, brand recognition, and tourist footfall should be monitored to ensure assumptions hold true.

5. Recommendation on Chinese Investors' Offer

Accepting the Chinese investors' offer is advisable if the equity given aligns with the enterprise value. This investment provides capital for expansion, such as the WTC location, without significantly diluting current owners' control. Terms should ensure that strategic decision-making remains with existing management to safeguard business objectives.

Break-even Cakes per Year: 23,625

Enterprise Value (EV): \$7,80,38,733

PV of TV as % of EV: 96.7%

Value Given to Investors: Proportional to investment relative to EV

Excel File Link:

....