

Valuation Analysis – Group Assignment 4
Cash Flow Estimation

Instructions: This assignment requires you to collect and analyze the components of free cash flow for your firm. The majority of the information necessary to compute cash flows comes from either the reported financial statements or the notes to the financial statements. Any supporting analysis should be attached. The assignment is due on Wednesday, November 18th.

Your Company: _____

Several of the questions below require you to record values for the past 10 years and the most recent trailing twelve months (TTM). You can record all of these values in one spreadsheet and attach the spreadsheet. If fewer than 10 years of financial statements are available for your firm, please note this and provide as much information as possible.

1. **Income:**

Using the Income Statement, record the EBIT and Net Income for each of the past 10 years, and for the most recent trailing twelve months (TTM). Include and explain any adjustments you need to make to these earnings numbers to account for one-time charges, unusual items, goodwill amortization, etc. Record the values in an attached spreadsheet and provide any related discussion below.

Discussion:

2. **Taxes:**

Using the income statement, calculate the effective tax rate for your firm for each of the past 10 years and record the rate for the most recent year below. Using the footnotes to the financial statements, calculate the marginal tax rate for your firm in the most recent year and record it below. Discuss any assumptions required to arrive at these values.

Effective Tax Rate _____

Marginal Tax Rate _____

Discussion:

3. *Operating Lease and R&D Adjustments:*

Using the footnotes to the financial statements, record the R&D and operating lease expenses for each of the past 10 years and for the most recent trailing twelve months (TTM). Also, record the future operating lease commitments for your firm as of the most recent fiscal year end. Include and explain any adjustments you will make in your valuation to account for operating leases and R&D expenditures. Record the values in an attached spreadsheet and provide any related discussion below.

Discussion:

4. *Acquisition Costs:*

Using the footnotes to the financial statements, record acquisition costs, if any, for each of the past 10 years and for the most recent trailing twelve months (TTM). If acquisition costs vary significantly from year to year, discuss how you could normalize these expenditures to provide a reasonable future forecast. Record the values in an attached spreadsheet and provide any related discussion below.

Discussion:

5. *Capital Expenditures:*

Using the Cash Flow Statement, record capital expenditures (net of divestiture income) and depreciation for each of the past 10 years and the most recent trailing twelve months (TTM). Record these values in an attached spreadsheet and provide any related discussion below.

Discussion:

6. Working Capital:

Using the Balance Sheet, calculate the value of non-cash working capital for each of the past 10 years and for the most recent quarter. From these values, calculate the annual changes in working capital. If the change in working capital varies significantly from year to year, discuss how you could normalize these working capital investments to provide a reasonable future forecast. Record the values in an attached spreadsheet and provide any related discussion below.

Discussion:

7. Free Cash Flows:

Using the data you recorded in the spreadsheet, calculate the free cash flow to the firm (FCFF) for each of the past 10 years and for the most recent trailing twelve months (TTM). Record the values in an attached spreadsheet and provide any related discussion below. Record the FCFF for the trailing twelve months below.

FCFF _____

Discussion: