

How to evaluate business proposals: realistic expectations and financial analysis



19th September 2018 / Insights

Author: Dr. Mihails Kuznecovs



Each business idea – be it a small grocery store, hotel opening or acquisition of a large manufacturing company – requires meticulous but easy to understand investment decision analysis.

Business analysis may be based on complicated equations and evaluation methods, but the logic behind such analysis and explanations has to be simple and clearly explainable.

In this respect, it is not about ‘targeting IRR to be above XX%’ or ‘EBITDA multiple has to be x6’ or ‘shareholders target X years of payback’. It is about creating a long-term realistic vision and asking important questions. How sustainable is business decision? Does it have a long-lasting effect based on your expectations and comfortable risk-reward level.

Through our evaluations, we favour several evaluation criteria, and we use simple-to-understand techniques. We appreciate that these techniques may not work for every business case, but a combination of them has worked perfectly for us in every project we have considered:

1. Understand high-level details of the business proposition.
2. Get familiar with business owners and local partners.
3. Learn about business operational cost (COGS, PEX, OPEX, CAPEX, working capital, financing arrangements).
4. Approach cash flow analysis with a thorough understanding and unbiased decision making (IRR, NPV and Payback are the three key indicators we look at).

At the end of a day, a business decision should not be based on only today’s interests; providing long-term added value is a must.

The views expressed in this publication do not necessarily reflect the views and/or understanding of other professionals, institutional bodies or individuals. You may use this publication for non-commercial purposes, provided that you have cited Ersteberg Ltd., which will not be held liable for any errors, damage or other consequences and events resulting from the use of this publication.

Please feel free to follow us

<https://www.linkedin.com/company/ersteberg>

Contact us at info@ersteberg.com

www.ersteberg.com