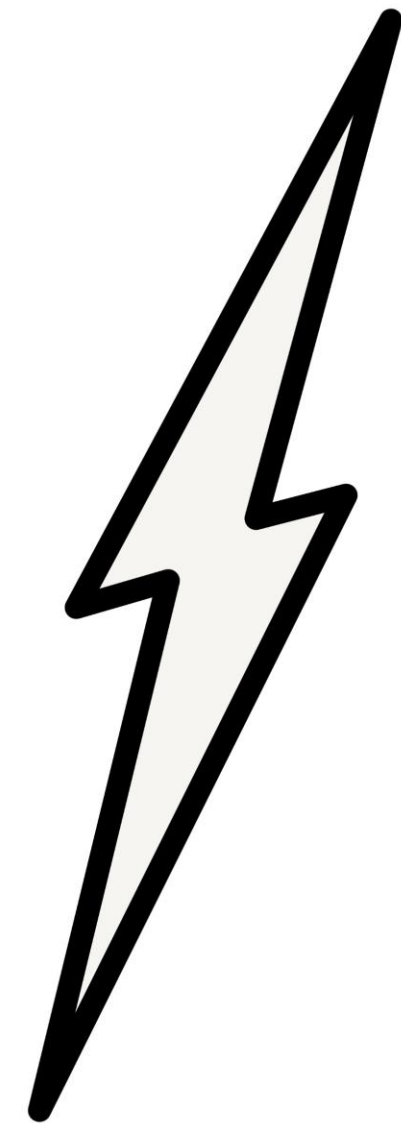

Finance Fundamentals 2026/27

Session One: Building Blocks

*Private
Equity
Society*





Contents

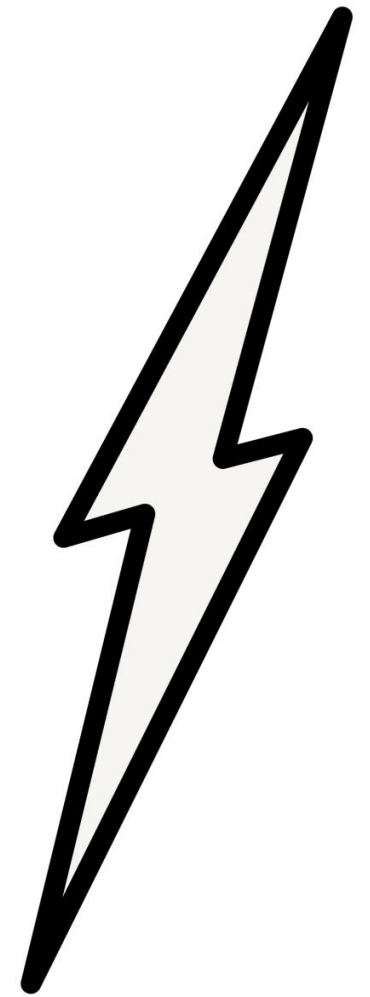
Section

- I. Introduction
 - II. Learning Objectives And Roadmap
 - III. Why Bother In The Age Of AI?
 - IV. Core Accounting
 - V. Core Corporate Finance
 - VI. Valuation Overview
 - VII. Q&A
-



I. Introduction

*Private
Equity
Society*



Introduction: About Me!

- Final-Year BSc Accounting & Finance Student
- Lived In: India, US, Singapore, Australia and the UK
- Interests
 - Cricket
 - Coffee
 - Chess
 - F1
 - Pub



2024/25

ANALYST



2025/26

CO-HEAD



2026/27

CO-CHAIR



RESEARCH ANALYST



HEAD OF RESEARCH



CO-CHAIR

EVERCORE

SPRING
INTERN



SUMMER
INTERN



INCOMING
FULL-TIME ANALYST

Introduction: LSESU Private Equity Society

PES Research



\$55bn Acquisition of

by the Consortium of
  




KKR
KKR's £4.8bn Buyout of
Spectris



Comprehensive Deal Reports



Research Showcases



LBO Workshop Series



LBO And M&A Competitions

Upcoming Events



Mentorship Scheme
2026/27



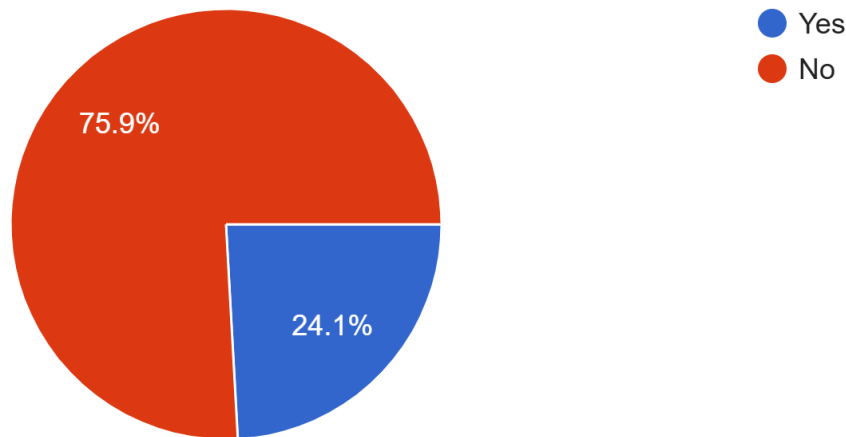
SILVER LAKE OFFICE VISIT
MEET THE WORLD'S LEADING TECHNOLOGY INVESTORS.
Selective opportunity with networking and case study, open to students showing interest in finance through studies or experience. Registrations are open to all years.
Apply via the link in our bio
Tuesday, 3rd November
9:30 - 11:00AM
Grosvenor Street, London



Among our upcoming events:

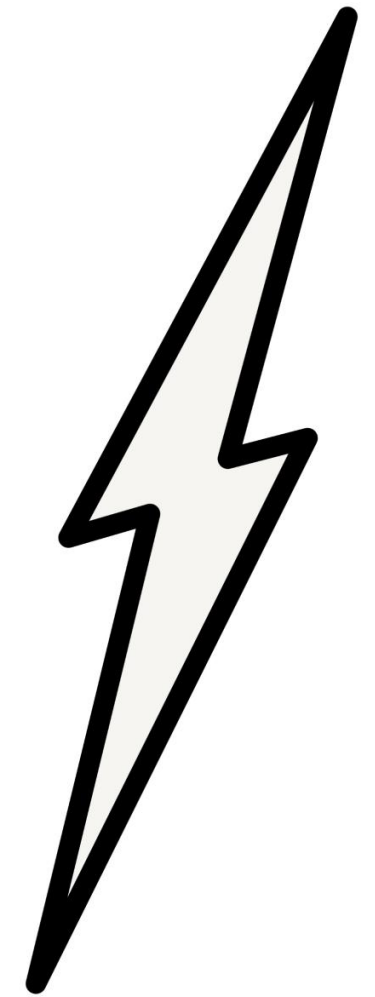
- **21st Oct:** Finance Fundamentals Lecture 2
- **3rd Nov:** Silver Lake Office Visit
- **17th Nov:** I Squared Capital Recruitment Event
- **24th Nov:** Annual Industrials Panel
- **Date TBD:** Annual Technology Panel

Are you a member of the LSESU Private Equity Society?
344 responses



II. Learning Objectives And Roadmap

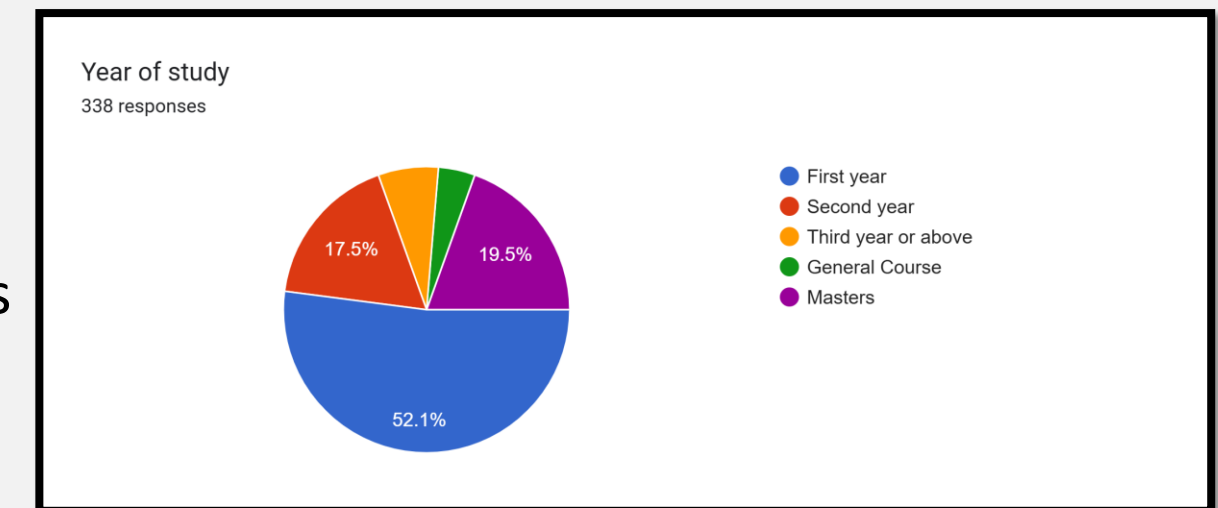
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Learning Objectives And Roadmap

