



CASE STUDY: RISK AND RETURN ON INVESTMENT

INVESTMENT GROUP GAINS CLEAR PICTURE OF RISKS AND REWARDS

Asking the Hard Questions

A group of investors was evaluating an opportunity to purchase exclusive distribution rights for a new technology. What benefits and associated risks would there be with this investment?

Giving Honest Answers

EKS&H prepared a financial model to assist the investors in evaluating capital structure and financing options for the venture. The model measured the impact of different combinations of bank debt, subordinated debt and equity. We projected cash flow and balance sheet impact for each structure option and utilized the model to assess the key risks and opportunities of the venture.

We modeled best-case and worst-case scenarios for the expected return on investment and worked with the investors to analyze the aggressive growth assumptions and most likely financing structure for the business. We helped the investors understand the risk associated with the complex terms offered by the manufacturer. Our model demonstrated how the asset-ownership and equity-dilution provisions offered by the seller of the investment increased the risk of failure, and could significantly impact the investors' ability to obtain necessary financing to fund growth.

Providing Actionable Solutions

The investors utilized the financial projections and input from EKS&H to try to negotiate more favorable terms with the sellers, but in the end they were not comfortable with the risk associated with the terms of the deal, and declined the offer. Although the investors did not go through with the purchase, they commended EKS&H's objectivity and honest answers in helping them understand the full story of the proposed investment.

EKS&H

Talk to an EKS&H Business Consultant today: **303.740.9400**

DENVER • FORT COLLINS • BOULDER