

Course on Financial Research Analyst Essentials for Corporates

Empowering Corporate Professionals



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(1) Introduction to Financial Research Analysis

Introduction to Financial Research Analysis - Takeaways

- Financial analysis is the process of examining a company's performance in the context of its industry and economic environment to arrive at a decision or recommendation.
- Often, the decisions and recommendations addressed by financial analysts pertain to providing capital to companies-specifically.
- At a high level the steps include articulating the purpose and context of the analysis, collect and process data, analyze/interpret the processed data, develop and communicate conclusions and recommendations, and finally to follow up.
- Financial analysis is extremely useful in corporate decision making from identifying growth potential, assessing profitability, how efficiently the assets are managed, identifying risks, evaluate whether the company can service debt, and in valuing the business.



(2) Fundamental Financial Analysis and Techniques

Fundamental Financial Analysis and Techniques - Takeaways

- Fundamental analysis focusses on data from sources, including financial records, economic reports, company assets, and market share.
- You can either follow top-down or bottom-up approach. Top-down is preferred by many analysts. .

Top-Down Approach

- Top-down approach commences with overall economy, and then sector & industry, and finally look at the specific company.

Economic Indicators

- Positive economic indicators, such as high GDP growth, low unemployment rates, low interest rates, stable inflation and stable exchange rates, generally lead to strong business activity. On the other hand, negative indicators can cause a decline in business activity.
- A certain economic indicator could have a positive impact on a certain sector, while a negative impact to another.
- Leading indicators provides an early indication of where the economy is heading in the near term.

Fundamental Financial Analysis and Techniques - Takeaways

Sector Analysis

- Sector analysis consist of assessing the economic and financial prospects of a sector. Certain sectors of the economy perform better during different stages of the business cycle and identifying these sectors can aid in finding profitable investments for the current business cycle.
- Additionally, need to consider if government support and funding is channeled towards any sectors and any shifts that are taking place (Example: AI Boom).

Market Analysis

- Market analysis is a detailed assessment of your business's target market and the competitive landscape within a specific industry. (Market size, prices consumers are willing to pay and qualitative data such as consumers' values, desires, and buying motives)

Industry Analysis Techniques

- Porter's five forces analysis - Rivalry among existing players, threat of new entrance, threat of substitutes, bargaining power of customers, bargaining power of suppliers
- PESTEL analysis - Political, economical, social, technological, environmental and legal



(3) Understanding Financial Statements

Understanding Financial Statements - Takeaways

Income Statement Review

- Quality of earnings is something to be mindful about. Look out for non-recurring items, identify different accounting recognitions methods followed and assess for the adequacy of assumptions used.

Balance Sheet Review

- Aids in assessing a company's ability to pay for its near-term operating needs, meet future debt obligations, and make distributions to owners. Assets and liabilities may be measured under different recognition methods, for example, some items under historical and others at fair value.

Cash Flow Statement Review

- The cash flow statement provides important information about a company's cash receipts and cash payments during an accounting period as well as information about a company's operating, investing, and financing activities. A reconciliation between reported income and cash flows from operating activities provides useful information about when, whether, and how a company is able to generate cash from its operating activities.

Understanding Financial Statements - Takeaways

Ratio Analysis

To accurately evaluate the financial health and long-term sustainability of a company, several financial metrics must be considered in tandem.

- Ratios assessing **profitability** - Gross profit margin, EBITDA margin: operating profit margin and net income margin.
- Ratios assessing **operating efficiency** - Inventory days, accounts receivable days, accounts payable days, asset turnover and inventory turnover:
- Ratios assessing **liquidity** - Current ratio and quick ratio
- Ratios assessing **solvency/leverage** - Debt-to-equity ratio, interest cover, shareholders' equity ratio, Debt/EBITDA.



(4) Competitor Analysis and Benchmarking

Competitor Analysis and Benchmarking - Takeaways

- In addition to looking at the market share and competitor strategies, you will benchmark your company financial health (profitability, operating efficiency, liquidity and solvency) with your competitors, without only assessing the financial health over the historical period of your company.
- It's a way of determining the best processes, strategies, and techniques for achieving your business goals via a set of metrics. Benchmarking is valuable to businesses because it allows you to take a deeper dive into how you measure up against your competitors.
- By identifying gaps and examining how other leaders are accomplishing their goals, you can maintain your advantage, stay on top of important trends or moves in your space, or emulate their success.



(5) Overview of Financial Modeling

Overview of Financial Modeling - Takeaways

Introduction

- Financial modeling is a process of forecasting the performance using relationships among operating, investing, and financing variables, under uncertain market conditions. Financial models must be built in a structured manner to ensure that they are realistic and credible and use a consistent structure.
- Steps to be followed – Entering historical statements, building revenue & cost drivers, building links for forecasts, fine tune assumptions, and valuing the company/asset.

