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# HOW THE CHOICE OF STRATEGY AFFECTS BUSINESS VALUATION AND FOUNDERS' WEALTH



Insights | Strategy

# THE IMPACT OF GROWTH STRATEGY ON THE FUTURE BUSINESS VALUE AND THE FOUNDER'S WEALTH

In our "Active Growth Strategy: MD Medical Group Case" article we recently discussed three strategic growth pathways with varying capital structures: internal growth strategy, sustainable growth strategy, and active growth strategy. In this article, we take the next leap – using a financial model we illustrate how capital structure choices impact the pace of business expansion, future enterprise value, and founder's returns.

**Most business owners believe that growth potential is primarily driven by product quality, team capabilities, production and sales technologies, and market trends. In practice, however, the growth trajectory is also determined by how the expansion of business is financed. Capital structure affects scale, financial stability, and long-term valuation as much as product quality, marketing efficiency, and customer relations.**

Founders have differing interpretations of the role of external capital – and these assumptions shape their view of available growth strategies.

Some prioritize complete independence and therefore rely exclusively on internally generated funds, approaching debt with caution. Others perceive debt as the primary – if not the only – instrument for funding expansion. A third group sees equity investors as a strategic opportunity.

In reality, the choice of capital structure – the balance between equity and debt – defines the long-term growth rate of the company and its future value. Decisions in this area are often made intuitively, rather than analytically, even though the financial consequences of such choices are substantial.

To demonstrate this, we built a financial model showing how the same business evolves under different growth strategies over both the medium- and long-term horizons.

We took a hypothetical mid-sized private company and modelled its performance over a ten-year period across several scenarios, each corresponding to a specific growth strategy.

The underlying logic for costs, capacity utilization, and working capital remains consistent across strategies. However, the pace of scaling and operational performance differs depending on how the business expansion is financed.

As the company scales, its profitability, asset turnover, and infrastructure efficiency evolve. These effects manifest differently in each scenario – capital structure determines how quickly the company reaches the scale at which operating leverage begins to materialize.

We examined three fundamental strategies for a company operating in a growing market:

1. Internal Growth – funded solely through internal resources

   The company expands gradually, reinvesting earnings. Scaling is constrained by the pace at which capital accumulates – operating leverage and scale effects materialize slowly.

2. Sustainable Growth – a combination of internal funds and moderate financial leverage

   Debt financing accelerates launches of new project and helps the company reach the effects of scale faster. Leverage remains within acceptable limits (Debt/EBITDA ≤ 3.0x).

3. Active Growth – a combination of equity capital and financial leverage

   Raising new equity enables the company to scale significantly faster and unlock operating efficiencies earlier. As a result, both the pace of development and the company's future valuation increase substantially.

# GROWTH STRATEGIES: OPPORTUNITIES AND CONSTRAINTS FOR FOUNDERS

The financial model allows us to compare three growth scenarios – Internal Growth (Strategy A), Sustainable Growth (Strategy B), and Active Growth (presented in two versions, Strategies C1 and C2). All strategies rely on identical starting operational parameters, enabling a clear comparison of how capital structure affects the pace of business scaling.

The financial model captures the dynamics of key financial metrics, the rate of the investment program roll-out, cash-flow generation, and the overall financial stability of the company.

This approach makes it possible to define the optimal balance between the speed of growth and financial stability in a growing market.

The analysis shows that the choice of capital structure is one of the most critical strategic decisions. Capital structure significantly impacts the company's ability to raise external financing, which in turn determines the speed of scaling and the realization of economies of scale. Ultimately, these factors directly influence the company's valuation and the returns generated for its owners

| | |
|---|---|
| Strategy A – Internal Growth | ▪ Description: The company expands using internal sources of funding (operating cash flows). Capital expenditures are limited by available cash flows, meaning the company must accumulate funds before deploying new capacity;<br>▪ What the founder gets: Full financial independence and preservation of 100% ownership and control;<br>▪ Restrictions: Low business growth rates, potentially missed market opportunities, and constrained value creation potential. |
| Strategy B – Sustainable Growth | ▪ Description: The company grows with moderate use of financial leverage (Debt/EBITDA capped at 3.0x), enabling accelerated expansion without compromising financial stability. Investment program is executed more rapidly, and multiple investment cycles become possible over a 10-year horizon, allowing the business to scale quickly;<br>▪ What the founder gets: Faster business growth while retaining 100% ownership. With a well-structured debt policy, the company's valuation increases more than twofold compared to the internal-growth scenario;<br>▪ Restrictions: The company's ability to raise external financing remains constrained by net income and by the leverage ceiling (Debt/EBITDA ≤ 3.0x). |
| Strategy C1 – Active Growth with Equity Focus | ▪ Description: The company raises both debt and equity, enabling a significantly faster and large-scale execution of its investment program. This approach allows the company to fully capitalize on opportunities in a growing market. The Debt/EBITDA ratio remains within the 3.0x threshold. In exchange for equity investment, an investor receives a 49.9% share in the company;<br>▪ What the founder gets: Maximum growth in enterprise value and shareholder returns driven by accelerated realization of effects of scale, EBITDA expansion, and increased market share. The investor also contributes managerial expertise, further strengthening the company's competitive position.<br>▪ Restrictions: Dilution of the founder's ownership share, along with the need to establish a formal corporate governance framework and maintain effective collaboration with the new equity partner. |
| Strategy C2 – Active Growth – Debt Only | ▪ Description: The company also aims for accelerated scaling but finances growth exclusively through debt (bank loans and bond issuance). Although the investment program advances rapidly, high leverage weakens financial stability and limits the company's ability to service its obligations;<br>▪ What the founder gets: A short-term scaling effect driven by substantial financial leverage. Full ownership and control are preserved formally; however, if financial risks materialize, control of the business may shift to creditors;<br>▪ Restrictions : Excessive leverage (Debt/EBITDA above 4.0x) erodes the company's capacity to service debt, increases the risk of default, and ultimately destroys shareholder value. |

## Financial Modelling Results

Our modelling demonstrates that, under identical operating parameters in a growing market, the difference in the speed of scaling becomes the primary driver of future financial performance. The more investment resources are available to the company in the early years, the faster it scales – and the higher is its ultimate enterprise value.