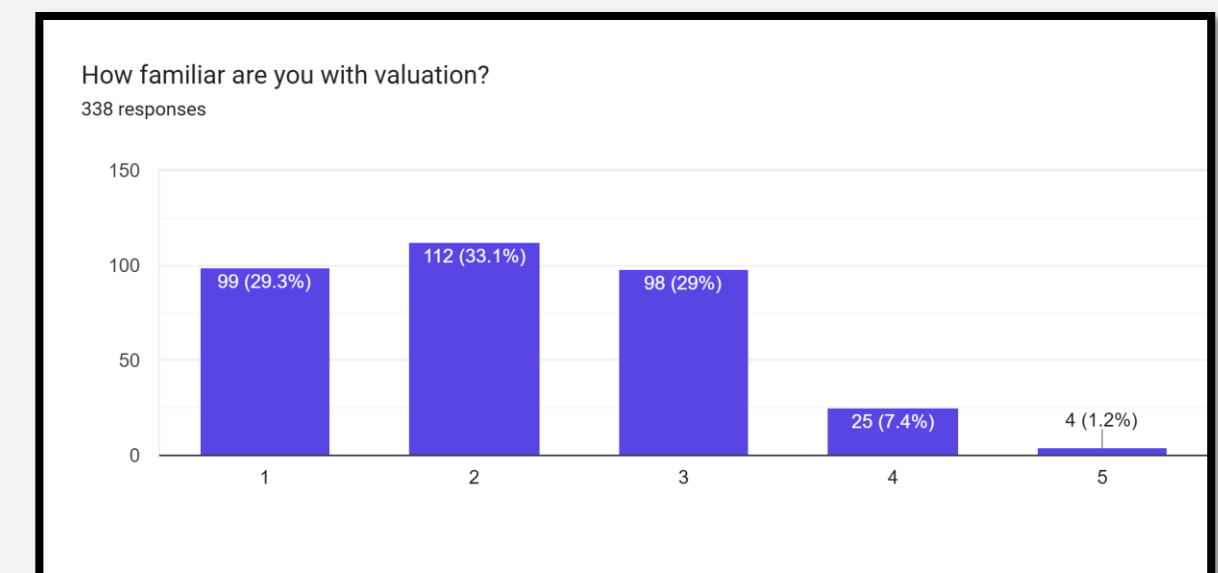
Session One: Building Blocks

- Read the three financial statements and explain how they link together ★
- Understand accrual accounting versus cash, and the role of D&A, NWC, capex and EBITDA ★
- Apply time value of money through NPV
- Compare debt and equity financing
- Explain Enterprise Value (EV) vs. Equity Value and the EV bridge ★
- Distinguish intrinsic from relative valuation, introducing DCF, comps and precedents



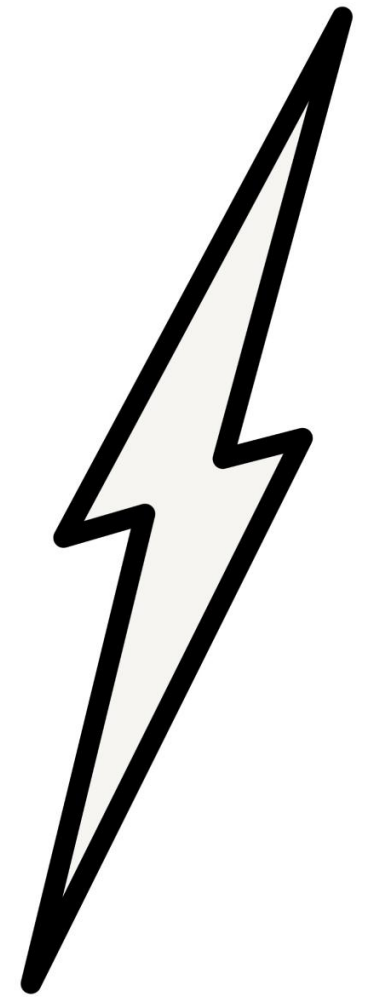
Session Two: Valuation & Modelling

- Build a DCF model, from forecasting through to equity value per share
- Justify key assumptions and stress test them with sensitivity and scenario analysis
- Complete a comparable companies analysis using EV/EBITDA, EV/Revenue and P/E
- Complete a precedent transactions analysis and explain the control premium
- Reconcile all three methods on a football field



III. Why Bother In The Age Of AI?

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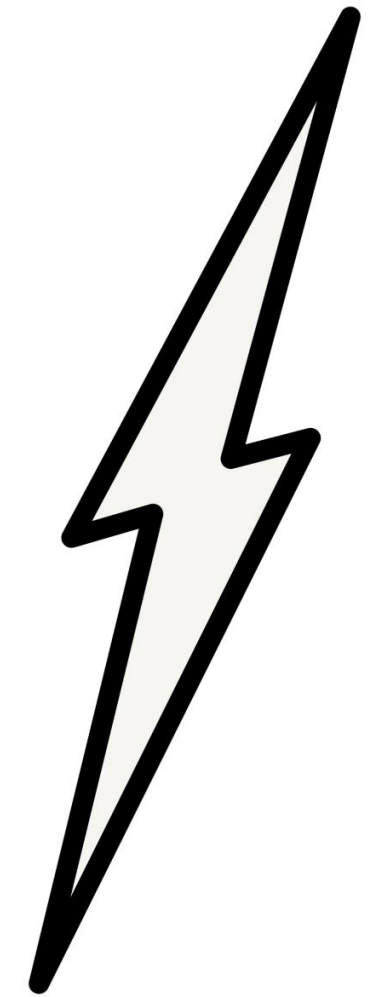




IV. Core Accounting

a) Why Accounting Matters

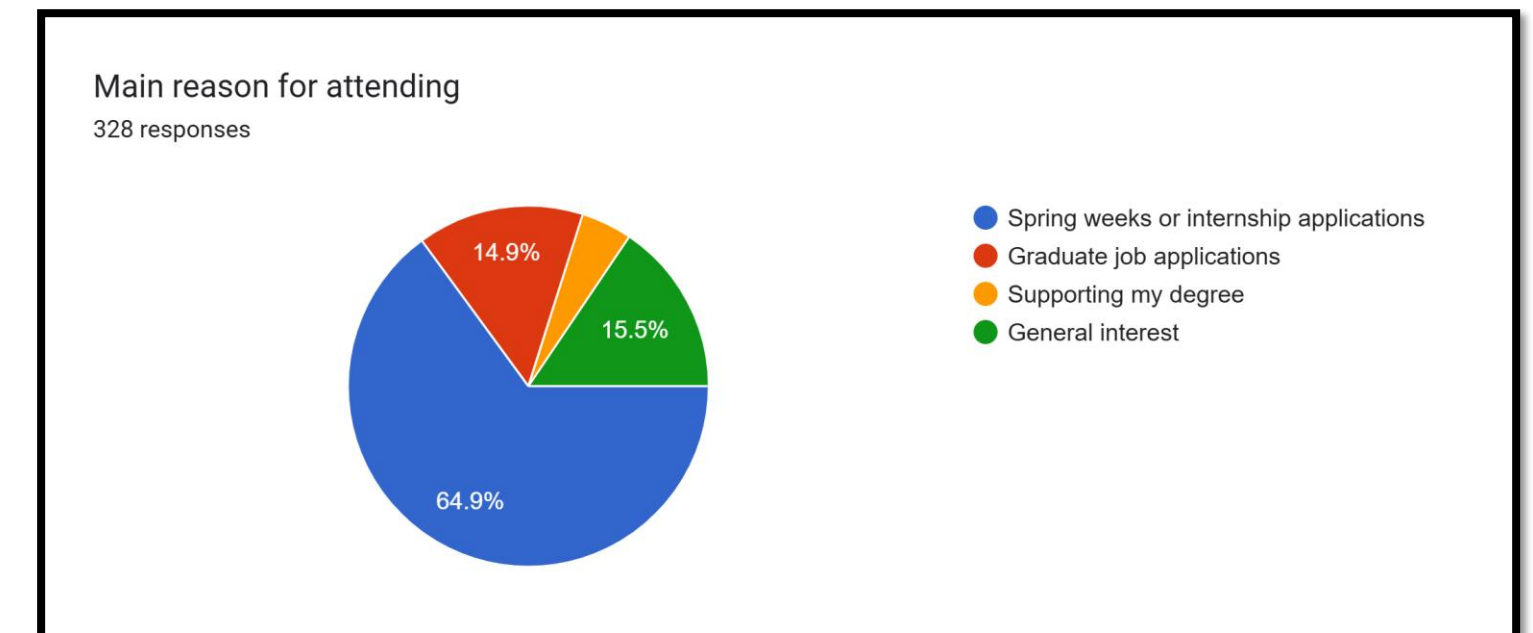
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Core Accounting: Why Accounting Matters

- 1 Accounting is the language of business
- 2 Used extensively in valuation and modelling
- 3 Provides a clear edge in recruiting and at internships

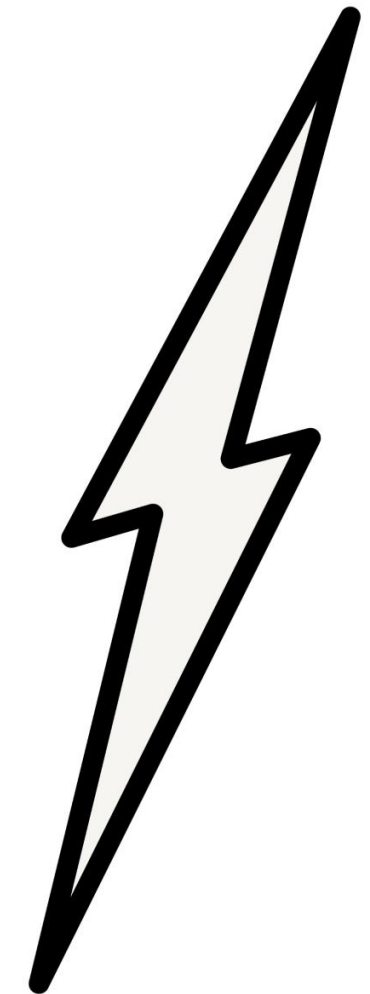
“
**Accounting is the
language of business.**
—
Warren Buffett