Revenue Drivers

- Revenue of a company consists of products it sells/contracts it services (volume) and the price it charges its customers. Additionally, if the company operates overseas then the company will also be impacted by foreign currency movement.
- Price and volume data may not usually be reported directly for a company. Therefore, we have to use **proxies** for these items. Important step in identifying proxies, is to understand the **business model**.
- Price proxy in retail sector - Revenue per average store, revenue per average square foot
- Volume proxy in retail sector - Average number of stores, average total square footage

Overview of Financial Modeling - Takeaways

Cost Drivers

- Examples of operating costs include raw material costs, staff costs, overhead costs (which are usually components of cost of sales), advertising and marketing expenses, selling, general and administration expenses, research and development, etc.
- Operating costs can either be variable or fixed in nature.
 - Vary with the sales or production volume of a company, and will therefore move in line with revenues; **(As a % of revenue)** or
 - Are related to installed facilities and will tend to move in line with changes to the installed capacity of the company. This means they will remain unchanged within a fixed range of operations **(On a cost per unit basis)**.
 - If fixed in nature/both are not suitable then use **YoY % growth**.

Overview of Financial Modeling - Takeaways

Other Income Statement Items

- Interest income and expense (interest income/average earning assets, interest expense/average debt)
- Share of profits from associate companies (if associate is significant then need to forecast using management guidance and associate financials; if not significant keep it constant or use YoY growth)
- Other income and expense (management guidance, keep it constant, if you expect it to be non-recurring then assume to be zero)
- Taxes (tax expense/profit before taxes, consider changes to corporate tax rates)
- For simplicity, maintain taxes payable at a fixed value
- Dividends (dividend payout ratio/profit attributable to equity holders or $DPS * \text{shares outstanding}$)

Overview of Financial Modeling - Takeaways

PPE & Depreciation

- Management guidance - In most companies, management provides an estimate of their Capex for the next year or two in their company filings and/or on earnings calls.
- Capex to sales ratio - In the absence of management guidance, estimate future Capex using the Capex to sales ratio.
- Depending on information availability, Capex estimates can sometime be directly linked to growth assumptions such as Capex per store (retail company) or Capex.
- Forecasts for disposals of property, plant and equipment will purely be based on management guidance as these transactions do not follow a predictable pattern and are at the discretion of the management.
- Use a depreciation rate to forecast the depreciation charge.

(depreciation charge/opening gross value, depreciation charge/closing gross value, depreciation charge/average gross value)

Retained Earnings

- Forecast retained earnings will be based on the net income and dividends.

Overview of Financial Modeling - Takeaways

Working Capital

- Forecast working capital using the working capital ratios.
- Consider management guidance and historical trends when forecasting.
 - Accounts receivable - Receivable days or accounts receivable to revenue
 - Inventory - Inventory days or inventory to COGS
 - Accounts payable – Payable days or accounts payable to COGS

Debt and Interest Expenses

- New borrowings should be based on management guidance and/or situations where a cash shortfall is imminent. Repayments of existing borrowings will be based on management guidance and/or situations where a company has excess cash and no investment opportunities.
- For interest expenses consider the outlook for company borrowings / debt is the company planning to increase financial leverage? Is it paying down existing debt? Estimate the interest expense rate considering the historical trend, the outlook for interest rates on debt in the market, and the company's capital structure.

(6) Valuation

Purpose of Valuation

- Assess the true value of an asset, which may differ from its market price or book value.
- Valuation can be applied to a wide range of assets.

Common Approaches to Valuation

- **Market Approach:** Determines value by comparing the asset to similar assets in the market.
- **Income Approach:** Values the asset based on its expected future income or cash flows.
- **Cost Approach:** Determines value by considering the cost to replace or reproduce the asset.

(7) Relative Valuation

Value is Derived from Observed Market Transactions

- Market prices from **observed transactions**

- E.g. selling your home
- Similarly, for income-producing investments, analysts often consider the price relative to **earnings, cash flow, sales, or book value** of recent comparable transactions or similar companies.

Relative Valuation: The Process

1. Identifying **appropriate comparisons**.
2. Computing **standardized prices** (“parameters” or “scalars”).
3. Adjusting for specific attributes such as **growth rate, risk, and profitability**.

Multiples are Just Standardized Estimates of Price

– Earnings of an asset

- Price/Earnings
- EV/EBITDA
- EV/EBIT
- EV/Cash flow

– Book value of an asset

- Price/Book value
- EV/Book value of assets

– Revenues generated by the asset

- Price/Sales
- EV/Sales

– Asset- or industry-specific variable (E.g. Price/kwh and Price/tonne)

Selecting a peer group >> Art or Science?





