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CREATING AND DESTROYING VALUE OF A BUSINESS: HOW STRATEGY DEFINES COMPANY'S FUTURE

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INERTIA AS A TRAP: LACK OF STRATEGIC CHANGE DESTROYS VALUE

In any mature market, there are both growing and stagnant companies. Some increase sales and operational efficiency, while others are content with maintaining revenues and profits. However, amidst shifts in consumer behavior, rising capital costs, and inflationary pressures, passive stance on strategic issues becomes especially dangerous: it directly impacts company's ability to maintain or create shareholder value.

This context makes it interesting to compare two players in the Russian dairy market. **Company A** and **Company B** operated in the same macroeconomic environment during 2020–2024 but took fundamentally different approaches to business and capital management.

Both companies produce dairy products, are located in different regions of the Central Federal District near Moscow, offer identical product lines, and had comparable business sizes as of 2020. They are selected due to the similarity of their businesses and market context - thus, the divergence in their development paths post-2020 is largely due to differing strategic approaches of their shareholders.

1. Business Growth and Strategy

Company A vs Company B: Financial Performance 2020–2024, RUB M

Indicators		Company B								
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
I. Profit and Loss										
Revenues	6 881,0	7 074,7	9 555,6	10 481	13 677,1	6 188,9	6 462,4	7 625,1	6 470,8	8 098,2
Growth rate, y-o-y, %		2,8%	35,1%	9,7%	30,5%		4,4%	18,0%	-15,1%	25,2%
Gross profit	1 130,7	1 415,6	2 295,6	2 367,9	3 276,2	1 089,9	1 025,5	1 429,9	714,6	1 118,0
Gross profit margin	16,4%	20,0%	24,0%	22,6%	24,0%	17,6%	15,9%	18,8%	11,0%	13,8%
Operating profit	168,3	409,2	1 093,7	862,7	1 134,1	677,2	468,2	661,8	(28,6)	443,9
Operating profit margin	2,4%	5,8%	11,4%	8,2%	8,3%	10,9%	7,2%	8,7%	-0,4%	5,5%
Other income	18,4	11,0	30,6	81,6	149,9	25,0	20,6	18,4	51,8	82,3
Other expenses	(55,5)	(64,4)	(129,2)	(106,1)	(168,0)	(164,2)	(170,2)	(210,9)	(100,0)	(105,0)
EBIT	131,2	355,8	995,1	838,2	1 115,9	537,9	318,6	469,3	(76,8)	421,1
+ Depreciation	128,7	114,2	86,1	104,5	235,9	94,5	103,8	95,8	158,0	165,4
EBITDA	259,9	470,0	1 081,3	942,7	1 351,8	632,4	422,4	565,1	81,3	586,5
EBITDA margin	3,8%	6,6%	11,3%	9,0%	9,9%	10,2%	6,5%	7.4%	1,3%	7,2%

Company A shows sustainable growth in both revenue and EBITDA: from RUB 6.9 bn in 2020 to RUB 13.7 bn in 2024, with EBITDA increasing more than fourfold.

This suggests an effective scaling strategy and a clear focus on operational efficiency by owners and top management.

Company B demonstrates modest sales growth from 2020–2024 (from RUB 6.2 bn to RUB 8.1 bn, with a dip in 2023 vs 2022). However, EBITDA margin significantly deteriorated. As a result, EBITDA declined by 7.3%.

This financial trajectory indicates either a lack of growth strategy or its poor execution by top management.

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KEY VALUE CREATION METRICS

2. Capital Efficiency and Economic profit (EP)

Company A maintained a ROIC consistently above WACC, thus generating economic profit (EP) and efficiently using invested capital.

Such metrics reflect Company A's ability to manage invested capital efficiently and consistently increase its shareholder value.

Company B, on the other hand, demonstrates the opposite trend: since 2022 ROIC fell below WACC, with the gap worsening in 2023–2024.

Such a dynamic between ROIC and WACC indicates that Company B is destroying shareholder value, with negative returns for its owners.