IV. Core Accounting

b) Three Financial Statements

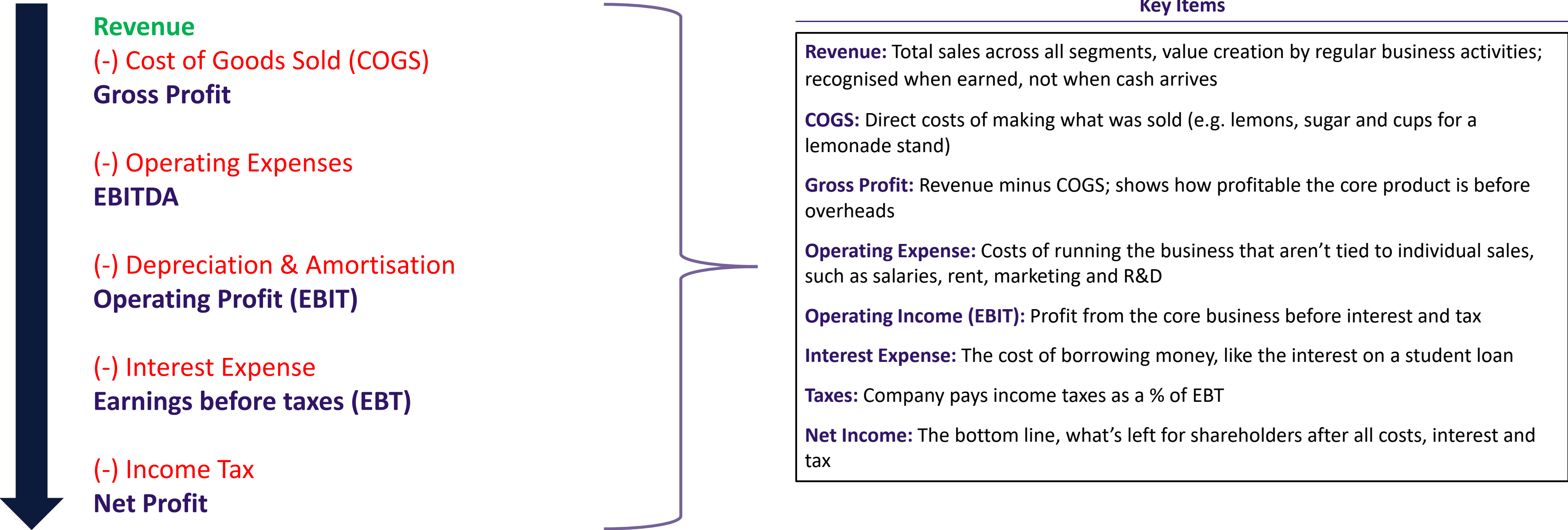
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Core Accounting: Income Statement

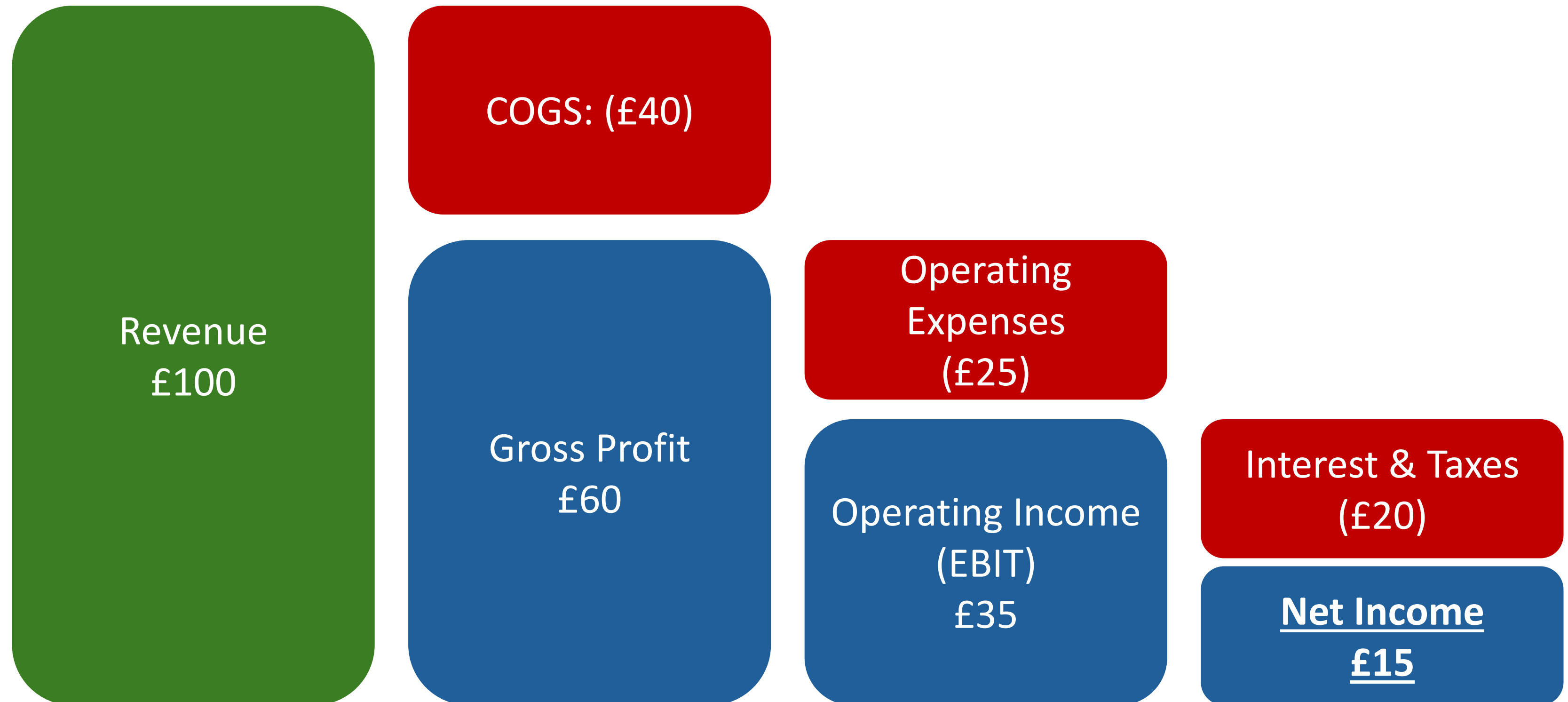
Income Statement

Purpose: Reports the revenues earned and expenses incurred by the business throughout the reporting period.



Core Accounting: Income Statement (Cont'd)

Income Statement: Visualisation



Core Accounting: Income Statement (Cont'd)

Income Statement/Consolidated Statement of Operations

Purpose: Reports the revenues earned and expenses incurred by the business throughout the reporting period.

Example:

NETFLIX

FY25

NETFLIX, INC.			
CONSOLIDATED STATEMENTS OF OPERATIONS			
(in thousands, except per share data)			
	Year ended December 31,		
	2025	2024	2023
Revenues	\$ 45,183,036	\$ 39,000,966	\$ 33,723,297
Cost of revenues	23,275,329	21,038,464	19,715,368
Sales and marketing	3,301,306	2,917,554	2,657,883
Technology and development	3,391,390	2,925,295	2,675,758
General and administrative	1,888,408	1,702,039	1,720,285
Operating income	13,326,603	10,417,614	6,954,003
Other income (expense):			
Interest expense	(776,510)	(718,733)	(699,826)
Interest and other income (expense)	172,459	266,776	(48,772)
Income before income taxes	12,722,552	9,965,657	6,205,405
Provision for income taxes	(1,741,351)	(1,254,026)	(797,415)
Net income	\$ 10,981,201	\$ 8,711,631	\$ 5,407,990
Earnings per share:			
Basic	\$ 2.58	\$ 2.03	\$ 1.22
Diluted	\$ 2.53	\$ 1.98	\$ 1.20
Weighted-average shares of common stock outstanding:			
Basic	4,249,512	4,295,191	4,415,712
Diluted	4,343,863	4,392,608	4,494,966

Core Accounting: Income Statement (Cont'd)

Income Statement/Consolidated Statement of Operations

Purpose: Reports the revenues earned and expenses incurred by the business throughout the reporting period.

Example:



FY26

Walmart Inc. Consolidated Statements of Income				
(Amounts in millions, except per share data)	Fiscal Years Ended January 31,			
	2026	2025	2024	
Revenues:				
Net sales	\$ 706,413	\$ 674,538	\$ 642,637	
Membership and other income	6,750	6,447	5,488	
Total revenues	713,163	680,985	648,125	
Costs and expenses:				
Cost of sales	535,395	511,753	490,142	
Operating, selling, general and administrative expenses	147,943	139,884	130,971	
Operating income	29,825	29,348	27,012	
Interest:				
Debt	2,318	2,249	2,259	
Finance lease	481	479	424	
Interest income	(368)	(483)	(546)	
Interest, net	2,431	2,245	2,137	
Other (gains) and losses	(2,075)	794	3,027	
Income before income taxes	29,469	26,309	21,848	
Provision for income taxes	7,199	6,152	5,578	
Consolidated net income	22,270	20,157	16,270	
Consolidated net income attributable to noncontrolling interest	(377)	(721)	(759)	
Consolidated net income attributable to Walmart	<u>\$ 21,893</u>	<u>\$ 19,436</u>	<u>\$ 15,511</u>	
Net income per common share:				
Basic net income per common share attributable to Walmart	\$ 2.74	\$ 2.42	\$ 1.92	
Diluted net income per common share attributable to Walmart	2.73	2.41	1.91	
Weighted-average common shares outstanding:				
Basic	7,983	8,041	8,077	
Diluted	8,022	8,081	8,108	
Dividends declared per common share	\$ 0.94	\$ 0.83	\$ 0.76	

Core Accounting: Accrual Accounting

Cash vs. Accrual Accounting

Difference: Accrual accounting records revenue and expenses when they are earned or incurred, while cash accounting records them only when cash changes hands.

Accrual Accounting

- Revenue is recorded when earned, and expenses when incurred, regardless of when cash moves
- Based on the matching principle: costs are recorded in the same period as the revenue they helped generate
- Any gap between recording and payment sits on the balance sheet
 - E.g. Sold but not yet paid for: accounts receivable
 - E.g. Used but not yet paid for: accounts payable or accrued expenses
- Required for larger companies under IFRS and US GAAP

Example

- In March, the lemonade stand sells £50 of lemonade to a local café, which agrees to pay in April
- **Accrual:** The £50 is March revenue, because that's when the lemonade was sold. Until the café pays, it sits on the balance sheet as accounts receivable
- **Cash:** Nothing is recorded in March. The £50 only counts as revenue in April, when the money arrives

Cash Accounting

- **“Cash is King”**
- Revenue and expenses are recorded only when cash actually changes hands
- Simple, and shows exactly how much cash the business has at any time
- Mainly used by small businesses and sole traders
- **Weakness:** profit can swing between periods based on when customers pay, not how the business performed

Question

Why use Accrual Accounting?

Core Accounting: Balance Sheet

Balance Sheet/Statement of Financial Position (SoFP)

Purpose: A snapshot of what a company owns and owes at a single point in time, unlike the income statement and cash flow statement, which cover a period.