Case Study

CASE I: Technest Inc. – A Journey Towards Innovation

Founded in 1990 by tech enthusiasts, **TechNest Inc. began its journey as a small start-up in Silicon Valley, California. Specializing in computer hardware**, the company rapidly gained recognition for its cutting-edge innovations and reliable products. Under the visionary leadership of its founder, Mr. Andrew, TechNest quickly expanded its operations and product offerings.

In 2005, sensing the burgeoning demand for mobile technology, **TechNest made a strategic decision to diversify into the smartphone market.** The move was spearheaded by Ms. Chen, an experienced executive hired to lead the new division. With her expertise and market insights, Ms. Chen navigated TechNest into the smartphone industry with great success. The company's smartphones gained popularity for their sleek design, user-friendly interface, and advanced features, quickly capturing a significant share of the market.

However, by 2018, TechNest found itself facing unforeseen challenges. Despite its initial success, the **smartphone division began experiencing declining sales and stiff competition from emerging rivals.** Mr. Andrew, the founder, known for his traditional approach, was hesitant to embrace radical changes suggested by Ms. Chen to revamp the smartphone division's branding and marketing strategies.

By 2020, TechNest was grappling with **substantial losses in its smartphone division, and its foothold in the computer hardware market was also diminishing.** Mr. Andrew realized the urgent need for a turnaround and entrusted Ms. Chen with the task of revitalizing the company within a year.

CASE I: Technest Inc. – Additional Information

To revitalize TechNest, Ms. Chen considered two main strategies: Improve the smartphone division's performance or divest it to focus on the core computer hardware business. For both strategies, relative valuation methods were essential to make informed decisions.

Relative valuation involves comparing a company's valuation metrics (such as P/E, EV/EBITDA, P/S ratio) with those of similar companies. Here's how Ms. Chen approached it:

1. Identified Comparable Companies

- Ms. Chen identified a set of comparable companies in both the smartphone and computer hardware industries.
- She collected financial metrics of these companies to perform relative valuation.

2. Computed Market Multiples

- For the smartphone division, Ms. Chen looked at companies like Apple, Samsung, and Xiaomi.
- For the computer hardware division, she analyzed companies like Dell, HP, and Lenovo.

CASE I: Technest Inc. – Q&A

1. What is Relative Valuation?

Relative valuation is a method of valuing a company by comparing its valuation metrics with those of similar companies. Common metrics used include the Price-to-Earnings (P/E) ratio, Enterprise Value-to-EBITDA (EV/EBITDA) ratio, and Price-to-Sales (P/S) ratio.

2. Why is Relative Valuation useful for TechNest?

Relative valuation helps TechNest understand how its divisions are valued compared to industry peers. This can guide strategic decisions such as improving operations or considering divestiture.

3. How would you perform a relative valuation for TechNest's smartphone division?

- Identify comparable companies in the smartphone industry.
- Gather financial data (e.g., revenue, net income, EBITDA).
- Calculate valuation multiples (P/E, EV/EBITDA, P/S) for these companies.
- Apply these multiples to TechNest's smartphone division metrics to estimate its value.

CASE I: Technest Inc. – Q&A

Comparable Companies Analysis

Company	P/E Ratio	EV/EBITDA	P/S Ratio
Apple	28.0x	20.0x	2.0x
Samsung	15.0x	12.0x	1.0x
Xiomi	10.0x	8.0x	0.7x
Average	17.7x	13.3x	1.2x

Note: These numbers are hypothetical for illustration purposes

CASE I: Technest Inc. – Q&A

Metric	Value
Revenue (\$m)	5,000
EBITDA (\$m)	400
Net Income (\$m)	300

Company	P/E Ratio	EV/EBITDA	P/S Ratio
Average	17.7x	13.3x	1.2x

Metric	Value
Net Income (\$m)	300
P/E Ratio	17.7x
Valuation - P/E (\$m)	5,300

Metric	Value
EBITDA (\$m)	400
EV/EBITDA Ratio	13.3x
Valuation - EV/EBITDA (\$m)	5,333

Metric	Value
Revenue (\$m)	5,000
P/S Ratio	1.2x
Valuation - P/S (\$m)	6,166

CASE I: Technest Inc. – Real World Examples



1. Price-to-Earnings (P/E) Ratio:

- **Apple:** Apple's P/E ratio has often been higher than that of its competitors, reflecting **strong investor confidence in its earnings potential due to continuous innovation and strong brand loyalty**. When Apple introduced the iPhone, its valuation metrics surged compared to traditional phone manufacturers.