Company A vs Company B: Capital Efficiency, RUB M

	Company B								
2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
131,2	355,8	995,1	838,2	1 115,9	537,9	318,6	469,3	(76,8)	421,1
20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
104,9	284,7	796,1	670,5	892,7	430,4	254,9	375,5	(61,4)	336,9
1555	1 437	2 255	3 464	6 046	2 385	2 408	2 706	2 692	2 756
445	538	1 073	1 709	2 583	890	1 003	1124	978	1 038
1 109	899	1 182	1 756	3 463	1 495	1 405	1 582	1714	1 718
6,8%	19,0%	43,1%	23,4%	18,8%	19,6%	10,6%	14,7%	-2,3%	12,4%
8,5%	9,5%	19,1%	15,2%	17,3%	8,7%	9,6%	18,0%	14,8%	17,0%
-1,7%	9,5%	24,0%	8,2%	1,5%	10,9%	1,1%	-3,4%	-17,0%	-4,7%
	131,2 20,0% 104,9 1 555 445 1 109 6,8% 8,5%	2020 2021 131,2 355,8 20,0% 20,0% 104,9 284,7 1555 1437 445 538 1109 899 6,8% 19,0% 8,5% 9,5%	2020 2021 2022 131,2 355,8 995,1 20,0% 20,0% 20,0% 104,9 284,7 796,1 1555 1 437 2 255 445 538 1 073 1109 899 1 182 6,8% 19,0% 43,1% 8,5% 9,5% 19,1%	131,2 355,8 995,1 838,2 20,0% 20,0% 20,0% 20,0% 104,9 284,7 796,1 670,5 1555 1437 2255 3464 445 538 1073 1709 1109 899 1182 1756 6,8% 19,0% 43,1% 23,4% 8,5% 9,5% 19,1% 15,2%	2020 2021 2022 2023 2024 131,2 355,8 995,1 838,2 1115,9 20,0% 20,0% 20,0% 20,0% 20,0% 104,9 284,7 796,1 670,5 892,7 1555 1437 2255 3464 6046 445 538 1073 1709 2583 1109 899 1182 1756 3463 6,8% 19,0% 43,1% 23,4% 18,8% 8,5% 9,5% 19,1% 15,2% 17,3%	2020 2021 2022 2023 2024 2020 131,2 355,8 995,1 838,2 1 115,9 537,9 20,0% 20,0% 20,0% 20,0% 20,0% 20,0% 104,9 284,7 796,1 670,5 892,7 430,4 1555 1 437 2 255 3 464 6 046 2 385 445 538 1 073 1 709 2 583 890 1 109 899 1 182 1 756 3 463 1 495 6,8% 19,0% 43,1% 23,4% 18,8% 19,6% 8,5% 9,5% 19,1% 15,2% 17,3% 8,7%	2020 2021 2022 2023 2024 2020 2021 131,2 355,8 995,1 838,2 1115,9 537,9 318,6 20,0% 20,0% 20,0% 20,0% 20,0% 20,0% 20,0% 104,9 284,7 796,1 670,5 892,7 430,4 254,9 1555 1437 2255 3464 6046 2385 2408 445 538 1073 1709 2583 890 1003 1109 899 1182 1756 3463 1495 1405 6,8% 19,0% 43,1% 23,4% 18,8% 19,6% 10,6% 8,5% 9,5% 19,1% 15,2% 17,3% 8,7% 9,6%	2020 2021 2022 2023 2024 2020 2021 2022 131,2 355,8 995,1 838,2 1115,9 537,9 318,6 469,3 20,0%	2020 2021 2022 2023 2024 2020 2021 2022 2023 131,2 355,8 995,1 838,2 1 115,9 537,9 318,6 469,3 (76,8) 20,0%

Source: SPARK, ink Advisory calculations

EBIT – Earnings Before Interest and Taxes

NOPAT – Net Operating Profit After Tax

ROIC – Return On Invested Capital

WACC – Weighted Average Cost of Capital

EP Spread – Difference between ROIC and WACC

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THE IMPACT OF STRATEGY ON COMPANY VALUE AND SHAREHOLDER RETURNS

3. Missed Opportunity: Company B's Failed Exit Timing

In 2020–2021, **Company B** had ROIC above WACC and potential for further growth of value – an ideal time to sell at peak valuation.