Assets

- **Assets:** resources a company **controls today**, as a result of past events, with the potential to generate future **economic benefit**
- **Current Assets:** Used or turned into cash within 12 months: cash and cash equivalents, receivables, inventory, prepaid expenses
- **Non-Current Assets:** property, plant and equipment (PP&E), intangible assets, long-term investments
- **Not everything valuable is recognised:** a brand built internally, like Coca-Cola's, isn't on the balance sheet, but one bought in an acquisition is

Liabilities

- **Liabilities:** present obligations, from past events, to transfer an economic resource
- **Current liabilities** (due within 12 months): payables, accrued expenses, deferred revenue, short-term debt
- **Non-current liabilities:** long-term debt, lease liabilities, deferred tax, pensions
- **Not just debt:** deferred revenue is an obligation to deliver, not to pay cash
- **Debt matters for valuation**

Equity

- **Equity:** assets minus liabilities, the residual interest belonging to shareholders
- **Made up of:** share capital + retained earnings (+ other reserves)
- **Retained earnings:** grow each year by net income less dividends
- **Book value, not market value:** shareholders' equity rarely matches market capitalisation

Core Accounting Equation



Assets = Liabilities + Equity

Core Accounting: Balance Sheet (Cont'd)

Core Accounting Equation

Core Accounting Equation



Assets = Liabilities + Equity

Assets

What a company owns that provides value

=

Liabilities

What a company owes to external parties

+

Equity

What the owners own after debts are paid

Funding for Assets

Core Accounting: Balance Sheet (Cont'd)

Core Accounting Equation: Lemonade Stand

You've decided to start a lemonade stand. To get going, you put £200 of your own savings into the business. You then spend £50 on lemons, sugar and cups. Realising you'll need a proper stand, you go to the bank and take out a loan of £300. With that money, you buy a lemonade stand for £400. Finally, it's a sunny weekend and you sell all your lemonade for £120, using up all of your supplies.

Can you show how the accounting equation balances after each step?



Core Accounting: Balance Sheet (Cont'd)

Balance Sheet/Statement of Financial Position

Purpose: A snapshot of what a company owns and owes at a single point in time, unlike the income statement and cash flow statement, which cover a period.

Example:



H1, 2026

Equity			
Share capital		—	—
Other paid in capital		6,624	6,496
Treasury shares	13	(1,248)	(701)
Other reserves	13	2,588	3,366
Retained earnings/(accumulated deficit)		421	(832)
Equity attributable to owners of the parent		8,385	8,329

	Note	June 30, 2026 (Unaudited)	December 31, 2025
Assets			
Non-current assets			
Lease right-of-use assets	7	225	234
Property and equipment	8	193	188
Goodwill	9	1,110	1,083
Intangible assets	9	36	41
Long term investments	19	1,118	2,181
Restricted cash and other non-current assets	10	56	61
Finance lease receivables	7	71	69
Deferred tax assets	5	563	662
		3,372	4,519
Current assets			
Trade and other receivables	11	780	802
Income tax receivable		92	116
Short term investments	19	3,450	4,209
Cash and cash equivalents		5,938	5,258
Other current assets	12	116	111
		10,376	10,496
Total assets		13,748	15,015
Non-current liabilities			
Lease liabilities	7	404	433
Accrued expenses and other liabilities	17	2	2
Provisions	18	13	3
Deferred tax liabilities	5	30	163
		449	601
Current liabilities			
Trade and other payables	16	1,325	1,194
Income tax payable		171	72
Deferred revenue		778	711
Accrued expenses and other liabilities	17	2,573	2,589
Exchangeable Notes	15, 19	—	1,458
Provisions	18	45	51
Derivative liabilities	19	22	10
		4,914	6,085
Total liabilities		5,363	6,686
Total equity and liabilities		13,748	15,015

Core Accounting: Cash Flow Statement

Cash Flow Statement/Consolidated Statement of Cash Flows

Purpose: Tracks cash in and out over the period across operations, investing and financing, and reconciles accrual profit to the actual change in cash.

Cash Flow From Operations (CFO)	Cash Flow From Investing (CFI)	Cash Flow From Financing (CFF)
• Cash generated by the day-to-day business • Starts with net income, adds back non-cash items (e.g. D&A) and adjusts for changes in working capital • The key test: is the business operationally funding itself, or relying on lenders and investors?	• Cash spent on, or received from, long-term assets • Main items: capex (PP&E and intangibles), acquisitions and asset sales • Usually negative, because growing companies keep reinvesting	• Cash raised from, and returned to, lenders and shareholders • Main items: borrowing and repaying debt, issuing shares, dividends and buybacks • Q: What are the pros and cons of raising cash through debt as compared to equity?

CFO + CFI + CFF = Net Change In Cash



Core Accounting: Cash Flow Statement (Cont'd)

Cash Flow Statement/Consolidated Statement of Cash Flows

Purpose: Tracks movement of cash into and out of a business over a specific reporting period.

Example:



H1, 2024

	Six Months Ended June 30,	
	2024	2023
OPERATING ACTIVITIES:		
Net income	\$ 6,277	\$ 4,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,885	14,477
Stock-based compensation	60,965	51,605
Deferred income taxes	125	124
Non-cash lease income	(1,757)	(989)
Other	625	310
Changes in operating assets and liabilities:		
Accounts receivable and due from vendors	(15,697)	2,364
Prepaid expenses and other current assets	(35,545)	(1,480)
Accounts payable and accrued liabilities	29,784	9,822
Deferred revenue	69,012	38,030
Funds payable to customers	(4,943)	(2,131)
Other operating assets and liabilities	117	408
Net cash provided by operating activities	145,848	116,702
INVESTING ACTIVITIES:		
Proceeds from the sale and maturities of marketable securities	1,000	39,664
Purchases of marketable securities	(52,856)	(7,824)
Purchase of property and equipment	(6,074)	(7,167)
Net cash (used in)/provided by investing activities	(57,930)	24,673
FINANCING ACTIVITIES:		
Principal payments on debt	(24,488)	(20,379)
Payments for repurchase and retirement of Class A common stock	(16,311)	(25,321)
Taxes paid related to net share settlement of equity awards	(37,640)	(20,318)
Proceeds from exercise of stock options	2,585	134
Net cash used in financing activities	(75,854)	(65,884)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(513)	165
Increase in cash, cash equivalents and restricted cash, including cash classified as assets of business held for sale	11,551	75,656
Less: Increase in cash, cash equivalents and restricted cash classified as assets of business held for sale	(35,473)	—
Net (decrease)/increase in cash, cash equivalents and restricted cash	(23,922)	75,656
Cash, cash equivalents and restricted cash at the beginning of the period	294,285	232,620
Cash, cash equivalents and restricted cash at the end of the period	\$ 270,363	\$ 308,276
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 270,363	\$ 274,004
Restricted cash	—	34,272
Cash, cash equivalents, and restricted cash at the end of the period	\$ 270,363	\$ 308,276



Core Accounting: Three Financial Statements

If you could only use **one** of the three financial statements to analyse a company, which would it be?

A. Income Statement

B. Balance Sheet

C. Cash Flow Statement

Mentimeter



Core Accounting: Capex

Capital Expenditures (Capex)

Definition: Spending on long-term assets that benefit the business beyond the current year, covering both tangible assets (property, plant and equipment) and intangible assets (e.g. software, licences), to maintain or expand its operations.

Understanding Capital Expenditures (Capex)

- **Types of Capex**
 - **Maintenance Capex:** Spending to keep existing assets running (e.g. replacing a worn-out juicer)
 - **Growth Capex:** Spending to expand capacity (e.g. opening a second lemonade stand)
- **Why it matters:** Capex is a real cash outflow that doesn't appear in the **Income Statement**, so it's subtracted when calculating free cash flow
- **Tracking PP&E** (Property, Plant & Equipment: physical assets a company uses)
 - $\text{Closing PP\&E} = \text{Opening PP\&E} + \text{Capex} - \text{Depreciation} - \text{Disposals}$
 - $\text{Net Capex} = \text{Capex} - \text{D\&A}$
 - If net capex is positive, the asset base is growing; if negative, it's shrinking

Examples

Delivery Van



New Shop



Laptop



Capitalising vs. Expensing

- **Capitalising vs. Expensing**
 - **The key question:** Will the cost generate economic benefits beyond the current period, and can those benefits be reliably measured?
 - **If both are true**, the cost is capitalised as an asset
 - If the benefit is used up this period, or is too uncertain to measure, it's expensed
 - **Expensing**
 - Benefit is used up within the period (e.g. salaries, rent, repairs)
 - Hits the income statement in full immediately, reducing net income now
 - **Capitalising**
 - Benefit lasts beyond the period (e.g. machinery, buildings, laptops)
 - Recorded as an asset on the balance sheet, then expensed gradually through D&A over its useful life
- **The total cost is the same either way, capitalising just changes the timing**
- **Example**
 - A lemonade stand buys £60 of lemons and a £300 juicer lasting 3 years
 - Lemons are used up immediately, so the £60 is expensed
 - The juicer is capitalised at £300, then depreciated at £100 a year

Core Accounting: Capex (Cont'd)

Which of the following is an example of Capex?

- A. Tesla pays £40m in quarterly wages to production staff at its Berlin Gigafactory
- B. Adidas spends €150m building a new automated distribution centre in Germany
- C. Coca-Cola spends £200m on a global TV advertising campaign



Depreciation & Amortisation (D&A)

Definition: The process of spreading the cost of a long-term asset over its useful life, with depreciation applying to tangible assets (e.g. machinery, buildings) and amortisation to intangible assets (e.g. patents, software). Non-Cash Expense but appears on I/S!

