The Art and Science of Investing

Gain insight into our way of thinking…

Valuation: Measuring and Managing the Value of Companies by

Mckinsey & Company Inc., Tim Koller, Marc Goedhart, David Wessels

"Companies create value when they earn a return on invested capital greater than their opportunity cost of capital. If the return on invested capital is at or below the cost of capital, growth may not create value. Companies should aim to find the combination of growth and ROIC that drives the highest discounted value of their cash flows."

As the McKinsey authors state, "This is "finance in a nutshell." I agree with them. However, It is not easy to make investments. There is no magical formula, or exact financial science to make investment decisions. Rather, investing is an art and science. Judgments must be made on a collection of qualitative and quantitative information built on a solid business case. Every assumption made in a business case must be searched, tested and validated.

Investors are often enticed with 10X returns. Meaning for every dollar invested, ten dollars are returned. Mentioning a 10X return is like dangling candy before a child. For sure, it gets our attention. However, deeper analysis must be accomplished… and risks must be flushed out.

Financials are one of the key aspects of helping build a solid investment business case. One tool we use is the income statement or projected profit / loss statement over a period of five years… and use another tool, discounted cash flow analysis.

With discounted cash flow analysis, all expenses (including depreciation, local, state and federal taxes) and all income is taken into account. Expenses are subtracted from income on a year-by-year basis. We are able to find the IRR (internal rate of return) and NPV (net present value). Discounted cash analysis allows bringing all future values to present day. A positive NPV and a high IRR indicate to us if an investment is possible. Several "what if" discounted cash flow scenarios can be run to test possible outcomes.

Add analysis of the balance sheet and cash flow statement, and a more complete financial perspective is obtained.

By asking, "How much money is going into the investment?" and "How much money is coming out of the investment?" In other words, what is the pre-money valuation and what is the post-money valuation? And asking, "How do I get my money out" helps auger in our investment decision.

Determining if there is a widespread market, a large reachable sustainable market or individual market segments and determining if the number of customers trace down into the financials is crucial to the validation, integrity and results used in the projected profit / loss statement. Confidence is further enhanced and a better business case is made.

Raymond D. Mac Mahon

Impact Technology Fund GP, LLC

Fall 2020

Impact Technology Fund, LP

A Venture Capital Early Stage Fund

Impact Technology Fund, LP is a venture capital fund investing in early stage companies in the United States with a focus in the Silicon Valley and Raleigh Research Triangle Region, NC.

The fund is lead by a team of seasoned investors who have raised and transacted over $93 million in aggregate value with 18 technology companies. With this fund, the managing partners' goal is to enhance the value creation of private companies, positioning for liquidity and delivering positive returns for investors. These are long-term investments. Our limited partners (investors) are qualified accredited purchasers.

Our target focus:

- Early stage companies
- $1 million run rate revenue
- Financial services
- Healthcare
- Robotics
- High growth emerging businesses

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