2. Enterprise Value-to-EBITDA (EV/EBITDA):

SAMSUNG

- **Samsung:** Samsung's EV/EBITDA ratio has been competitive, reflecting its **strong operational efficiency and market presence**. By maintaining a balanced portfolio of products and continuous innovation, Samsung has managed to keep its valuation metrics favorable.



3. Price-to-Sales (P/S) Ratio:

- **Xiaomi:** Xiaomi often had a lower P/S ratio compared to Apple and Samsung, indicating its **aggressive pricing strategy and high sales volume**. This made it an attractive investment for those believing in its revenue growth potential despite lower margins.

CASE I: Technest Inc. – Strategic Implementation

Revitalization Strategy:

If TechNest's relative valuation indicates potential undervaluation, Ms. Chen can implement strategies such as:

- Product Innovation: Launching new smartphone models with advanced features.
- Branding and Marketing: Rebranding efforts to better position the smartphones in the market.
- Operational Efficiency: Streamlining operations to reduce costs and improve margins.

SONY

Real-World Example:

- Sony: After experiencing declines in its smartphone business, Sony focused on niche markets and improved its product quality. This included enhancing camera technology, which leveraged Sony's expertise in imaging sensors, thereby slowly improving its market position.

CASE I: Technest Inc. – Strategic Implementation

Divestiture Strategy:

If revitalization is not feasible, TechNest might consider selling the smartphone division. This could be pursued through:

- Identifying Potential Buyers: Targeting companies looking to expand their smartphone portfolio.
- Negotiating Terms: Ensuring a fair price that reflects the division's potential value to the buyer.

Real-World Example:



- HTC: After struggling with declining sales, HTC sold a significant portion of its smartphone division to Google in 2017. This allowed HTC to focus on virtual reality and other innovations while providing Google with hardware expertise for its Pixel phones.



(8) Discounted Cash Flow Valuation

What is DCF?

Principle objective of investing – to buy a stream of cash flows for less than what it is worth

Valuing a stream of cash flows

- Present value of projected cash flows generated by an asset over its lifetime
- Companies are going concern – infinite life

Stages of performing a DCF valuation

Forecasting the unlevered free cash flow to firm (FCFF)

- Can use Free Cash Flow to Equity where appropriate

Computing the discount rate

- Weighted average cost of capital (WACC) if FCFF is used
- If FCFE is used, Cost of Equity (CoE)

Computing the terminal value

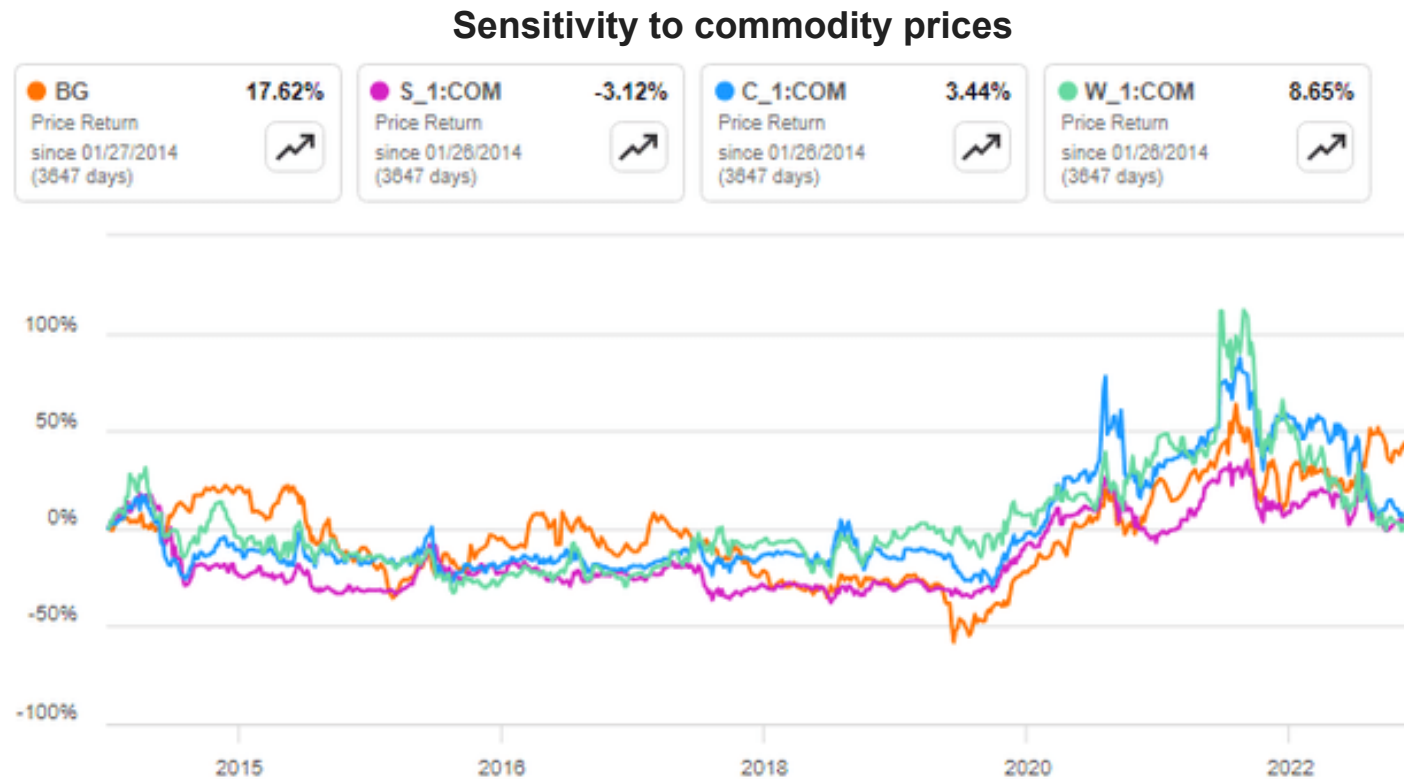
Computing the Enterprise value and Equity Value



