

Financial Statement Modeling Practice Problem

Re-working the Gentex, Alaska Airlines, or Pro-forma Lemonade Stand exercises from class is also good practice.

1. Dr. Richie is considering selling her private practice, “Body Plumbers: Vascular Surgery Group of the Beach Cities”, and has hired you to value her company. You decide the first step is to estimate future cash flows. You obtain this year’s revenue from Dr. Richie as \$6.5 million. Based on your research you expect Sales growth to be 8% for the 5-year forecast period. You predict EBITDA margin, Depreciation margin, CAPEX margin, and NWC as a % of sales to be 48%, 9%, 8.5%, and 15% respectively. The expected tax rate for the forecast period is 21%. What is the free cash flow to the firm in year 5? What would be the year 5 FCFF if the Sales growth was expected to decrease (equally) over the forecast period to 5% in year 5, i.e. step down to 5%.
2. Blake is the CEO of a private security firm, “Got your 6” and asked you, his CFO, to project free cash flows to the firm. You’ve gathered the information below on the firm’s past performance. You’ve decided to use this information to calculate historical averages that you will use in the forecast period. Calculate Sales growth, EBIT Margin, Depreciation Margin, CAPEX as a % of Sales, and Change in NWC as a % of Sales. Use the average of each ratio to forecast free cash flows to the firm for the next 5 years. Assume a tax rate of 21%.

	2013	2014	2015	2016	2017
Sales	202,561	166,918	158,575	192,803	326,429
EBIT	13,446	(8,152)	(4,072)	9,607	46,538
Depreciation	13,154	10,277	10,767	10,566	9,520
PPE (From Balance Sheet)	109,733	106,523	109,427	121,339	160,725
NWC	62,588	53,556	42,612	54,329	67,651

3. You have the following Balance sheet information: Accounts Receivables \$110,753 , Accounts Payable \$575,214, Deferred Revenue \$217,141, Inventory \$165,722, Cash \$345,924, Current Portion of Long-term Debt \$153,020, Marketable Securities \$192,66. What is Non-cash Net Working Capital for this firm? (Also exclude any Current liabilities that are classified as financing accounts)

Answer to above problems

- 1) 2,884,185 ; 8,903,355
- 2) 17118; 20041; 23463; 27469; 32159
- 3) (681,602)