**Company Metrics in Year 10 in Different Growth Scenarios, ₽ m**

| | | Strategy A | | Strategy B | | Strategy C1 | | Strategy C2 | |
|---|---|---|---|---|---|---|---|---|---|
| **Period** | **0** | **10** | **CAGR 0-10** | **10** | **CAGR 0-10** | **10** | **CAGR 0-10** | **10** | **CAGR 0-10** |
| Revenues | 1 500.0 | 3 589.8 | *9.1%* | 7 690.1 | *17.8%* | 17 079.4 | *27.5%* | 8 463.2 | *18.9%* |
| EBITDA | 225.0 | 574.4 | *9.8%* | 1 461.1 | *20.6%* | 3 586.7 | *31.9%* | 1 354.1 | *19.7%* |
| *EBITDA margin, %* | *15.0%* | *16.0%* | | *19.0%* | | *21.0%* | | *16.0%* | |
| Net Income | 109.8 | 369.0 | *12.9%* | 756.2 | *21.3%* | 1 589.6 | *30.6%* | 263.9 | *9.2%* |
| PPE | 757.9 | 1 178.4 | *4.5%* | 3 257.4 | *15.7%* | 9 229.3 | *28.4%* | 2 868.6 | *14.2%* |
| *Accumulated CapEx over 10 years* | - | *980.0* | | *4 430.0* | | *13 700.0* | | *4 650.0* | |
| Equity (Book Value) | 979.4 | 2 615.0 | *10.3%* | 3 345.2 | *13.1%* | 7 090.1 | *21.9%* | (221.5) | *< 0%* |
| Debt | - | - | - | 752.0 | - | 3 350.0 | - | 3 576.0 | - |

*Source: ink Advisory calculations*

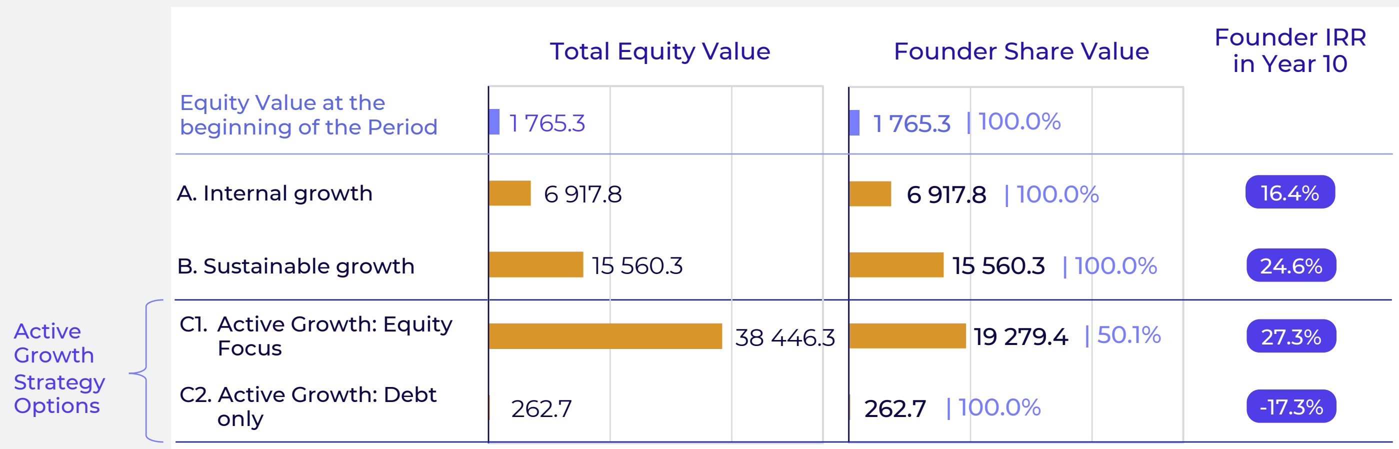
The effect is particularly pronounced in the scenario with Strategy C1: raising equity allows the company to expand its investment program in the first year and establish the foundation for even larger-scale investments in subsequent years. The company reaches the scale at which operating leverage begins to materialize much earlier – resulting in faster EBITDA growth and stronger free cash flow generation.

This strategy enables the maximum increase in shareholder value (Equity Value) while maintaining financial stability. Although the founder's ownership share is diluted, the value of that share increases multiple times due to accelerated business growth and a lower cost of capital (WACC).

Strategy A and Strategy B both underperform relative to Strategy C1 because of their investment capacity constraints, while Strategy C2 is clearly inferior to Strategy C1 due to excessive leverage and the resulting concerns over financial stability.

The capital structure decision made by the founder at the starting point effectively determines the company's long-term valuation trajectory. The impact of this choice becomes especially visible between Years 5 and 10, when the divergence of financial outcomes across scenarios reaches its peak. Technology, product quality, team, and other important factors determine business success – but it is the capital structure decision that ultimately elevates the company to the next level or undermines it.

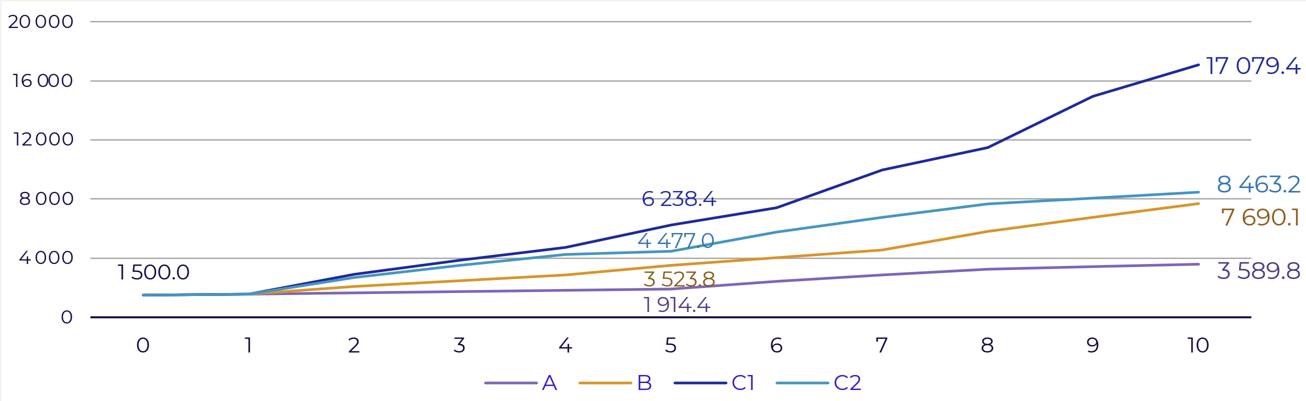
**Equity Value Comparison in Year 10 in Different Growth Scenarios, ₽ m**