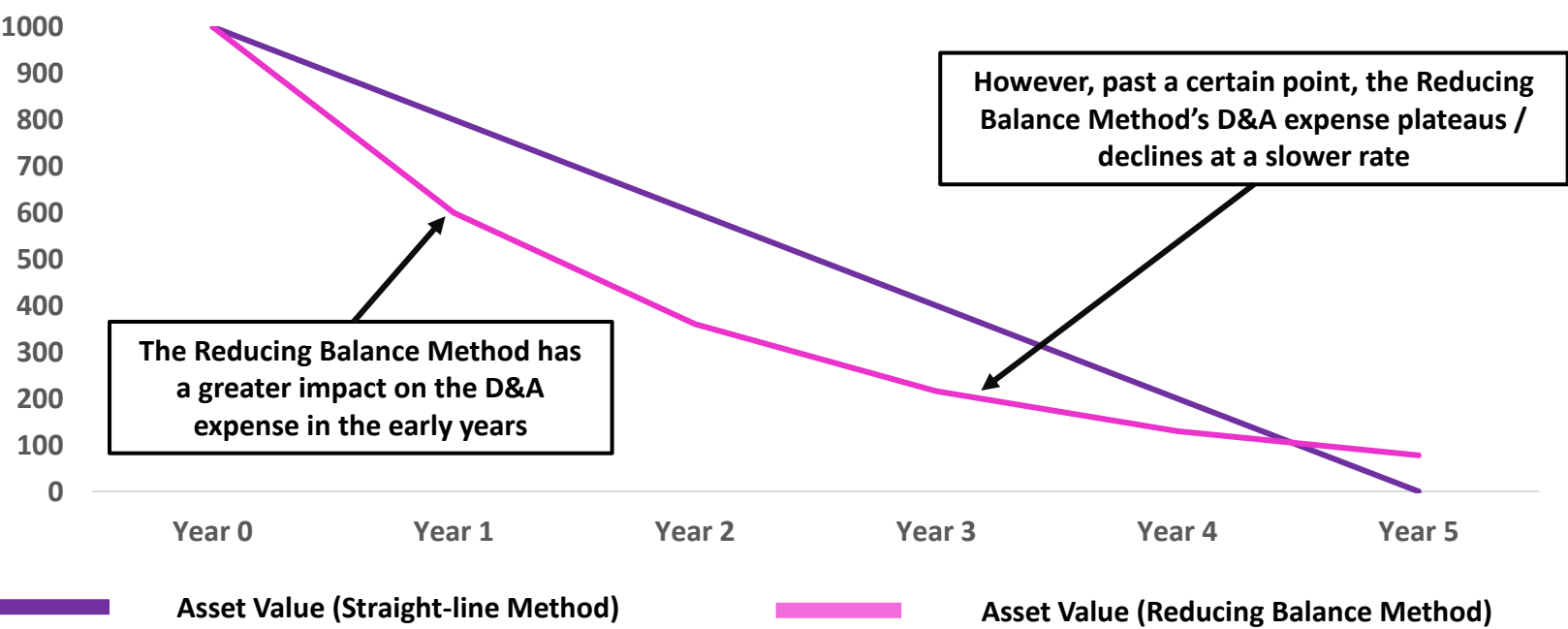
Methods Of Measuring D&A

1) Straight-Line Method

- Depreciation charge is the same each year
- Assumes benefit is consumed evenly

2) Reducing Balance

- Depreciation charge is decreasing YoY
- Assumes more benefit is consumed in earlier years



Example

Assume a scenario where you buy a car for **£1000** and choose to capitalise this cost. Based on other comparable cars and your own due diligence, assume that the useful life of the car is **5 years**.

Straight-Line Depreciation Method

Year	1	2	3	4	5
D&A (£)	$1000/5 = 200$	$1000/5 = 200$	$1000/5 = 200$	$1000/5 = 200$	$1000/5 = 200$
Asset Value, Net (£)	$1000 - 200 = 800$	$800 - 200 = 600$	$600 - 200 = 400$	$400 - 200 = 200$	$200 - 200 = 0$

Reducing Balance Method (Assume 40% Depreciation Rate)

D&A (£)	$40\% * 1000 = 400$	$40\% * 600 = 240$	$40\% * 360 = 144$	$40\% * 216 = 86.4$	$40\% * 129.6 = 51.8$
Asset Value, Net (£)	$1000 - 400 = 600$	$600 - 240 = 360$	$360 - 144 = 216$	$216 - 86.4 = 129.6$	$129.6 - 51.8 = 77.8$

Core Accounting: D&A (Cont'd)

Assuming straight-line depreciation (residual value = 0), which annual charge is correct?

- A. Ryanair buys an £80m aircraft with a 20-year life and depreciates £4m a year
- B. Maersk buys a £150m container ship with a 25-year life and depreciates £15m a year
- C. Monzo buys £2m of staff laptops with a 4-year life and records £2m of depreciation in year one



Core Accounting: NWC

Net Working Capital (NWC)

Definition: The cash tied up in a company's day-to-day operations, measured as operating current assets (e.g. receivables, inventory) minus operating current liabilities (e.g. payables, accrued expenses), excluding cash and debt.

Understanding Working Capital

- **Formula:** Current Operating Assets – Current Operating Liabilities
- **Intuition:** Reflects the cash that is tied up in the company's day-to-day operations
- When calculating Free Cash Flow, you would have to account for change to NWC (Prior Year NWC – Current Year NWC)
 - **Increase in NWC:** More cash is tied up in operations, so it reduces FCF (e.g. customers taking longer to pay)
 - **Decrease in NWC:** Cash is released from operations, so it increases FCF (e.g. paying suppliers more slowly)

Question

Is positive NWC a good sign? When might investors be happy with negative NWC?

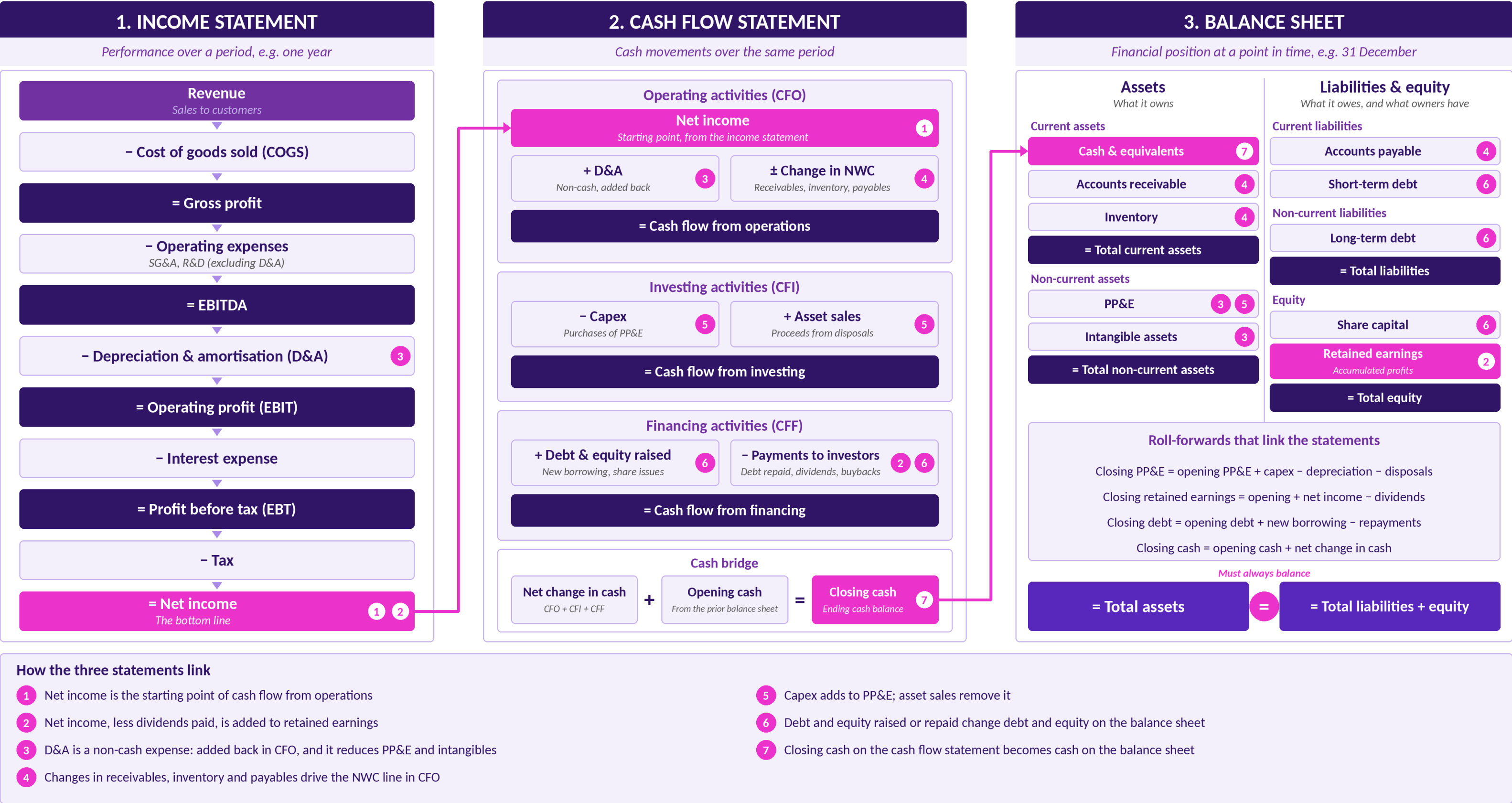
Common Components Of Net Working Capital

- **Current Assets**
 - Inventory
 - Accounts Receivable
 - Prepaid Expenses
- **Current Liabilities**
 - Accounts Payable
 - Deferred Revenue
 - Accrued Expenses

Items NOT Included In Working Capital

- **Current Assets**
 - Cash and Cash Equivalents
 - Short-Term Investments
 - Assets Held for Sale
- **Current Liabilities**
 - Short-Term Debt (e.g. revolving credit facility)
 - Current Portion of Long-Term Debt
 - Current Lease Liabilities
 - Dividends Payable

Core Accounting: How Financial Statements Are Linked



Core Accounting: Quick Model Walkthrough

ASML



Break!

t.kumar4@lse.ac.uk

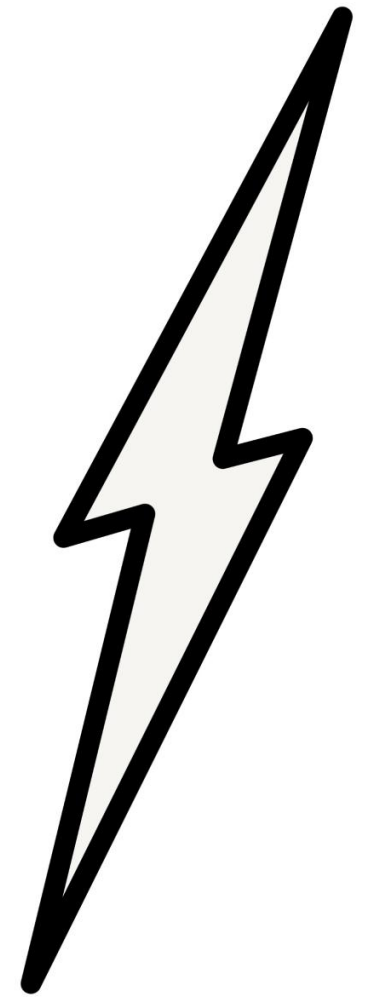
Break!