Case Study

CASE II: BUNGE (BG) – Background

- Bunge (BG) purchases agricultural commodities like soybeans, corn, wheat, sunflower, and rapeseed from farmers and intermediaries.
- The company engages in two main activities with these commodities: merchandising, which involves reselling them, and processing, where they transform the raw materials. For instance, soybeans are processed into soybean oil and soybean meal.



BG: Share price performance
S_1: Soybean futures
C_1: Corn futures
W_1: Wheat futures

CASE II: BUNGE (BG) – Additional information

- BG currently has operations in the United States, Europe, Asia-Pacific, Brazil, Argentina, Canada etc. and is looking to acquire a privately held agricultural product company in Brazil called AgriNova (AN).
- AN engages in the sourcing, processing and trading of agricultural commodities like sugar, rice, and oil and fat products. AN's results have a direct relationship with commodity prices.
- AN has been in operation for over 20 years and operates domestically.
- BG has started negotiations with AN on a potential acquisition of 100% stake.
- BG's management received a DCF valuation analysis done by AN internally as of 31 March 2024, which suggested an acquisition price of BRL 179,1 bn.
- Prior to the meeting with an independent valuation consultant, Mr. Jones from BG's inhouse corporate finance team is tasked with reviewing the valuation analysis. Assuming you are Mr. Jones, discuss your observations and the areas of concern on the valuation analysis and a recommended approach to address them.

CASE II: BUNGE (BG) – Discussion >> Spot the errors

DCF valuation as of 31 March 2024 BRL mn	2015	2016	2017	2018	2019	2020	2021	2022	2023	1.00	2.00	3.00
										2024E	2025E	2026E
Revenue	86,015	65,750	74,644	86,015	89,335	111,477	155,737	175,762	147,719	142,079	144,346	153,258
YoY growth	nm	-23.6%	13.5%	15.2%	3.9%	24.8%	39.7%	12.9%	-16.0%	-3.8%	1.6%	6.2%
EBITDA	3,509	2,559	1,901	2,851	3,480	5,677	7,777	8,525	8,639	9,661	11,259	13,487
EBITDA margin	4.1%	3.9%	2.5%	3.3%	3.9%	5.1%	5.0%	4.9%	5.8%	6.8%	7.8%	8.8%
Less: Depreciation & amortisation	(1,078)	(838)	(993)	(1,170)	(1,190)	(1,171)	(1,116)	(1,067)	(1,119)	(1,279)	(1,299)	(1,379)
As a % of revenue	1.3%	1.3%	1.3%	1.4%	1.3%	1.1%	0.7%	0.6%	0.8%	0.9%	0.9%	0.9%
EBIT	2,431	1,721	908	1,681	2,290	4,506	6,661	7,458	7,520	8,383	9,960	12,107
EBIT margin	2.8%	2.6%	1.2%	2.0%	2.6%	4.0%	4.3%	4.2%	5.1%	5.9%	6.9%	7.9%
EBIT*(1-t)	2,139	1,515	799	1,479	2,015	3,965	5,862	6,563	6,618	7,377	8,765	10,654
Add: depreciation & amortization	1,078	838	993	1,170	1,190	1,171	1,116	1,067	1,119	1,279	1,299	1,379
Less: Capex	(1,284)	(1,200)	(1,079)	(927)	(1,138)	(983)	(1,050)	(1,451)	(2,784)	(1,421)	(722)	(460)
As a % of revenue	1.5%	1.8%	1.4%	1.1%	1.3%	0.9%	0.7%	0.8%	1.9%	1.0%	0.5%	0.3%
Add dec / less inc in w inv	801	168	(780)	292	243	(1,543)	(1,940)	(22)	(1,505)	(750)	(530)	(400)
As a % of revenue	0.9%	0.3%	-1.0%	0.3%	0.3%	-1.4%	-1.2%	0.0%	-1.0%	-0.5%	-0.4%	-0.3%
FCFF										6,485	8,812	11,174
TV based on Gordon growth model												256,405
Discount factor										0.913	0.833	0.760
Present value of FCFF										5,918	7,339	8,493
Present value of terminal value												194,887
DCF firm value												216,637
Less net debt / add net cash												(37,500)
DCF equity value												179,137