However, its owners neither sought suitors for the business nor pursued aggressive growth. As a result, by the end of 2024, **Company B**'s equity value declined more than 2 times.

This case illustrates a missed opportunity: owners could have exited at peak valuation, but they did not pull the trigger.

Businesses should ideally be sold at peak profitability, when valuation multiples yield maximum value.

Without growth, worsening efficiency and apparent profitability decline owners see company valuations plummeting.

Company A vs Company B: Enterprise Value (EV) and Equity Value (EqV), RUB M

Indicators		С	ompany	A		Company B					
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	
III. Valuation											
EBITDA	259,9	470,0	1 081,3	942,7	1 351,8	632,4	422,4	565,1	81,3	586,5	
Valuation range											
EV/EBITDA (min)	7,0(x)	6,0(x)	6,0(x)	6,0(x)	6,0(x)	7,0(x)	6,0(x)	5,0(x)	5,0(x)	5,0(x)	
EV/EBITDA (max)	8,0(x)	8,0(x)	8,0(x)	8,0(x)	8,0(x)	8,0(x)	7,0(x)	6,0(x)	6,0(x)	6,0(x)	
Enterprise Value (min)	1 819,3	2 820,0	6 487,7	5 656,2	8 110,7	4 427,1	2 534,6	2 825,7	406,3	2 932,5	
- Net Debt	(1 097,0)	(881,5)	(1 127,4)	(1 089,2)	(3 114,4)	(1 458,7)	(1 393,3)	(1 566,7)	(1 422,8)	(1 668,0)	
Equity Value (min)	722,3	1938,5	5 360,2	4 567,0	4 996,3	2 968,4	1 141,3	1 259,0	(1 016,5)	1264,4	

Enterprise Value (EV) – Total business value (Equity plus Debt) Equity Value (EqV) – Shareholders value

Indicators		Co	ompany <i>i</i>		Company B					
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
IV. Total shareholders ret										
Equity Value	(722,3)				4 996,3	(2 968)				1 264,4
Dividends	-	157,8	255,4	111,6	121,7	129,0	43,4	76,2	-	24,0
Shareholders CF	(722,3)	157,8	255,4	111,6	5 117,9	(2 839)	43,4	76,2	-	1 288,4
Shareholders IRR 2020-2024	76,3%					-16,7%				

IRR – Internal Rate of Return for shareholders

Source: SPARK, ink Advisory calculations

Company A used capital effectively and grew shareholder value: an end of 2024 exit would yield a shareholder IRR of 76.3% relative to the 2020 valuation.

This is the result of a systematic strategic effort that led to EBITDA growth and improved capital profitability.

Company B, by contrast, lost over 50% of equity value. Shareholder IRR in case of a 2024 exit would be –16.7%.

The decline in ROIC relative to WACC, driven by lack of strategic growth, resulted in value destruction.

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ABOUT US

ink Advisory is an investment banking group founded in 2024 by a team of professionals with decades of experience in the US, CIS and the EU.

Prior to establishing ink Advisory, the team had been known in the investment banking market as Lead Advisory division of Crowe CRS (Russaudit).

ink Advisory advises clients in M&A deals, establishing joint ventures and raising equity, and builds corporate strategies and capital growth strategies.

Contact us to learn how we can help you.



ink Advisory Office 928 | 34 Floor 2 Khodynskaya St., Moscow 123022

www.ink-advisory.com

contact@ink-advisory.com





Ruslan Izmaylov Managing Partner r.izmaylov@ink-advisory.com



Nikita Katiev, CFA Senior Manager n.katiev@ink-advisory.com

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