Q&A



V. Core Corporate Finance

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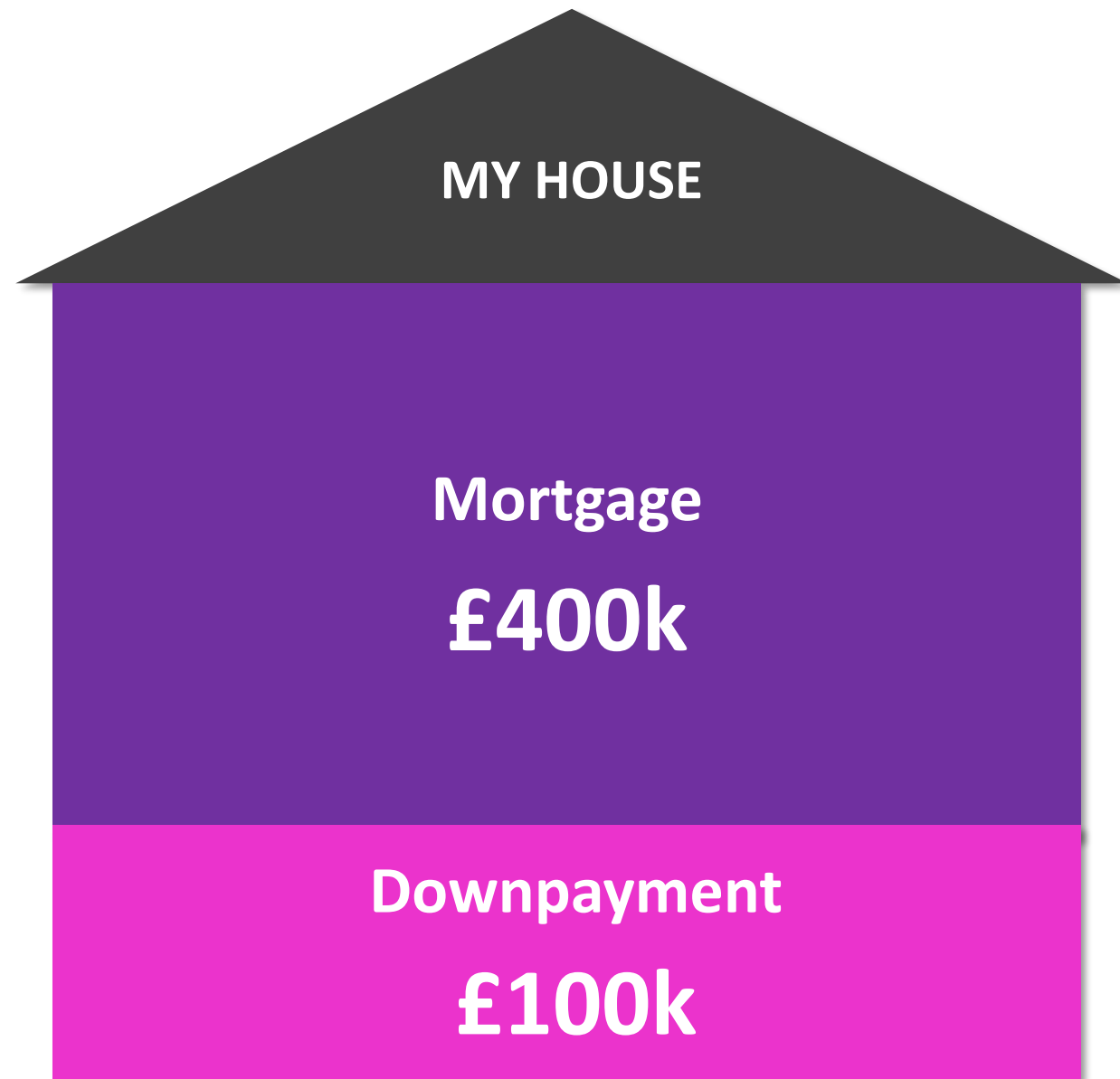


What Does Value Mean?



Core Corporate Finance: Enterprise Value vs. Equity Value

What Is The Value Of The House?



A. £400k

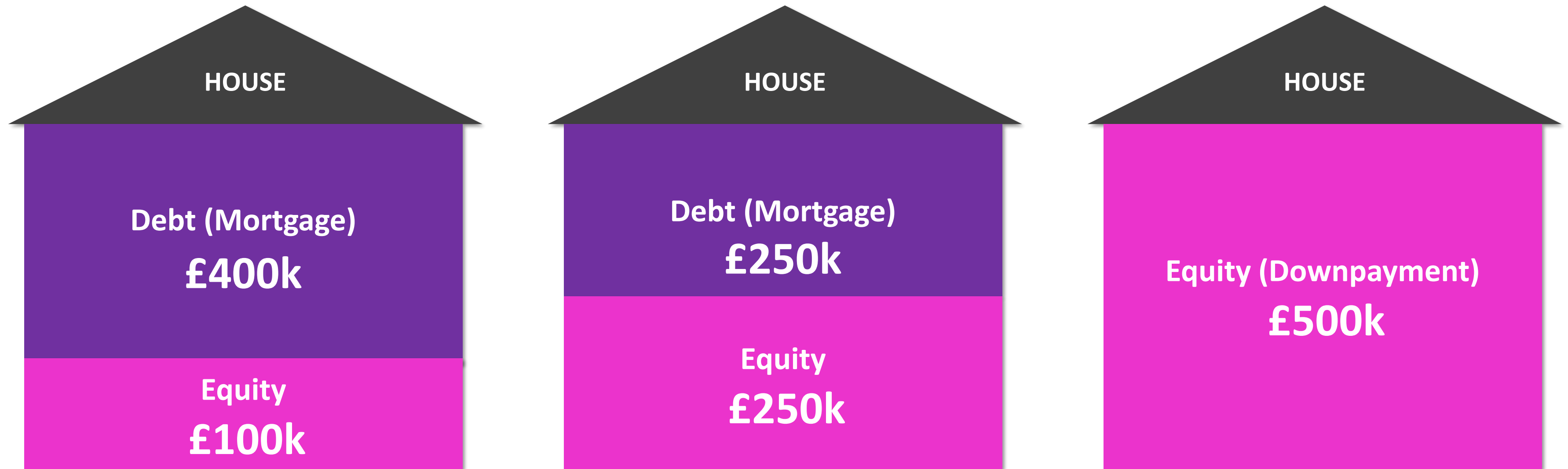
B. £100k

C. £500k



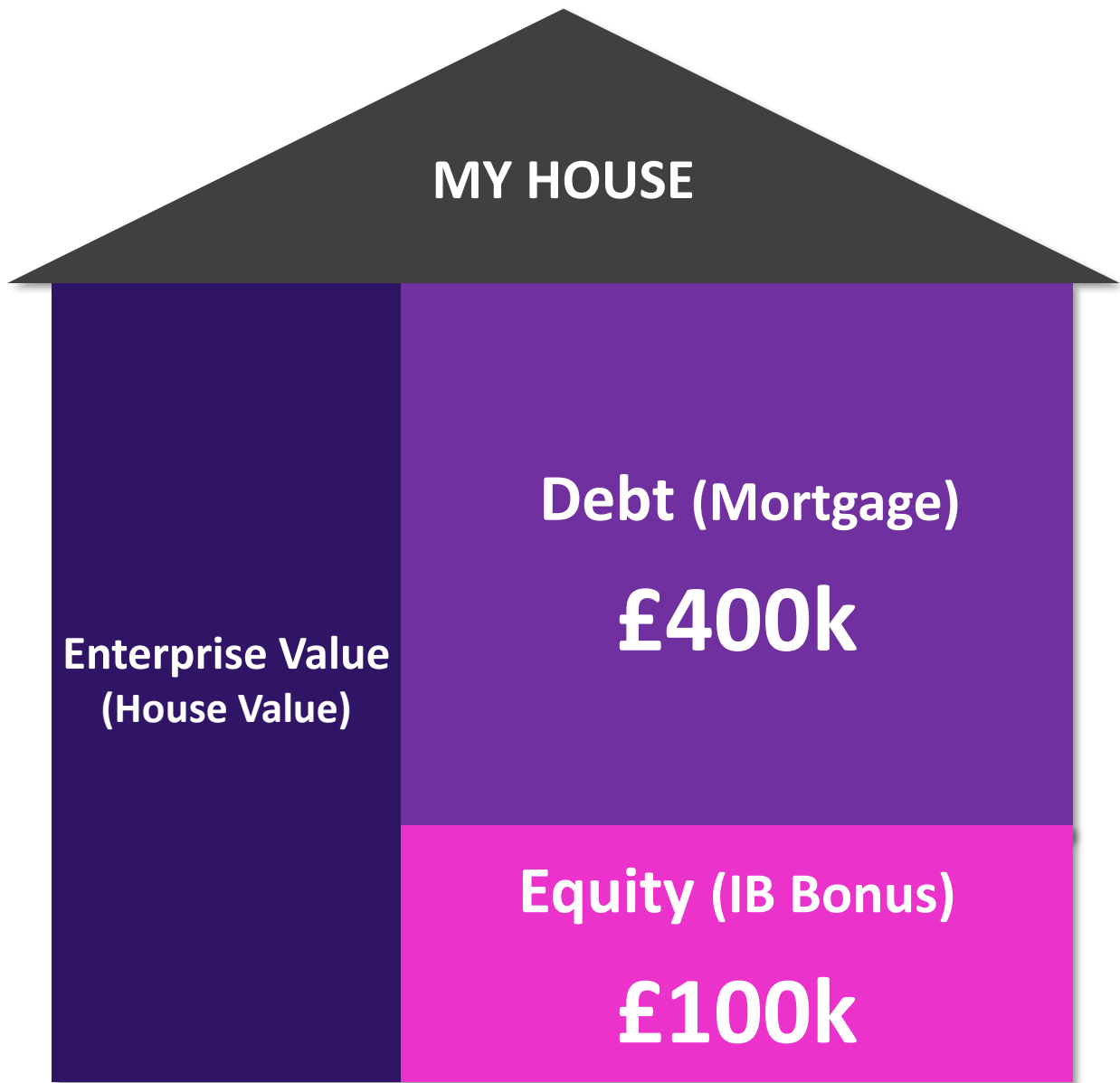
Core Corporate Finance: Enterprise Value vs. Equity Value (Cont'd)

Enterprise Value Is Capital Structure Neutral, Equity Value Is NOT



Intuition: The house is worth £500k in every case; only the split between debt and equity changes, which is why enterprise value is independent of capital structure.