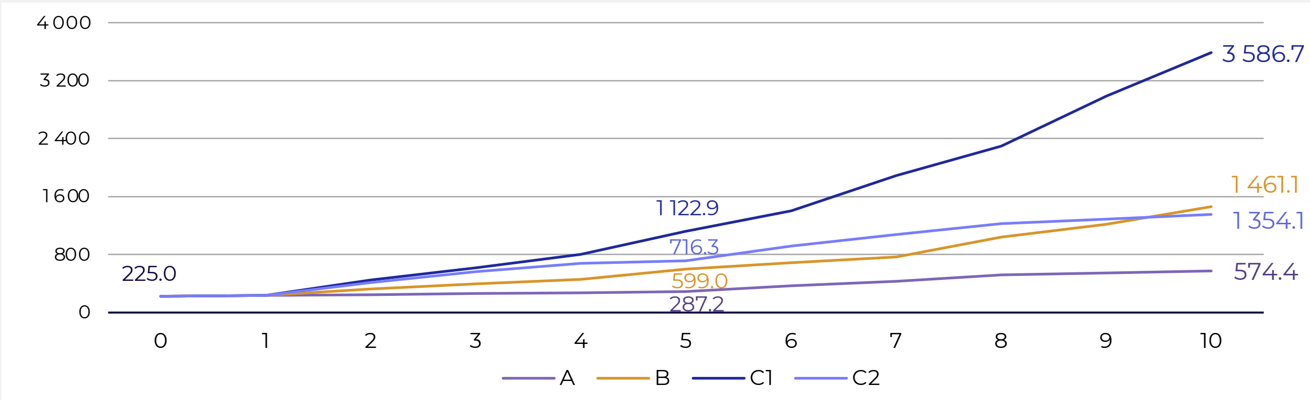

*Source: ink Advisory calculations*

## Key Company Metrics over a 10-Year Period in Different Growth Scenarios

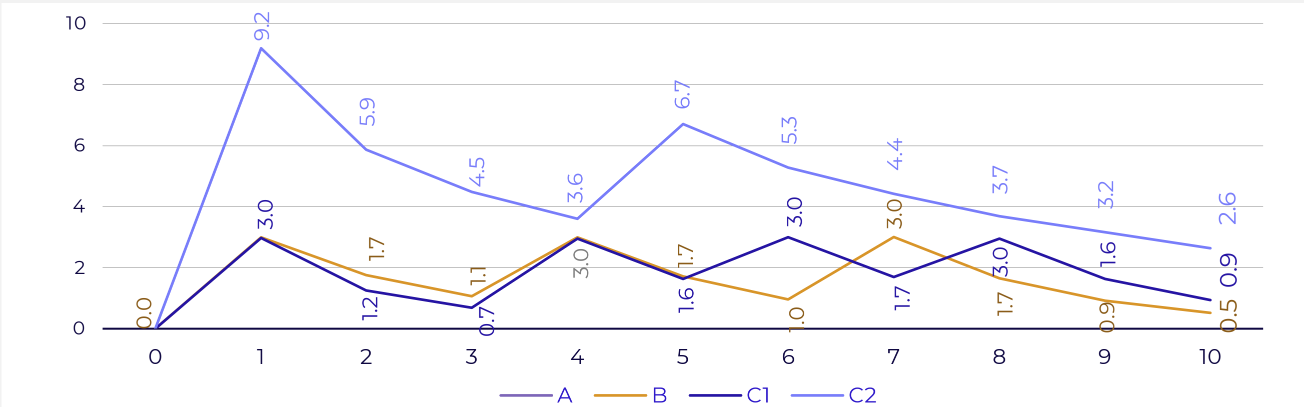
### Revenues, ₽ m



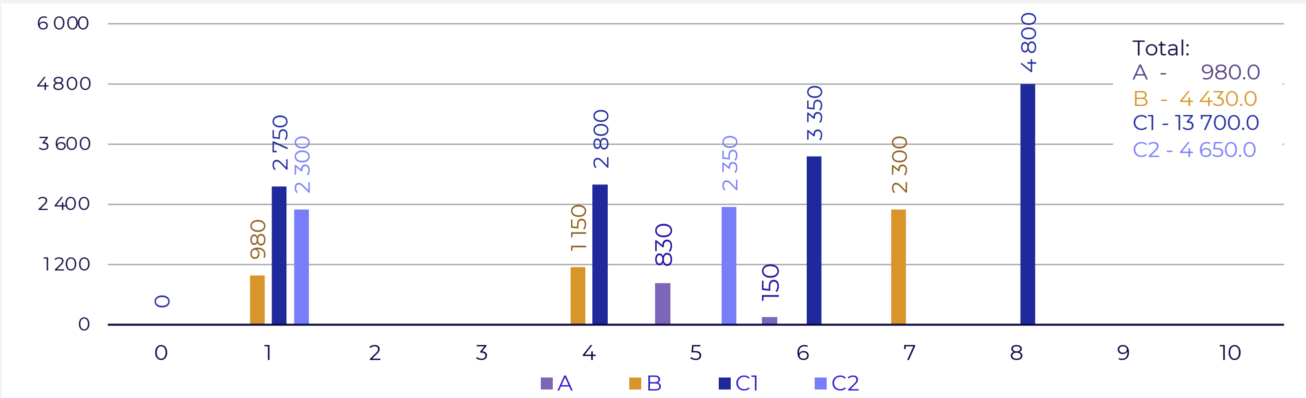

### EBITDA, ₽ m




### Leverage (Debt/EBITDA), x




### Completed Investment Programs over a 10-Year Period, ₽ m




*Source: ink Advisory calculations*

# INITIAL CONDITIONS
# FOR GROWTH STRATEGY ANALYSIS

The financial model allows for a comparison of the three considered strategies under comparable conditions and illustrates the impact of capital structure on the pace of business scaling.
Key assumptions:

## 1 MACROECONOMIC CONDITIONS AND CAPITAL MARKETS

The macroeconomic environment and capital markets are neutral to favorable (no extreme macroeconomic shocks present):

- Interest rates in the financial markets gradually decline, with the cost of debt financing stabilizing at a moderate level over the medium term;
- The tax system and regulatory requirements remain stable, with no significant changes in rates or requirements expected;
- The banking sector and capital markets are stable, allowing the company to raise both debt and equity financing under reasonable financial conditions.

## 2 INDUSTRY AND MARKET

The company operates in a growing market, creating conditions for scaling and the pursuit of active growth strategy:

- The market is expanding rapidly (≥ 15–25% per year) in both volume and value terms. Growth is driven by consumer demand, product line expansion, and development of sales channels;
- Market competition is high, pushing companies to continuously improve efficiency, invest in technology, and enhance product quality. Market advantages go to companies that can scale faster than competitors;
- Larger players achieve economies of scale: gross profit and EBITDA increase, unit costs decrease, and working capital turnover improves. Rapid business growth enhances the company's operational efficiency.

## 3 COMPANY GROWTH DRIVERS

Company growth is driven by three key groups of factors. The logic is consistent across all strategies – differences lie in capital structure and the pace of business scaling:

- Expansion of production capacity: the company launches new production facilities and gradually reaches target capacity utilization over three years. This is done through product line expansion and entry into new segments in domestic and international markets;
- Improvement of operational efficiency: investments in automation and modernization of production and logistics processes reduce unit costs and increase business profitability. These improvements create a foundation for further scaling and productivity growth;
- Effects of scale and turnover: as the company grows, fixed unit costs decline, asset turnover improves, and working capital requirements decrease. This supports sustainable growth in EBITDA and free cash flow.

**Notes**

In mature and highly competitive markets, expanding production capacity often fails to deliver the expected results: increased supply can lead to oversupply, declining prices, and reduced business profitability.

Under these conditions, companies pursuing active growth can scale business not by adding new capacity, but through M&A – consolidating existing market players.

# INTERNAL AND SUSTAINABLE GROWTH STRATEGIES IN GREATER DETAIL

### Strategy A – Internal growth

Key idea: full independence – the founder retains complete control over business and decision-making, avoiding loans and investors.

The company funds investments gradually, using accumulated profits. This approach makes growth predictable and safe but limits the scale of the business – without external capital, it is impossible to fully capitalize on market opportunities, rapidly expand operations, and achieve economies of scale.

In the early stages, the strategy appears viable, but over time, the slower growth pace compared to other strategies becomes increasingly noticeable in a growing market.

### Strategy B – Sustainable growth

Key idea: The sustainable growth strategy relies on using internal funds combined with moderate debt financing, with a leverage cap of Debt/EBITDA ≤ 3.0x.

This strategy allows for accelerated growth: the company becomes financially flexible, can invest more actively, and yet remain financially stable. Debt acts as a tool for scaling rather than a risk factor.

Often, the ability to raise debt within permissible limits may be constrained by lack of collaterals. In such cases, the company may need to consider bringing in an equity investor (Strategy C1).

