key man risk

phenomenon of placing knowledge, skills, and important relationships in the hands of one or a few staff members. If this key man is to leave the business, they take their knowledge with them, leaving the business open for risk.

*a discount should be applied to any valuation of a business to reflect compensation costs not accounted for in the deal's structure plus 'key-man risk' that is commonly applied to investment businesses that are largely dependent on a dominant individual investor.**

accounts restating

what typically happens when a company makes many acquisitions. **when a company restates its very hard to get a historical perspective of what is happening**, as they tend to restate every line item so one doesn't really know what they're looking at.

valuing a business

key-man risk:	deduct ~25% from valuation
liquidity adjustment:	deduct ~5% for private companies (hard to sell and involves paying fees to investment bank to secure the deal)

*lessen tax responsibilities**

net present value (npv)

the difference between the present value of cash inflows and the present value of cash outflows over a period of time.

high npv:	lower or negative NPV suggests that the expected costs outweigh the earnings, signalling potential financial losses. (project is likely to generate more wealth, enhancing the overall financial health and growth prospects of the business.)
low npv:	lower or negative NPV suggests that the expected costs outweigh the earnings, signalling potential financial losses.

*therefore, when evaluating investment opportunities, a higher NPV is a favourable indicator, aligning with the goal of maximising profitability and creating long-term value.**

keys

almost every company should have some debt in addition to equity. (interest paid to bond holders is tax deductible for the corporation whereas dividend paid to stock holders are not)

case formulas

profit:	revenues - cost
revenue:	volume x price
(total) costs:	fixed cost + variable costs

case formulas (cont)

profit margins: †	profit / revenue
breakeven:	initial investment / annual profit from investment
return on investment:	(profit from investment / investment cost) x 100%
market share:	company's revenue in the market / total market revenue
growth rate:	(new-old)/old x 100%

net/gross/operating †

3 vital elements for any foreign investment

- industrial/investment policy
- judiciary
- ease of taking profit on investment out of the nation

first possession rights

a rule grants an ownership claim to the party that gains control before other potential claimants.

adverse possession

the occupation of land that belongs to someone else without permission.

*the 'twelve-year rule' means that if a person has been in possession of unregistered land for 12 years, then they can acquire legal title to the land. This means that subsequent purchasers can have certainty about their title. The obligation on owners is to check their land at least every 12 years.**

financial models

→ **trading comps** - comparable companies (FACTSET or CapitalIQ to pull the numbers and verify it with the 10K/10Q).

→ **sum of the parts analysis** - vale each division(part) of the company seperately to establish an enterprise value for the division, add them all up to form a TEV.

→ **operating model** - income sheet (P&L), balance sheet, cashflow statement

→ **DCF** - usually one tab sheet

→ **back of the envelope (Acc/Dil)** - determines the impact of an acquisition on the buying firms EPS. An accretive acquisition is where the pro forma EPS is greater than the acquirers EPS before the deal is made - *which is optimal solution*.

→ **quick & dirty LBO** - mainly constructed using fundamental assumptions.

→ **IPO** - utilises a lot of typical models, outlines how much capital to raise, establish valuation (based on DCF).

→ **merger** - make acquisition assumptions, projects, valuing each business involved, combining the two business and making a pro forma adjustment, looking at the acc/dil of the deal.

→ **Full LBO** - evaluate the transaction by calculating the internal rate of return (IRR) in order to figure out whether it's a good deal or not, has circular references, requires cashflow waterfalls.

ranking based on time to complete granularity and complexity.

porters five forces

- threat to new entrants, bargaining power of buyers, bargaining power of suppliers, threat of new substitutes and competitive rivalry

- used to identify an industry's competitive forces

- guides businesses in determining the intensity of competition and potential profitability within their market, aids in better understanding where power lies in a sector

doesn't account for collaborative business models
doesn't apply as well to quick-changing markets
it could be static