Assignment 3

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Q1.

Inflation refers to same amount of money/capital not being as worthy as its today in coming years. Now there are various factors that determine whether this favors lenders or borrowers.

Case 1:
Interest rate remains fixed. In this situation the total money that lender receives is same + interest (that is also fixed) which favors greatly to borrower as he gives money less than worth than he borrowed in long term.
Case 2:
Interest rate is variable and in proportion to inflation. This case unarguably favors lender as he is receiving the same worth of money that he lent plus same of worth of money he estimated.

Q.2
For a company having unstable cash flows it should avoid following financings

1) Using 100 % self's (Buyer's) money
   This would be risky as buyer might not be able to fuel the acquisition completely, in fact he might need to sell this acquisition at loss, and in worst cases he might need to sell entire business to cover the loss.
2) Seller financing: Here Buyer agrees to pay seller at regular interest after transaction, but that poses same problem as in case 1 with unstable cash flow.

In fact Buyer should involve third party (PE and Banks) as external sourcing to finance the acquisition that would spread the risk and acquisition might give his current business a economic boost and stable cash flow that might help company reach better evaluations which the third party usually wants.

Q.3

No , this depends what type of PE we are discussing , traditional PEs uses only dime of their money to shape the acquisition and have their portfolio companies ready for sale at every time so that GPs could ensure a fine return. Whereas Family Office PEs hold their Companies for considerable long time as their motive is not to go after returns but to help act as financial partners to companies with unstable economies and help reach them better evaluations.