**Comparison of Key Metrics: Strategy A vs Strategy B, ₽ m**

| | | Strategy A | | | | | Strategy B | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | 0 | 3 | 5 | 7 | 10 | CAGR 0-10 | 3 | 5 | 7 | 10 | CAGR 0-10 |
| Revenues | 1 500.0 | 1 736.4 | 1 914.4 | 2 867.7 | 3 589.8 | 9.1% | 2 493.5 | 3 523.8 | 4 534.8 | 7 690.1 | 17.8% |
| EBITDA | 225.0 | 260.5 | 287.2 | 430.2 | 574.4 | 9.8% | 399.0 | 599.0 | 770.9 | 1 461.1 | 20.6% |
| *EBITDA margin, %* | *15.0%* | *15.0%* | *15.0%* | *15.0%* | *16.0%* | | *15.0%* | *17.0%* | *17.0%* | *19.0%* | |
| Net income | 109.8 | 172.9 | 193.3 | 212.0 | 369.0 | 12.9% | 125.5 | 165.4 | 302.0 | 756.2 | 21.3% |
| PPE | 757.9 | 688.0 | 1 482.3 | 1 430.6 | 1 178.4 | 4.5% | 1 481.8 | 2 330.2 | 4 282.5 | 3 257.4 | 15.7% |
| *Accumulated CapEx** | - | - | *830.0* | *980.0* | *980.0* | | *980.0* | *2 130.0* | *4 430.0* | *4 430.0* | |
| NWC** | 31.2 | 36.1 | 39.8 | 59.7 | 243.1 | 22.8% | 79.8 | 119.8 | 154.2 | 321.4 | 26.3% |
| Cash | 190.3 | 600.0 | 73.0 | 375.9 | 1 193.5 | 20.2% | 99.6 | 124.9 | 9.0 | 518.3 | 10.5% |
| Equity (Book Value) | 979.4 | 1 324.1 | 1 595.0 | 1 866.2 | 2 615.0 | 10.3% | 1 235.8 | 1 551.2 | 2 129.6 | 3 345.2 | 13.1% |
| Debt | - | - | - | - | - | 0.0% | 425.4 | 1 023.8 | 2 316.0 | 752.0 | - |
| ROA | 9.8% | 11.6% | 10.9% | 9.9% | 12.5% | | 6.1% | 5.2% | 7.2% | 14.2% | |
| ROE | 11.9% | 13.7% | 12.7% | 11.9% | 14.9% | | 10.7% | 11.3% | 15.3% | 24.4% | |
| Debt/EBITDA | - | - | - | - | - | | 1.1(x) | 1.7(x) | 3.0(x) | 0.5(x) | |
| Debt/Equity | - | - | - | - | - | | 0.3(x) | 0.7(x) | 1.1(x) | 0.2(x) | |
| **Valuation** | | | | | | | | | | | |
| Forward EV/EBITDA | 6.7(x) | 7.3(x) | 6.5(x) | 8.0(x) | 10.0(x) | | 15.0(x) | 13.6(x) | 10.3(x) | 10.8(x) | |
| Enterprise Value | 1 575.0 | 1 996.8 | 2 392.1 | 4 179.6 | 5 724.3 | 13.8% | 6 864.3 | 9 363.1 | 10 734.8 | 15 793.9 | 25.9% |
| Equity Value (EqV) | 1 765.3 | 2 596.8 | 2 465.1 | 4 555.5 | 6 917.8 | 14.6% | 6 538.5 | 8 464.2 | 8 427.8 | 15 560.3 | 24.3% |
| **EqV Founder Stake** | **1 765.3** | **2 596.8** | **2 465.1** | **4 555.5** | **6 917.8** | **14.6%** | **6 538.5** | **8 464.2** | **8 427.8** | **15 560.3** | **24.3%** |
| **IRR Founder** | | | **9.1%** | | **16.4%** | | | **36.8%** | | **24.6%** | |
| WACC | 18.9% | 14.9% | 12.9% | 12.9% | 12.9% | | 14.9% | 12.5% | 12.4% | 12.7% | |
| ROIC | 11.9% | 11.3% | 10.8% | 11.6% | 13.6% | | 10.8% | 9.7% | 12.0% | 20.5% | |
| **EP Spread** | **-7.0%** | **-3.6%** | **-2.1%** | **-1.3%** | **0.7%** | | **-4.1%** | **-2.8%** | **-0.3%** | **7.8%** | |

*Note: * CapEx – Capital Expenditures for Business Scaling, ** NWC – Net Working Capital.*

*Source: ink Advisory calculations*

By the end of Year 10, the company's Equity Value in Strategy B will exceed that of Strategy A by a factor of 2.2 – creating an additional ~₽ 8.6 b in value due to the use of financial leverage and the following factors:

- **Business scaling speed.** With the ability to complete more investment cycles (3 vs. 1), the company in Strategy B is able to grow sales and assets faster than in Strategy A;
- **Capital efficiency.** Strategy B uses capital more effectively (ROE) through financial leverage, enabling a higher positive EP Spread (ROIC minus WACC);
- **Financial flexibility and risk management.** The debt cap (Debt/EBITDA ≤ 3.0x) helps control risk while maintaining access to borrowed capital. Strategy A, by contrast, limits flexibility in responding to market opportunities;
- **Cost of capital (WACC) factor.** In the sustainable growth scenario, WACC decreases due to optimized capital structure and controlled debt utilization.

  In the internal growth scenario, WACC is higher because the company relies entirely on equity financing.

**Strategy Comparison by Key Metrics and Effects for the Founder**

| Strategy A – Internal growth | Strategy B – Sustainable growth |
|---|---|
| a. Growth rate and potential | |
| Under Strategy A, the company demonstrates low growth rates and limited scaling potential, as it must accumulate cash to fund its investment program.<br><br>Consequently, only a single investment phase totalling ₽ 1.0 b is implemented under this strategy. | Strategy B enables the company to grow at a higher pace compared to Strategy A. However, this growth potential is constrained by the ability to raise debt, itself limited by the earnings.<br><br>The company raises debt to finance the strategy until the Debt/EBITDA ratio reaches 3.0x. As a result, the company can fund three investment phases totalling ₽ 4.4 b. |
| b. Equity Value | |
| The monetary value of equity, estimated using the DCF approach at the end of Year 10, will amount to ₽ 6.9 b – 2.2 times lower than under Strategy B. | Monetary value of Equity Value using the DCF approach at the end of Year 10 will amount to ₽ 15.6 b. |
| c. Founder returns over the period (IRR) | |
| Returns are limited to 16.4% due to the following factors:<br>▪ the Company grows at a pace insufficient to generate higher owner returns;<br>▪ growth is financed entirely with costly equity capital, which increases the Company's WACC and reduces its valuation. | Founder achieves an average annual return of approximately 24.6% thanks to:<br>▪ high growth rates in sales and cash flows;<br>▪ lower cost of capital resulting from a more optimal capital structure (WACC is lower than under Strategy A due to the use of debt). |
| d. Key Takeaways for the Founder | |
| Strategy A is safe but overly conservative. While control over business is fully retained, the company scales slowly.<br><br>Strategy A suits owners who prioritize independence over rapid business growth. The key risks of this approach are falling behind competitors and losing market position. | Strategy B represents a balanced approach between safety and growth speed. It enables the company to increase its capitalization while maintaining managerial control, provided debt discipline is strictly followed.<br><br>Strategy B is optimal when the set ceiling for debt (Debt/EBITDA ≤ 3.0x) enables the company to grow at or above market rates. If, at this debt level, the business cannot keep pace with the industry, raising equity becomes necessary to maintain or expand market share. |