CASE II: BUNGE (BG) – Discussion >> Spot the errors

DCF assumptions	Input
Terminal growth rate	5.0%
WACC	9.6%
Risk free rate of return	10.0%
Long term cost of debt	6.0%
Equity risk premium	5.0%
Beta	0.7
Tax rate	12.0%
Target debt to total capital	47.4%
Target equity to total capital	52.6%
Cost of equity	13.5%

Notes

- Risk free rate - Brazilian 2-year government bond yield as of 28 March 2024
- Beta - Derived by plotting the price trend of listed industry peers in the market vs the Bovespa Index
- Cost of debt - Yield-to Maturity of company's most senior secured debt
- Tax rate – Company enjoys a concessionary tax rate of 12.0% for the next 3 years, below the statutory tax rate of 15.0%
- Target capital structure - Current debt to capital ratio
- Long term GDP growth rate in Brazil is forecasted at 2.0%

Net debt and equity (BRL mn)	As of 31 Dec 2023	As of 31 Mar 2024
Total debt	24,225	50,000
Cash and cash equivalents	12,911	12,500
Equity	54,200	55,400
Net debt	11,313	37,500
<i>Debt to capital</i>	30.9%	47.4%

- It was also noted that AN has a land, not used for the operations of the business, with a market value of BRL 12 mn.

CASE II: BUNGE (BG) – Discussion

Mismatch vs the valuation date

- | | |
|---|--|
| <ul style="list-style-type: none">Valuation date is 31 March 2024<ul style="list-style-type: none">FCF forecasts from 1 January 2024 (full year 2024E)Net debt adjustment taken as of 31 December 2023 | <ul style="list-style-type: none">Deduct the 3M CFs to 31 March 2024 from the full year 2024E forecasted CFsTiming factor for discounting should be adjusted to 0.75, 1.75, 2.75....Net debt as of 31 March 2024 should be taken |
|---|--|

Terminal value and forecast period

- | | |
|--|---|
| <ul style="list-style-type: none">C. 89% of the firm value is generated from the terminal value<ul style="list-style-type: none">Short explicit forecast periodTo expect a perpetual growth rate of 5.0% vs the long-term GDP growth rate of 2.0% appears aggressive as it is a mature business | <ul style="list-style-type: none">Extend the explicit forecast period so that at least 1/3 of the firm value is generated from it<ul style="list-style-type: none">Generally, we may have to forecast at least 5 years explicitly to achieve thisReassess the terminal growth rate |
|--|---|

CASE II: BUNGE (BG) – Solution

FCF forecasts

- FCFF derivation is correct
 - Since AN's results have a direct relationship with highly volatile commodity prices, reliability of the forecasts is questionable
 - EBITDA margin forecasts appear aggressive. Basis of assumptions needs to be inquired
 - Underestimating the investment necessary to achieve a continued growth –
 - Capex as a % of revenue is depleting
 - Capex is lower than depreciation from 2025E
- Recommend to arrive at forecasts under different scenarios (Base case, Best case and Worst case)
 - Adjust either the reinvestment required or growth till you achieve a reasonable balance
 - Adjust capex vs depreciation. Capex should be higher than depreciation (i.e. maintenance capex) over a business cycle unless the company is winding down
 - Calculate ROIIC. Returns normally converge with WACC over time due to the erosion of economic profits with increased competition and higher rivalry among peers

