

CAPSTONE PROJECT

Summary Essay

Topic: Financial Planning & Valuation of a New
Venture

By

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The capstone field project topic chosen was the financial planning and valuation of a new venture, Oriana Hungary. To be more accurate, the financial planning and valuation of a new sub-division of Oriana for presenting to the investors. The key deliverables for the project were analyzing the current financial plan and company valuation of the new venture before advancing to the investors.

Oriana is a solutions provider for IT support for business process. They have been in the market for the past 15 years and have a unique expertise in business Information Technology on the market. Oriana Hungary, the new venture is a low-code platform provider for consultants for faster application development. The Revenue source is the license fee and support fee for the platform.

Digitalization happening in all industries have opened doors to high need of developers in the market. Low code platform would be one of the solutions to meet the new growing demand. This industry is forecasted to grow tremendously in the next 10 years and Oriana Hungary plans to be one of the players in the Central and Eastern Europe market.

Financial Plan

The financial planning was in the initial stage at the start of the project. A crude cash-flow statement for the next 5 years was provided for the project. To progress with the financial analysis, the income statement and the Balance sheet was required.

As the first task, the three statements; cash-flow, income statement and balance sheet were prepared in the standard format using the cash-flow statement provided as base. The FCFF (free cashflow to firm) was calculated and plotted to know the financing need of the firm. The financing need was required till the end of 2nd year.

The financial analysis of the firm was done by comparing the financial ratios with the industry benchmarks. All the below metrics were individually analysed and recommendations were provided to make the financial plan stronger and presentable to the investors.

- *Revenue considerations*
- *Cost structure/benchmarking*
- *CAPEX structure*
- *LTD assumptions and viability*
- *WC management*
- *Short term Debt*
- *Dividend policy*
- *Financing need*

- *Taxes*

The initial financial statement focused on the margins and profits generated for the investors. It was attractive but a more concrete plan covering all the aspects will be more sellable for the investors. Based on the recommendations, the new refined statements accounted for clearer expenses and better future investments road map, making it a good financial plan.

Company Valuation

A Dynamic valuation was prepared as part of the capstone project. With changing market conditions and new inputs added to the venture frequently, a dynamic valuation was provided to the client. Valuation would be updated immediately when the market parameters are changed, giving more flexibility and usage in the long run to the client.

The first task was the calculation of the cost of capital. For calculation, the Risk premium of the country (Hungary) and unlevered beta of the company's industry were taken from Damodaran. The debt-equity ratio was calculated based on the financial statement and risk free rate of the country was taken from bloomberg. The rate of the swap curve was taken as risk free rate in Hungary as government bonds are not Investment grade.

The Valuation was done using the DCF (Discounted cashflow) method. The cash flows were projected based on the analysis of the financial plan and assumptions on the market conditions. Conservative numbers based on the industry and revenue model were used where insufficient data was there. Industry standards and Hungarian economic growth values are used in the terminal value calculation. Standard Tax rate was considered in the calculations. No tax in the initial years due to negative EBIT.

The IRR and cash multiple was calculated based on the valuation. A dynamic solution to work with the stake given and IRR was provided, giving the client flexibility to negotiate with the investors.

The capstone field project was a good channel of using financial knowledge in the real finance industry. The key deliverables were provided to the client in time and was received satisfactorily by the client.