# ACTIVE GROWTH STRATEGY IN GREATER DETAIL

Active Growth Strategy (C) uses the idea of raising capital from multiple sources – a combination of equity and debt financing. Unlike Strategy A and Strategy B, business scales significantly faster, as it is not constrained by internal resources or the pace of profit accumulation.

By flexibly using external financing, the company can execute larger investment programs on a regular basis and grow at rates comparable to – or even exceeding – market growth.

- **Option 1 (Strategy C1) – the company raises ₽ 1.8 b in equity capital (in exchange for a 49.9% stake) along with financial debt.**

  Key Idea: Maximize growth through equity injection while maintaining financial stability. The company launches new projects rapidly and reaches economies of scale sooner. Debt levels remain under control (a moderate Debt/EBITDA of ≤ 3.0x).

  The investor may contribute not only capital but also industry expertise.

- **Option 2 (Strategy C2) – the company raises only debt.**

  Key Idea: Maximize the effect of financial leverage – active growth is funded exclusively through borrowed capital.

  This approach is fairly common, particularly when companies receive subsidized loans. That is why we included this alternative scenario in our analysis. The founder retains full control of the company but assumes all risks associated with debt financing.

  Initially, the strategy may appear attractive, especially if subsidized loans are used: business grows rapidly. However, high leverage (Debt/EBITDA above 4.0x) significantly undermines financial stability, makes the business dependent on creditors, limits operational flexibility, and complicates further investments.

  Any slowdown in sales or increase in interest rates can put business in jeopardy. This option is the riskiest and least promising for the founder, as it does not create value and can result in the loss of capital.

**Consequences of Each Capital Structure Option for Financing Active Growth**

| Parameter | Strategy C1: Equity and Debt financed Growth | Strategy C2: Growth financed with Debt only |
|---|---|---|
| Leverage level | Moderate | Maximum |
| Cost of debt | Moderate | Significant |
| Debt covenants | Flexible | Strict |
| Availability of long term loans | Yes | No, only short term |
| Capacity to scale further | High | Limited |
| Dividends | Higher | None or limited by covenants |
| Founder share dilution | Maximum | None |
| WACC | Minimal | Maximum (Distressed Asset) |
| Founder IRR | Maximum | Negative or minimal (capital loss) |

# OWNERS' MISCONCEPTIONS
# REGARDING RAISING EQUITY CAPITAL

Most company owners prefer the strategies they understand best – internal or sustainable growth – and, if they consider active growth strategy, they tend to rely on debt financing they are familiar with.

As a result, they either dismiss the active growth strategy entirely or overlook the option involving equity. This is often due to a lack of understanding of many underlying processes. Below is a list of common misconceptions that limit the growth potential business.

| Misunderstandings and Fears About Raising Equity | Reality |
|---|---|
| 1. Assumption that internal resources and bank loans are sufficient for business growth | ▪ Raising equity expands the company's ability to execute its growth strategy and lays the foundation for future debt financing.<br>▪ By excluding equity as a funding source, companies miss the opportunity to grow at or above market rates. |
| 2. Fear of ownership share dilution | ▪ Implementing active growth strategy with an investor increases the cash value of the founders' share, even after dilution. When strategic goals are achieved with the right financing structure, founders' returns are always higher than in scenarios without investors.<br>▪ Investors bring not only capital but also critical competencies: advanced corporate governance standards, stronger negotiating positions with counterparties, and overall support in executing the growth strategy.<br>▪ Relying solely on debt often leads to excessive leverage and reduces equity value. If the founder is forced to seek equity partner at a later stage, the founder's share may end up being much smaller than if equity had been raised from the start. |
| 3. Concerns that investors will undervalue the company | ▪ Owners often overestimate the value of their business and reject deals that could provide both capital and strategic expertise necessary for further growth. |
| 4. Risk avoidance: preference for the status quo and reluctance to explore new markets or products | ▪ Without innovation, the company loses competitiveness, and rivals capture market share and new niches faster.<br>▪ Slow business growth reduces company value, especially when the market and competitors grow faster. |
| 5. Short-term thinking: focus on current dividends over company growth | ▪ Continuous extraction of profits from business and lack of investment or a clear growth strategy lead to loss of competitive positions and, consequently, lower business value. |
| 6. Belief that business growth will be hampered by the need to coordinate all decisions with investors and the potential that investors may act in bad faith | ▪ Bringing in an investor requires owners to adapt their management approach and grant certain rights to the investor. A robust corporate governance framework and legal protections safeguard owners against potential investor misconduct.<br>▪ Investors are also interested in company growth because increasing the valuation of business is in their interest. |

The financing structure in active growth strategy predetermines not only the company's financial stability but also its operational potential.

