Financial Statement Analysis and Firm Performance

Paradise Steakhouse

Student’s Name

Institution

Date

**Introduction**

Paradise Steakhouse is a start-up restaurant with great potential to grow and become one of the largest restaurants in the country. However, for the paradise Steakhouse to realize its full potential it requires an investor whether through equity financing, short or long term loan, or partnership. Based on the analysis of the proposal sent by two investors, the 2nd investor is the appropriate investor for Paradise. And therefore, the company would choose to take a loan of $ 300,000 from the 2nd investor at an interest of 8% per year. The loan will be paid after five years. However, the interest rate will be charged for only four years. The calculation below is the analysis of the proposal from two investors, which include the lump to be paid for each investor and the total interest.

**1st Investor**:

Loan $300,000, Interest 8% per year, and period 5 years.

Interest Per year = $300,000X8%

= $24,000

Total interest for 5 years = $24,000 \*5

= $120,000

Lump Sum Payment after five years = $ 300,000+ 120,000

**= $420,000**

**2nd Investor:**

Loan $ 300,000 Interest 8% per year for 4 years, and the Lump sum amount paid in the fifth year.

Interest per = $ 300,000 X 8%

= $ 24,000

Interest after 4 years = $24,000 X 4

= $96,000

Lump Sum Payment = Interest + Initial Amount

= $96,000 + $300,000

= $396,000

Based on the analysis the 2nd investor is the best because it provides a year duration before the final lump amount, which includes the total interest for the loan is paid. Again, the investor gives duration of one year before the lump sum is paid and therefore, it will give the company time to get the total amount required to be paid to the investor. The calculation of the lump sum to be paid to both investors after a period of five years also indicates that the 2nd Investors will be paid less interest and also gives time before the payment is paid. This is good for business compared to the 1st investor, which do not give a grace period before the payment is made.

However, the best financial option for Paradise Steakhouse is Equity Investment. According to Ljungberg, Svedman, Nilsson, and Kashyap (2017), equity investment is where a potential investor is issued with shares based on the price of the firm’s share in the stock market. The investor earns benefit through dividends, which is issued at the end of the financial year. Equity investor would allow the firm to improve its production, marketing and profits because there is no interest to be paid (Ljungberg, Svedman, Nilsson, & Kashyap, 2017). This makes equity investment the best investment, which Paradise Steakhouse would use to get enough finance for expansion of the company.

**Challenges and risk a company may face in a foreign country**

**Cultural**

The major challenge, which many firms faced in a foreign country, is cultural differences. Every country has social norms, which determine how people interact and therefore, an understanding of the culture of another country may take longer and in some cases it makes a business to fail. Cultural challenges relate to communication, reporting time, food, and the relationship between bosses and employees. In some countries from overseas bosses are feared and give orders. This is different from western countries where employees have absolute say on the way a company is run. It may be a challenging task to adapt to other cultures and therefore, a company must have a strategy to overcome the challenge. However, it is important for a company to train its employees to adopt its culture of business practice for continuity.

**Taxes and Tariff**

Some countries have hidden tariff, which needs to be paid if an investor is to bring products into the country. It is, therefore, important to understand every tariff being charged by a country to prevent court cases. However, these tariffs can make it difficult for a start company in an oversee company to establish itself and grow. The best strategy to overcome the tariff and taxes related issues include a clear understanding of the local laws related to tax and tariff and also utilizing local raw material for production instead of importing materials from other countries. It is also recommendable to set up the local manufacturing plant in an oversee country for regional sales instead of importing from another country.

**Political risk**

The political risk is a critical component which affects many businesses and especially startup in an overseas country. These include interferences from politicians, political violence, election, and campaign. According to Jones and Lubinski (2011), political issues interfere with the business operation and therefore, it can create a bad business environment for Startup Company. This can actually lead to business loses hence lost business. For instance, operating a business in Somalia and other unstable countries could prove to be difficult and therefore, a startup company cannot survive in countries which are politically unstable like Somalia and Syria. It is important to have a clear strategy to overcome political issues in an overseas country. It is, therefore, important for Paradise Steakhouse to have a clear strategy, which can help it operate effectively in an overseas country. One of the best strategies is working together with the local leaders and establishing efficiently corporate social responsibility to help in enduring the community to the company. This will help the company to succeed in establishing itself and make a profit as well.

# References

Jones, G., & Lubinski, C. (2011). Managing Political Risk in Global Business. *International Journal of Business and communication*, 2-15.

Ljungberg, K., Svedman, S., Nilsson, F., & Kashyap, S. (2017). The Private Equity Investment Process - An Aggregated View on Information Asymmetry Reduction. *International Business Studies*, 2-18.