Core Corporate Finance: Enterprise Value vs. Equity Value (Cont'd)



 HOW MUCH DO I OWE?

Mortgage you inherit **£400,000**

Debt **£400,000**

Usually, debt will be reduced to net debt, since there will be some non-operating cash on the balance sheet of a company.

 HOW MUCH DOES THE HOUSE COST?

Owner's personal stake **£100,000**

Take on the debt **+ £400,000**

Enterprise value **£500,000**

This is what the house itself costs you, whatever mix of savings and mortgage the last owner happened to use.

Equity Value = Share price x No. of shares outstanding

Enterprise Value = Equity Value – Cash + Debt

Enterprise Value = Equity Value – Cash + Debt + NCI + Preferred Stock

Intuition: Enterprise Value (EV) reflects the value of the core business independent of capital structure



Enterprise Value vs. Equity Value: Common Misconception

Shareholders' Equity (Book Value) $\neq$ Equity Value!

A company owns \$500M in buildings, \$300M in inventory, \$100M in patents, and has \$300M in debt. The company is trading at \$1,200M in Equity Value. How much more is Equity Value worth compared to Book Value?

- Total Assets = \$500M + \$300M + \$100M = \$900M
- Total Liabilities = \$300M
- Net Assets (Book Value) = \$900M – \$300M = \$600M
- Equity Value / Book Value = \$1,200M / \$600M = 2x
- This implies that investors see the company as 2 times more valuable than its net accounting assets, likely due to growth, earnings power, valuable intangible assets, superior market position, etc.



Core Corporate Finance: Types Of Financing



DEBT



EQUITY

WHAT YOU OWE

Interest and principal on a fixed schedule, regardless of how the business is doing.

Nothing contractual. Investors are rewarded only if the business performs.

WHERE YOU RANK

Paid first, ahead of shareholders, and often secured against assets.

Paid last, once every creditor has been settled in full.

WHAT IT COSTS

Cheaper. Lenders take less risk, so they accept a lower return.

More expensive. Shareholders bear the most risk, so they demand more.

TAX

Interest is tax-deductible*. So, the government funds part of the cost.

Dividends are paid out of post-tax profit. No tax relief at all.

THE CATCH!

Covenants restrict you, and missed payments can be detrimental, to the point where you might lose your business!

Existing owners are diluted and new shareholders get a say, which usually is not ideal for most owners/founders!

**Tax-deductible: interest is deducted before profit before tax is calculated. At a 25% tax rate, £100 of interest cuts the tax bill by £25, so it costs only £75.*

Would You Rather Have £100 Today Or £100 In 5 Years?



Common misconception!

Money today is worth more than money tomorrow not because of inflation, but because of opportunity cost: you could invest it and earn a return.



Why is this concept important?

All valuation comes back to this: a company is worth its future cash flows, expressed in today's money.

Core Corporate Finance: What Is Net Present Value (NPV)?

NPV asks whether what comes back is worth more than what goes out...

EXAMPLE PROJECT			DISCOUNTING THE ANNUAL RETURNS TO THE PRESENT		
Cost Today	How much it costs to fund the project. Termed the initial investment	£1000			
Annual Return (3 Years)	How much we make from the initial investment on a yearly/annual basis	£400			
Discount Rate	The return you could earn elsewhere on an investment of similar risk.	10%			
			YEAR 1	$£400/1.10$	£364
			YEAR 2	$£400/(1.10)^2$	£331
			YEAR 3	$£400/(1.10)^3$	£301
			TOTAL RETURNS (Discounted to the present)		£995

USING NPV TO DECIDE IF A PROJECT IS FEASIBLE

NPV

=

(Initial Investment)

+

Present Value of Returns

-£5

=

(£1000)

+

£995



If the NPV is positive go ahead with the project, otherwise reject it!

A negative NPV represents a project that consumes more than it creates

Core Corporate Finance: What Is Net Present Value (NPV)? (Cont'd)

Three banks offer you a signing bonus. **At a 10% discount rate**, which is worth the most today?

- A. Bank A pays £10,000 today
- B. Bank B pays £10,500 in one year
- C. Bank C pays £12,000 in three years



Core Corporate Finance: Introduction To WACC

A business is funded by shareholders and lenders, each expecting returns in relation to the risk they take.

WHAT THE SHAREHOLDERS DEMAND

Risk Free Rate ↑ R_f + $\beta \times (R_m - R_f)$ *Market Return* ↑

Beta ↓ *Equity Risk Premium* ↓

COST OF EQUITY

10%

(*re*)

- **Risk Free Rate:** The return you get from an investment with no risk, like a government bond
- **Beta:** How much a company's share price moves compared with the overall market (1 = moves with the market, above 1 = more volatile)
- **Equity Risk Premium:** The extra return investors expect for owning shares instead of risk-free bonds

DISCOUNT RATE = WACC (Weighted Average Cost of Capital)

Market Value of Firm's Equity ↑ E *Cost of Equity* ↑ (re)

Market Value of Firm's Debt ↑ D *Cost of Debt* ↑ (rd) *Tax Shield* ↑ $(1 - t)$

$\frac{E}{D + E} + \frac{D}{D + E} (rd)(1 - t)$

Market Value of the firm ↓

WHAT THE LENDERS DEMAND

COST OF DEBT

4%

(*rd*)

Interest Rate × (1 - tax%)

Tax Shield ↓

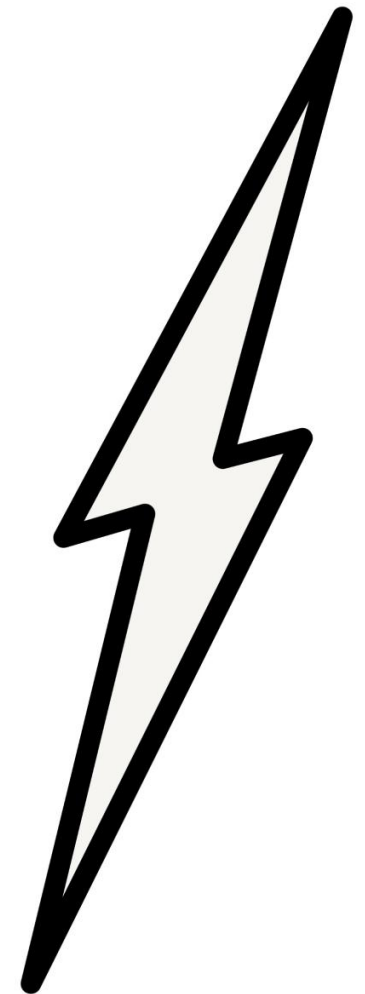
- **Interest Rate:** What the company pays lenders each year to borrow money
- **Tax Rate:** The percentage of profit the company pays in tax
- **Tax Shield:** The tax saved because interest is deducted before tax is calculated

SIMPLIFIED EXAMPLE CALCULATION OF WACC

Equity proportion of total	62.50%
Debt proportion of total	37.50%
Cost of Equity (CAPM)	8.00%
Cost of Debt	5.00%
Corporate tax rate	25.00%
After-tax cost of debt	3.75%
WACC	6.41%

VI. Valuation Overview

*Private
Equity
Society*



What Are The Main Valuation Methods?

Relative Valuation



Comparable Companies

- Values a company by **benchmarking it against similar listed peers**.
- **Trading multiples** such as EV/EBITDA and P/E are **applied to the target's own metrics**, which gives a market-based valuation

- 1 Select the peer universe (sector, size, geography, growth)
- 2 Gather financials and calendarise LTM/NTM figures
- 3 Calculate EV and equity multiples
- 4 Apply the peer range to the target to derive an implied value



Precedent Transactions

- Values a company using the multiples **paid in past M&A deals for similar businesses**.
- Because acquirers pay for control, precedents usually imply a higher value than trading comps.

- 1 Screen relevant past deals (sector, size, date range)
- 2 Gather deal terms from press releases, filings and merger proxies
- 3 Calculate transaction multiples at announcement
- 4 Apply the range to the target to derive an implied value

Intrinsic Valuation



Discounted Cash Flow (DCF) Analysis

- Values a company on the **Present Value of its Future Cash Flows**
- **Project Unlevered FCF**, typically over 5–10 years
- **Discount at WACC** to reflect risk and the time value of money
- Add a **Terminal Value** (Gordon growth or exit multiple)
- **Most sensitive to assumptions**, e.g. WACC or growth

Other Methods



LBO

Values a company **from a PE sponsor's point of view**: the maximum price it can pay, funded mostly with debt, while still hitting its target IRR. Often used as a valuation floor.



SOTP

Values each division separately, using the method that suits it best, then adds them up and deducts net debt. Used for conglomerates with mixed businesses.



Method I: Discounted Cash Flow (DCF)

DCF Schedule

All figures EUR millions unless stated

WACC 7.4%
Terminal Growth Rate 2.5%
Valuation Date 10/12/2025

Unlevered Free Cash Flow

Adjusted Cash Flows

Discrete
Terminal
Total Adjusted Cash Flows

Discount Period

Total Cash Flow

Discounted Cash Flow

Enterprise Value 31,753
Net Debt (4,399)
Minority Interest (381)
Equity Value 26,973
Shares Outstanding (mns) 178.549
Implied Share Price €151.1
Current Share Price €159.9
Implied Upside / (Downside) (5.5%)

Adidas DCF Valuation Outputs

WACC

(DD-MM-YY)
Fiscal Year End
Cash Flow Timing

Unlevered Free Cash Flow

Adjusted Cash Flows
Discrete
Terminal
Total Adjusted Cash Flows

Discount Period
Total Cash Flow
Discounted Cash Flow

		Implied Value/ share (€)					
		Terminal Growth Rate					
		2.00%	2.25%	2.50%	2.75%	3.00%	
6.4%	€173.8	€184.0	€195.4	€208.5	€223.4		
6.9%	€153.8	€161.8	€170.7	€180.7	€192.0		
7.4%	€137.5	€144.0	€151.1	€158.9	€167.7		
7.9%	€124.0	€129.3	€135.1	€141.4	€148.4		
8.4%	€112.6	€117.0	€121.8	€127.0	€132.6		
		2025E	2026E	2027E	2028E	2029E	2030E
Valuation	Forecast						
10/12/2025	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	
10/12/2025	20/12/2025	30/06/2026	30/06/2027	30/06/2028	30/06/2029	30/06/2030	
Unlevered Free Cash Flow	-	1,428	1,474	1,632	1,593	1,752	1,647
Adjusted Cash Flows		5.8%	100.0%	100.0%	100.0%	100.0%	100.0%
Discrete	-	83	1,474	1,632	1,593	1,752	1,647
Terminal	-	-	-	-	-	-	34,486
Total Adjusted Cash Flows	-	83	1,474	1,632	1,593	1,752	36,132
Discount Period		0.03	0.56	1.56	2.56	3.56	4.56
Total Cash Flow	-	83	1,474	1,632	1,593	1,752	36,132
Discounted Cash Flow	-	83	1,416	1,460	1,328	1,359	26,106