With moderate leverage (Strategy C1), management can focus on business development, maintain investment pace, and develop new products and services.

Comfortable debt repayments in Strategy C1 reduce pressure on cash flows, provide financial flexibility, and allow the company to execute strategic initiatives without the risk of falling into debt trap.

In contrast, if active growth relies solely on debt financing (Strategy C2), the business quickly faces negative consequences: increased financial risk, falling business valuation, and potential loss of control over the company.

High operational efficiency cannot offset the effects of excessive debt – debt servicing becomes the key factor determining company stability.

In Strategy C2, even a slight decline in operational efficiency can make debt repayment impossible. We assess the likelihood of successfully implementing active growth strategy solely through debt as extremely low: the ability to repay debt and achieve profitable operations is highly unlikely.

Even if the company navigates financial turbulence successfully, its equity value will remain lower than under Strategy A, Strategy B, or Strategy C1.

Thus, an "aggressive growth at any cost" approach funded entirely by debt is unjustified and will erode shareholder value in the coming years.

## Key Metrics of Strategy C1 and Strategy C2, ₽ m

| | | Strategy C1 | | | | | Strategy C2 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Period | 0 | 3 | 5 | 7 | 10 | CAGR 0-10 | 3 | 5 | 7 | 10 | CAGR 0-10 |
| Revenues | 1 500.0 | 3 860.8 | 6 238.4 | 9 967.4 | 17 079.4 | 27.5% | 3 513.2 | 4 477.0 | 6 751.3 | 8 463.2 | 18.9% |
| EBITDA | 225.0 | 617.7 | 1 122.9 | 1 893.8 | 3 586.7 | 31.9% | 562.1 | 716.3 | 1 080.2 | 1 354.1 | 19.7% |
| *EBITDA margin, %* | *15.0%* | *16.0%* | *18.0%* | *19.0%* | *21.0%* | | *16.0%* | *16.0%* | *16.0%* | *16.0%* | |
| Net income | 109.8 | 176.9 | 259.0 | 524.4 | 1 589.6 | 30.6% | (261.5) | (171.5) | (199.2) | 263.9 | 9.2% |
| PPE | 757.9 | 2 915.5 | 4 976.5 | 7 141.0 | 9 229.3 | 28.4% | 2 551.0 | 4 511.3 | 3 749.1 | 2 868.6 | 14.2% |
| *Accumulated CapEx** | - | *2 750.0* | *5 550.0* | *8 900,0* | *13 700.0* | | *2 300.0* | *4 650.0* | *4 650.0* | *4 650.0* | |
| NWC** | 31.2 | 123.5 | 224.6 | 378.8 | 654.1 | 35.6% | 171.4 | 256.1 | 386.2 | 484.1 | 31.5% |
| Cash | 190.3 | 382.8 | 149.2 | 171.7 | 556.7 | 11.3% | 14.8 | 6.8 | 12.2 | 1.8 | -37.4% |
| Equity (Book Value) | 979.4 | 3 001.8 | 3 530.3 | 4 491.4 | 7 090.1 | 21.9% | 212.2 | (29.9) | (629.5) | (221.5) | 0.0% |
| Debt | - | 420.0 | 1 820.0 | 3 200.0 | 3 350.0 | 0.0% | 2 525.0 | 4 804.0 | 4 777.0 | 3 576.0 | 0.0% |
| Debt/EBITDA | - | 0.7(x) | 1.6(x) | 1.7(x) | 0.9(x) | | 4.5(x) | 6.7(x) | 4.4(x) | 2.6(x) | |
| Debt/Equity | - | 0.1(x) | 0.5(x) | 0.7(x) | 0.5(x) | | 11.9(x) | (160.9) | (7.6) | (16.1) | |
| **Valuation** | | | | | | | | | | | |
| Forward EV/EBITDA | 6.7(x) | 19.8(x) | 15.9(x) | 12.9(x) | 11.5(x) | | 1.4(x) | 0.3(x) | 2.7(x) | 2.8(x) | |
| Enterprise Value | 1 575.0 | 15 930.3 | 22 289.8 | 29 652.4 | 41 239.7 | 38.6% | 940.7 | 273.0 | 3 272.9 | 3 836.9 | 9.3% |
| Equity Value (EqV) | 1 765.3 | 15 893.1 | 20 619.0 | 26 624.1 | 38 446.3 | 36.1% | (1 569.5) | (4 524.2) | (1 492.0) | 262.7 | -17.3% |
| **EqV Founder Stake** | **1 765.3** | 7 969.8 | 10 339.7 | 13 351.0 | 19 279.4 | 27.0% | (1 569.5) | (4 524.2) | (1 492.0) | 262.7 | -17.3% |
| **IRR Founder** | | | **42.4%** | | **27.3%** | | | **< 0 %** | | **-17.3%** | |
| WACC | 18.9% | 14.9% | 12.6% | 12.5% | 12.6% | | 20.4% | 42.5% | 42.5% | 41.7% | |
| ROIC | 11.9% | 6.6% | 7.8% | 10.5% | 18.1% | | 7.5% | 9.8% | 11.7% | 22.5% | |
| **EP Spread** | **-7.0%** | **-8.3%** | **-4.7%** | **-2.0%** | **5.5%** | | **-12.9%** | **-32.7%** | **-30.8%** | **-19.2%** | |
| **Ownership structure** | | **100.0%** | **100.0%** | **100.0%** | **100.0%** | | **100.0%** | **100.0%** | **100.0%** | **100.0%** | |
| Founder | | 50.1% | 50.1% | 50.1% | 50.1% | | 100.0% | 100.0% | 100.0% | 100.0% | |
| Investors | | 49.9% | 49.9% | 49.9% | 49.9% | | 0.0% | 0.0% | 0.0% | 0.0% | |

*Note: * CapEx – Capital Expenditures for Business Scaling, ** NWC – Net Working Capital*

*Source: ink Advisory calculations*

Despite the dilution of the founder's share, Strategy C1 delivers the best financial outcome for the founder: the highest equity value by Year 10 (₽19.3 billion) and the highest investment return – 27.3% per annum, including dividends.