CASE II: BUNGE (BG) – Solution

WACC assumptions

- | | |
|--|--|
| <ul style="list-style-type: none">• Risk free rate is of short-term horizon, although a government proxy is taken• Equity risk premium seems understated for an emerging market• Concessionary tax rates are effective only within a specified period of time, and therefore should not be used as the tax rate in DCF valuations that include assumptions till perpetuity• Taking the current capital structure as the target capital• Basis for other WACC assumptions appear reasonable | <ul style="list-style-type: none">• For risk free rate, consider a longer time horizon like 10-year government bond yield• Revisit the equity risk premium assumption for Brazil• Recommend the use of the statutory tax rate for valuation purposes that are more long-term.• Need to consider the long-term target capital structure. |
|--|--|

CASE II: BUNGE (BG) – Solution

Enterprise value vs Equity value

- | | |
|--|--|
| <ul style="list-style-type: none">• Has appropriately discounted FCFF using WACC to arrive at the Enterprise Value• Correct treatment to deduct net debt; however, should be as of the valuation date• Value of the land that is not used in the business is not captured in the valuation | <ul style="list-style-type: none">• Fair value of all non-operating assets should be added in arriving at the equity value i.e. the market value of the land should be added |
|--|--|



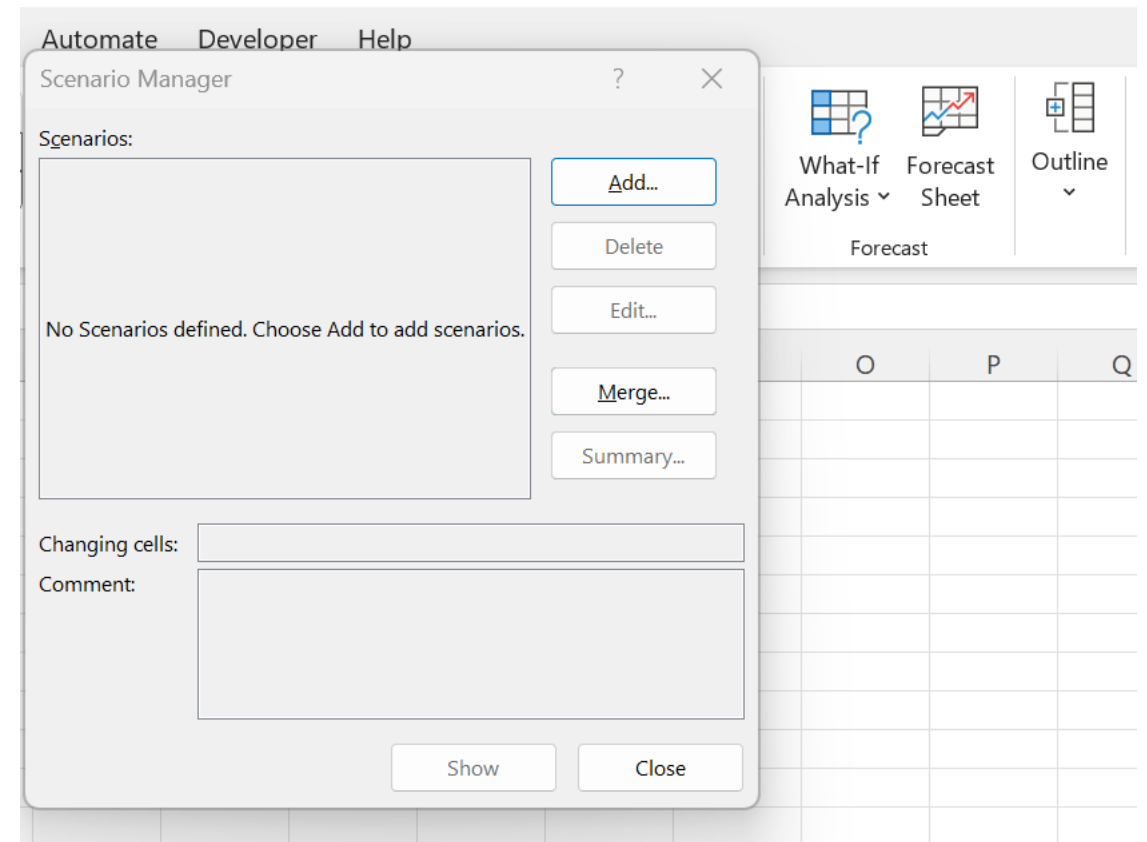
(9) Sensitivity Analysis & Risk Management

Sensitivity Analysis & Scenario Planning

Sensitivity Analysis & Scenario planning is used in financial modeling to analyze how the different values of a set of independent variables affect a specific dependent variable under certain specific conditions.

