Financial analysis

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 # 4

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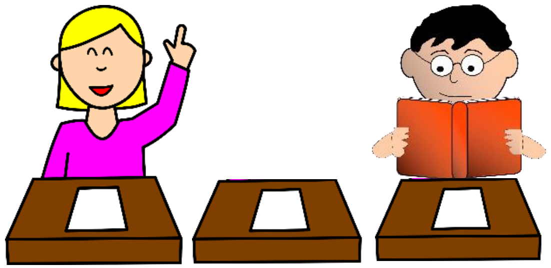
Students in class

Speak loud to the class

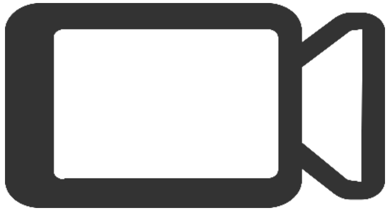


Keep safety distance

Students online

zoom

Connect on zoom from your agenda link



Activate your camera

Mute your microphone

Be connected with a headset/mic

Pin the screen

Use Side-by-side mode

Case based class

Case NameVa	Time in class	reminder	Areas of financial analysis
Balance sheet detective	3 hrs	Balance sheet structure	Common size balance sheet matching
Financial Analysis Identifying the industry	3 hrs with time to search for industry information online	P&l structure Main Financial ratio	Common size + ratios industry wise matching
What value for ThermoCompact?	6 hrs (initial time to elaborate valuation methods)	Valuations method	Financial diagnosis; valuation method choice; value of firm
Yestudent	2 hrs	Context analysis	Valuation startup ; Seed financing ; Fundraising ; DCF Method ; Comparables Method

Learning Objectives

Analyze the different dimensions of the performance of a company in all types of activities (services, production or projects)

Balance sheet analysis

Profit and Loss analysis

Performance ratios

Present in writing and orally the results of a performance study and recommendations for decision-making.

Develop a first approach of valuation methods

Regulation

- **Cases are released on C@mpus**

- **The final exam will last 1 hour at the end of the last session.**
  - it will consist of 20 multiple-choice questionnaire.

Case 4

Yes student

Enterprise value to equity value

DCF allows to determine the value of the enterprise :

To obtain a value of its equity

- **Long term liabilities have to be subtracted to the value calculated by DCF (indirect method)**

Non operating assets has to be added to the DCF value :

Since the cash flows included are those generated by the operations of the enterprise it does not affect the estimate of non- operating assets (which must, therefore, be valued separately) and added to the DCF Value

Equity Value / Economic value

	Direct Method	Indirect Method
Objectives	Equity value	Economic value
Cash flow used in DCF	Cash flow distributable to shareholders (average of dividends paid) Cash flow after interest and tax	Cash flow for shareholders and Bank (free cash flow after tax and before interest)
Discount rate	Equity Cost (Risk free+risk premium Beta weighted)	WACC Equity cost + debt cost

Equity Value / Economic value

Adjustments to make - 1

There are a number of factors we must take into account when conducting and concluding a valuation.

It is likely that we will make some adjustments either to the overall value or to the assumptions about required returns (and therefore the value) depending on these factors.

Value in whose hands:
The value of an enterprise will vary depending on who owns it, and the value to a buyer or a seller may be different (see value versus price later in this module).

Size of equity stake:
The value of an asset will depend on the level of control over that asset. As such we would expect to see a premium for a controlling stake or a discount for a minority.

Liquidity of the equity:
The value of equity will be increased if it is liquid. As such we would expect to see equity shares in a stock-exchange-listed company to have a premium in value versus an identical company which isn't listed.

"There are a number of factors we must take into account when conducting and concluding a valuation."

"It is likely that we will make some adjustments either to the overall value or to the assumptions about required returns (and therefore the value) depending on these factors."

Source ACCA

Question 1

Are following factors likely to result in a lower or a higher valuation than might market expects ?

Add a comment

	Higher	Lower	Market valuation
Valuation of a 55% stake in a company			
Valuation of shares in a company which is quoted on a recognized stock exchange			
Valuation of a company for sale, with patented technology, to its main competitor			
Valuation of a company currently involved in a legal case over a major accident caused by the alleged failure of one of its main products			

Question 1 answers

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Are following factors likely to result in a lower or a higher valuation than might otherwise be expected ? Add a comment

	Higher	Lower	Market valuation
Valuation of a 55% stake in a company	X control premium		
Valuation of shares in a company which is quoted on a recognized stock exchange			X Transaction volume has to be considered
Valuation of a company for sale, with patented technology, to its main competitor	X synergy		
Valuation of a company currently involved in a legal case over a major accident caused by the alleged failure of one of its main products		X legal risk	

Question 4

How will you consider these information in the valuation process: positive or negative impact

Entity A : The plant and equipment is recently purchased and well maintained

B. The enterprise is reliant on a short term licence agreement

accounting for 60% of sales

D. The enterprise spends 30% of revenue on research and

development compared to an industry average of 15%, but has

launched no new products in the last 5 years

E. The enterprise has one key customer which currently accounts for 80% of sales

Question 4 : answers

Entity A : The plant and equipment is recently purchased and well maintained :

Positive factor

B. The enterprise is reliant on a short term licence agreement accounting for 60% of sales

Negative factor

D. The enterprise spends 30% of revenue on research and development compared to an industry average of 15%, but has launched no new products in the last 5 years

Negative factor except a new product lauch is announced

E. The enterprise has one key customer which currently accounts for 80% of sales

Negative factor

Financing a start up

What is seed capital ?

Initial capital used when starting a business,

often coming from the founders' personal assets, friends or family, “love money”

for covering initial operating expenses and attracting venture capitalist “business angel”.

Often obtained in exchange for an equity stake in the enterprise, although with less formal contractual overhead than standard equity financing.

Banks and venture capital investors view seed capital as an "at risk" investment and may wait until a business is more established before making larger investments of venture capital funding.

Stages involved in financing startups

Boot-strapping

Self financing

Seed capital

"amateur" family/friend

Grants/

Official network

Angel investors

Involved in management

Venture capital

investment banks and any other financial institutions

Adviser

Mezzanine funding

Investment , lender

Convertible in equity under conditions

Initial public offering

Market

Yes case

Looking for external financing

- Sources of finance
- Love money : friends and family
- Business Angel
- Venture Capital

The team estimate that it need 500 000 euros

What dilution will they accept :

500 000/ equity value = ?

What risk will take t

Return on Investment ? Exit in 7 years'time (2022) : final value ?

Case study 4

Yes student


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