Illustrative DCF Model for Adidas

- Mid-year convention: cash flows are discounted from mid-year, as they arrive through the year
- Terminal value drives most of EV: therefore test the growth and WACC assumptions carefully
- WACC is the biggest lever: small changes swing the implied share price significantly
- Enterprise Value to Equity Bridge: subtract net debt and minorities to reach equity value
- Output is a range, not a single point: so always cross-check with comps and precedents

DCF: Quick Model Walkthrough





- **Peers are selected on** sector, size and business model so they are genuinely comparable
- **Use the median over the average** so outliers like Lululemon don't distort the result
- **Implied EV less Net Debt** gives Equity Value. Divide by shares outstanding for Value per Share
- **EV/ EBITDA beats EV/Revenue when margins differ:** because revenue ignores profitability
- **The implied range is wide** (\$7.77–\$14.76), so the choice of multiple really matters

Illustrative Comparable Companies Analysis for Under Armour

Company Name	Financials		Market Data				Valuation	
	Revenue (USD, 000's)	EBITDA (USD, 000's)	Share Price (USD)	Market Cap (\$, 000's)	Net Debt (USD, 000's)	Enterprise Value	EV/Revenue	EV/EBITDA
UNDER ARMOUR, INC. (XNYS:UA)	5,903,636	423,431	\$ 6.51	\$ 2,899,159	809,271	\$ 3,708,430	0.63x	8.76x
HANESBRANDS INC. (XNYS:HBI)	6,233,650	700,594	\$ 4.96	\$ 1,735,438	4,062,102	\$ 5,797,540	0.93x	8.28x
LULULEMON ATHLETICA INC. (XNAS:LULU)	8,110,518	2,017,932	\$ 365.59	\$ 44,583,518	(84,533)	\$ 44,498,985	5.49x	22.05x
Puma SE (XFRA:PUM)	8,918,064	809,833	\$ 65.45	\$ 9,871,168	1,170,033	\$ 11,041,202	1.24x	13.63x
PVH CORP. (XNYS:PVH)	9,024,200	1,166,500	\$ 78.06	\$ 4,895,682	3,289,900	\$ 8,185,582	0.91x	7.02x
RALPH LAUREN CORPORATION (XNYS:RL)	6,443,600	966,900	\$ 111.85	\$ 7,300,363	1,316,200	\$ 8,616,563	1.34x	8.91x
SKECHERS U.S.A., INC. (XNYS:SKX)	7,444,550	700,386	\$ 48.39	\$ 7,488,546	923,774	\$ 8,412,320	1.13x	12.01x
TAPESTRY, INC. (XNYS:TPR)	6,684,500	1,413,900	\$ 32.99	\$ 7,503,219	2,311,700	\$ 9,814,919	1.47x	6.94x
V.F. CORPORATION (XNYS:VFC)	11,612,475	1,304,462	\$ 18.87	\$ 7,337,947	7,336,086	\$ 14,674,033	1.26x	11.25x
Min							0.91x	6.94x
Average							1.72x	11.26x
Median							1.25x	10.08x
Max							5.49x	22.05x
Under Armour Valuation								
Implied Enterprise Value							7,384,609	4,268,320
Net Debt							809,271	809,271
Implied Market Value							6,575,338	3,459,049
Shares Outstanding							445,339	445,339
Implied Value Per Share							\$14.76	\$7.77
Premium (Aug '23)							+127%	+19%

Method III: Precedent Transactions Analysis (Precedents)



Illustrative Precedent Transactions Analysis for Jazz Pharmaceuticals

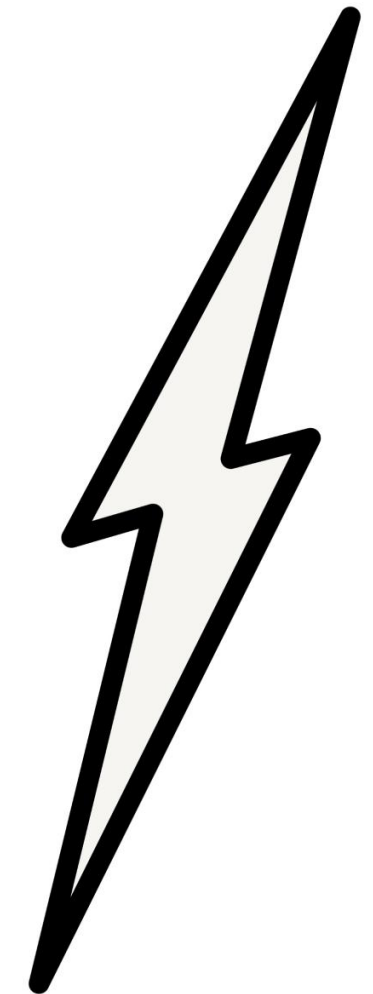
- **Control premium** : acquirers pay for control, so precedents usually value a company above trading comps
- **Undisturbed price**: premiums are measured against the share price before any deal rumours
- **Deal timing**: older deals reflect different market conditions, so give more weight to recent transactions
- **“Not meaningful” (NM) multiples**: targets with negative or near-zero EBITDA produce distorted multiples, so they are excluded from the statistics
- **Valuation range**: use the median and the 25th–75th percentile range to set the range

Jazz Pharmaceuticals plc - Comparable M&A Transactions			Operating Metrics			Valuation Multiples		Premiums Paid to Undisturbed		
Acquirer Name	Target Name	Date	Transaction Enterprise Value	LTM Revenue	LTM EBITDA	TEV / LTM Revenue	TEV / LTM EBITDA	Share Price		
								1-Day Prior	1-Week Prior	1-Month Prior
AstraZeneca PLC	Alexion Pharmaceuticals, Inc.	2020-12-12	\$ 40,021.1	\$5,862.4	\$3,061.8	6.8 x	13.1 x	44.9%	45.5%	37.4%
Sanofi S.A.	Bioverativ Inc.	2018-01-22	11,037.8	1,168.5	474.8	9.4 x	23.2 x	63.8%	64.7%	95.7%
Shire plc	Baxalta Incorporated	2016-01-11	35,218.9	6,148.0	2,105.0	5.7 x	16.7 x	37.5%	48.9%	43.7%
Allergan plc (fka: Actavis plc)	Allergan, Inc.	2014-11-17	68,725.9	7,003.2	2,330.0	9.8 x	29.5 x	54.2%	76.7%	75.1%
Bristol-Myers Squibb Company	Amylin Pharmaceuticals, LLC	2012-06-29	6,637.7	651.7	(449.6)	10.2 x	NM	101.4%	103.0%	73.5%
Fresenius Kabi USA, LLC	Akorn, Inc.	2017-04-24	4,789.0	1,101.9	445.9	4.3 x	10.7 x	34.8%	41.2%	51.9%
Lonza Group Ltd	Capsugel Inc.	2016-12-15	5,500.0	1,000.0	344.0	5.5 x	16.0 x	N/A	N/A	N/A
Danaher Corporation	Cepheid	2016-09-06	4,078.8	564.3	0.6	7.2 x	NM	54.0%	53.4%	47.9%
Pfizer Inc.	Medivation, Inc.	2016-08-22	14,003.7	1,027.1	456.5	13.6 x	30.7 x	118.0%	106.9%	127.8%
AbbVie Inc.	Pharmacyclics LLC	2015-03-04	20,166.7	816.1	112.9	24.7 x	NM	38.6%	56.3%	64.8%
Valeant Pharmaceuticals International Inc. (nka:Bausch Health Americas, Inc.)	Salix Pharmaceuticals Ltd.	2015-02-22	16,137.2	1,133.5	154.8	14.2 x	NM	43.9%	46.5%	57.1%
Merck & Co., Inc.	Cubist Pharmaceuticals LLC	2014-12-08	9,488.3	1,164.5	203.6	8.1 x	46.6 x	37.2%	34.5%	44.2%
Mallinckrodt Public Limited Company	Questcor Pharmaceuticals, Inc. (nka:Mallinckrodt ARD Inc.)	2014-04-07	5,300.3	890.9	516.9	5.9 x	10.3 x	26.9%	38.6%	32.7%
Allergan plc (fka: Actavis plc)	Forest Laboratories, LLC	2014-02-18	22,128.8	3,371.4	418.3	6.6 x	52.9 x	25.3%	29.9%	27.9%
Forest Laboratories, LLC	Aptalis Holdings Inc.	2014-01-08	2,900.0	700.2	275.6	4.1 x	10.5 x	N/A	N/A	N/A
Amgen Inc.	Onyx Pharmaceuticals, Inc.	2013-08-25	9,253.8	516.0	(151.5)	17.9 x	NM	44.0%	52.8%	29.8%
Valeant Pharmaceuticals International Inc. (nka:Bausch Health Americas, Inc.)	Medicis Pharmaceutical Corporation	2012-09-03	2,328.8	763.7	191.4	3.0 x	12.2 x	39.4%	35.4%	33.7%
Maximum			\$ 68,725.9	\$7,003.2	\$3,061.8	24.7 x	52.9 x	118.0%	106.9%	127.8%
75th Percentile			20,166.7	1,168.5	474.8	10.2 x	29.8 x	54.1%	60.5%	69.1%
Median			9,488.3	1,027.1	344.0	7.2 x	16.4 x	43.9%	48.9%	47.9%
25th Percentile			5,300.3	763.7	154.8	5.7 x	11.8 x	37.3%	39.9%	35.5%
Minimum			2,328.8	516.0	(449.6)	3.0 x	10.3 x	25.3%	29.9%	27.9%

VII. Poll And Q&A



*Private
Equity
Society*



See you next week! (21 Oct)