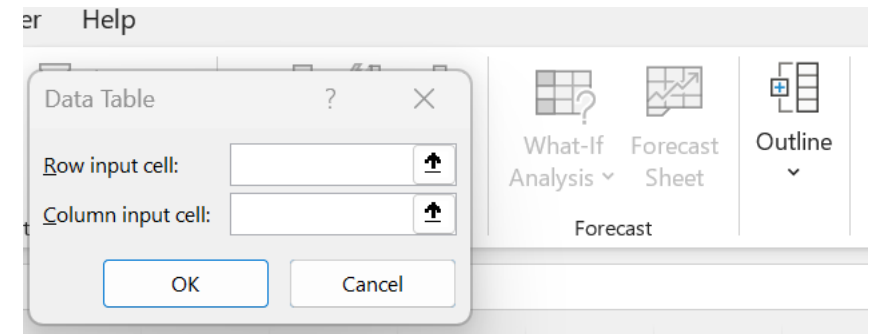
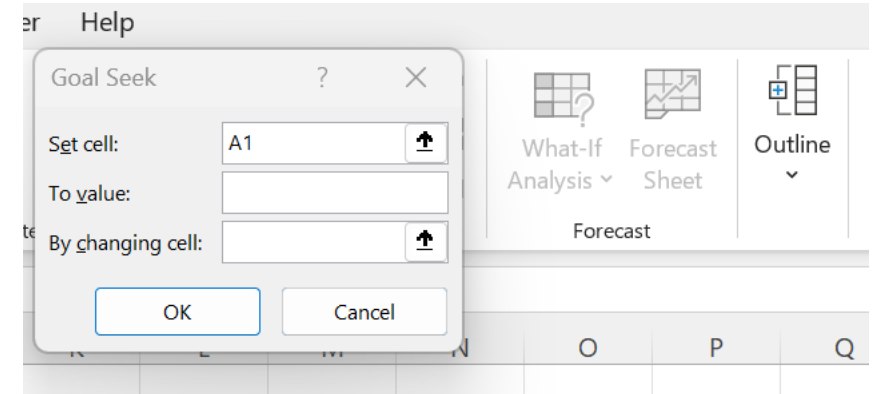
Excel has multiple tools:

- **Scenario Manager:** This tool allows you to create different scenarios and see how changing input values affect the output. You can alter the values for up to 32 input values using the Scenario Manager



Sensitivity Analysis & Scenario Planning

- Goal Seek: This tool is used when you know the desired result of a single formula but don't know what input value the formula needs to get that result
- Data Tables: Data tables provide a shortcut for calculating multiple versions in one operation and a way to view and compare the results of all the different variations together on your worksheet



Risk Management

Financial risks are events or occurrences with undesirable or unpredictable financial outcomes or impacts. They can impact a company's profitability, cash flow, and overall financial health.

- **Identifying the risk:** This involves considering all possible events or occurrences that can pose a negative monetary impact

Ex:

- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

Risk Management

- **Assessing and quantifying the risk:** Once potential financial risks have been identified, it's important to assess and quantify these risks so they can be prioritized appropriately.

Ex: Assess the potential impact of a change in interest rates on loan repayments

- **Implementing strategies to manage the risk:** After assessing the risks, the next step is to implement strategies to manage these risks.

Ex:

- Risk Avoidance
- Risk Reduction
- Risk Transfer
- Risk Retention

Risk Management

- **Monitoring the effectiveness of the strategy:** The final step in the process is to monitor the effectiveness of the risk management strategy. This involves regularly reviewing and updating the strategy to ensure it remains effective in managing the identified risks.



Further Explanations on Audience Q&A

Why is cash deducted in the calculation of EV?

- Cash and cash equivalents are deducted in the calculation of Enterprise Value (EV) because they could be used to pay off some of the company's debt.
- Think of it this way. if you were to purchase a company, you would have to pay for all the company's stocks (Market Capitalization), outstanding debt, and preferred shares. However, the cash and cash equivalents that the company has on hand could be used to immediately pay off some of that debt.
- So, the net cost to you (the buyer) would be lower by the amount of cash and cash equivalents the company has. That's why cash is subtracted when calculating EV - it effectively reduces the purchase price of the company.

Why is net debt added back in FCFE calculation ?

- Net debt is added back in the Free Cash Flow to Equity (FCFE) calculation because it represents additional cash that is available to equity shareholders.
- When a company borrows, it receives cash that it can use for various purposes, such as funding new projects, paying dividends, or repurchasing shares. This borrowed money increases the amount of cash that the company has available to distribute to its equity shareholders, so it's added back in the FCFE calculation.
- However, it's important to note that while borrowing can increase the cash available in the short term, it also creates a future obligation for the company to repay the borrowed amount, which could impact its long-term financial stability.



Thank You

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