Strategy C1 is the most favorable option for the founder, even though it reduces ownership share in the business to 50.1% while allocating 49.9% to the investor:

- Maximum return and equity value for the founder by the end of the 10-year horizon, driven by faster business growth and realization of economies of scale;
- By Year 10, Debt/EBITDA falls to 0.9x, creating potential for further growth through additional debt financing.

Strategy C2, based solely on debt financing, leads to value destruction.

The company operates at the limit of its leverage capacity and may capsize. Any deviation in sales or increase in debt costs can result in the loss of the founders' capital.

Consequently, the company's value approaches zero, and the business becomes dependent on creditors, potentially falling under their control through restructuring.

**Comparison of Strategy C options by Key Metrics and Implications for the Founder**

| Strategy C1 – Equity and Debt Financing | Strategy C2 – Debt-Only Financing |
|---|---|
| a. Growth rate and Company's potential | |
| Under Strategy C1, the Company achieves the highest growth rate and scaling potential, as it leverages all available sources of funding for investment programs while controlling financial risk and leverage levels. | Under Strategy C2, the company relies solely on debt to finance active growth, pushing leverage (measured as Debt/EBITDA) to 9.2x.<br><br>In this scenario, any decline in operational efficiency can result in loss of control over the company. |
| b. Equity Value | |
| The DCF-based Equity Value by Year 10 reaches ₽ 39.7 b (22 times the Year 0 value), reflecting the benefits of financial leverage without excessive risk. | Under Strategy C2, the company's equity is nearly depleted, potentially falling to only ₽ 253 m even if it manages to maintain financial stability.<br><br>Excessive debt undermines the equity value – shareholder capital approaches zero due to default risk, with creditors potentially demanding debt conversion or a change in control. |
| c. Founder's IRR | |
| Founders' IRR is maximized at **27.3%**, driven by:<br>▪ High growth rates and substantial cash flows;<br>▪ Financing within optimal capital structure, keeping WACC low. | The founder can lose equity value because:<br>▪ Debt and financial risks are excessive, thus increasing WACC;<br>▪ Most or all cash flows are consumed by debt servicing.<br>IRR can turn negative as cash flows go to creditors, leading to loss of financial stability, value, and control. |
| d. Key Takeaways for the Founder | |
| Strategy C1 offers the best prospects for the founder, providing maximum return and equity value.<br><br>In the long run Strategy C1 provides the optimal combination of growth, return, and control over the asset. | Pursuing active growth through excessive leverage in Strategy C2 will destroy equity value and erode the founder's capital. |

# FOUNDER'S DECISIONS TODAY DEFINE THE TRAJECTORY OF FUTURE GROWTH OF BUSINESS AND WEALTH

A growth strategy works only when followed by disciplined execution: capital management discipline, a transparent financial model, control over the investment program, and the ability to adapt quickly to market conditions.

## From ideas to planning, from planning to action

**Our research demonstrates that the capital structure decision made today determines the company's future opportunities – its scaling pace, financial stability, and returns for the founder.**

To translate a chosen strategy into measurable results, the company must move from intuition-driven decisions to data-driven decision-making.

Other key findings of our research:

- Strategic planning and financial modelling. Long-term planning and forward-looking financial modelling make it possible to anticipate how capital structure, scaling intensity, cost of financing, and economies of scale will affect the business.
  This approach changes how a company is managed: strategy becomes a systematized process rather than a set of isolated initiatives, reducing the risk of poorly thought-out decisions.

  Long-term plans and financial models are always built on assumptions that lose relevance over time. Therefore, a critical element of management is the regular review and adjustment of plans and financial forecasts in response to external changes.
  This mechanism allows the company to revise decisions in a timely manner, adapt its strategy, and maintain a balance between emerging opportunities and new risks.
- Capital management and decision justification. Sustainable company development requires transparent rules for managing capital: investments, debt, dividends, and the ability to generate cash flows.

  Regular planning, data-based decision-making, and discipline in these areas provide predictability and control over business.
- Optimal capital structure as the business evolves. Leverage, cost of capital, and the availability and composition of financing sources change as the business grows.

  Financial modelling is a critical tool for adjusting the balance between debt and equity, maintaining the optimal trade-off between growth speed and financial stability.

Ink Advisory provides comprehensive support to companies and their founders in equity financing transactions. We speak the language of business and understand what matters to owners and management. Our mission is to make the process clear, comfortable, and effective.

Our value to your business:

- **Strategic analysis**
  We assess your company's strategy and roadmap: identifying strengths and weaknesses, and offering practical adjustments;
- **Financial model expertise**
  We review the input data and structural logic of the financial model – the foundation for accurately defining capital needs and the value of the business;
- **Investment advisory**
  We advise on the company's current investment value and demonstrate how it evolves under various long-term goals, strategies, and capital structure decisions;
- **Strategy development**
  If a formal strategy has not yet been developed but strategic intentions exist, we help turn them into a coherent strategy that meets capital market expectations.
  We formalize the strategy and develop the financial model in a way that makes the business clear and appealing to investors.

# 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 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.


**Kudrat Nurmatov**
Managing Partner
k.nurmatov@ink-advisory.com

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

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

Our contacts

ink Advisory
Office 928 | 34 Floor
Central Tower
Presnya City, 2 Khodynskaya St.,
Moscow 123022
**www.ink-advisory.com**
contact@ink-advisory.com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