

Extra Credit Instructions - refer to previous

- On **Model** worksheet, project income statement 2006-2010 using model drivers from assumptions page
 - Leave interest income and interest expense blank for now
 - Cumulative effect of change in accounting principle = \$0 all projected years
- On **Model** worksheet, project balance sheet 2006-2010 using model drivers from assumptions page
 - Leave cash and cash equivalents blank for now
 - Other assets, net equals last period minus other investing activities from cash flow statement (line 96)
 - Income taxes payable = 2005
 - Other non current liabilities = 2005
 - Series A preferred = 0
 - Series B preferred = 0
 - Common stock = 2005
 - Additional paid-in-capital = 2005
 - Retained earnings = last period retained earnings + this period net income + payments of dividends from cash flow (line 103)
 - Treasury stock = last periods treasury stock + purchases of treasury stock (line 100) + sale of treasury stock (line 101) + proceeds from stock options (line 102)
 - Unearned compensation = 2005
 - Accumulated other comprehensive income = 2005
- On **Model** worksheet, project cash flow 2006-2010 using model drivers from assumptions page or differences of balance sheet periods (*last period minus this period for assets, this period minus last period for liabilities*)
 - Cumulate effect of change in accounting principle = income statement figure (line 27)
 - Deferred income taxes = 0
 - Provision for credit losses = 0
 - Proceeds from sale of PP&E = 0
 - Proceeds from sale of installation subsidiary = 0
 - Purchase of kiosk business = 0
 - Calculate cash flow before short-term debt (revolver)
- On **Model** worksheet, project debt and interest schedule 2006-2010 using model drivers from assumptions page
 - ***For modeling simplicity, we are assuming all of company's existing short-term debt is in the form of a revolving credit facility and that revolving credit facility is unlimited***
 - Get beginning balance from last period's balance sheet
 - Enter revolver formula
 - Calculate ending revolver balance
 - Calculate revolver interest as average of beginning and ending balances
 - Same for long-term debt using maturity assumptions for paydown/drawdown
 - Calculate interest earned on cash using average of beginning and ending cash balances
- Finish model
 - Fill in cash and cash equivalents on balance sheet
 - Fill in interest income and interest expense on income statement
 - Make sure balance sheet balances (check=0 for all periods)

Discounted Cash Flow Analysis

- Link net sales, EBIT from Model worksheet income statement
- Calculate taxes, assuming **40%** tax rate
- Link capital expenditures to Model worksheet cash flow statement
- Link working capital to Model worksheet cash flow statement
- Link depreciation and amortization to Model worksheet cash flow statement
- Calculate EBITDA
- Calculate discount period assuming valuation date is **December 31, 2005** (that is, assume a full year of cash flows and no stub period)
- Calculate discount factor, assuming **12%** WACC
- Calculate present value of cash flows
- Link terminal value EBITDA to 2010 EBITDA
- Assume **7.0x** terminal multiple
- Calculate terminal value and present value of terminal value
- Calculate present value of enterprise by summing PV of cash flows and PV of terminal value
- Create sensitivity table using 6.0, 6.5, 7.0, 7.5, 8.0x terminal multiple on x-axis and 10%, 11%, 12%, 13%, 14% discount rate on y-axis