

MID-TERM EXAM

Question 1 (35 points)

Prepare the Cash Flow Statement and Ratio Analysis

Balance Sheet (000's)			Income Statement (000's)		
	2018	2019		2018	2019
Current Assets			Revenues by Geography		
Cash	67,500	86,100	U.S.	1,200,000	1,400,000
Accounts Receivable	67,500	87,000	Europe	180,000	210,000
Inventories	52,500	65,000	Asia	60,000	75,000
Prepaid Expenses	15,000	13,000	Total Revenue	1,440,000	1,685,000
Total Current Assets	202,500	251,100			
Property and Equipment			Cost of Revenues by Geography		
Land	3,750,000	3,750,000	U.S.	330,000	405,000
Building	675,000	800,000	Europe	150,000	172,500
Furniture & Equipment	75,000	100,000	Asia	37,500	52,500
Total Gross P&E	4,500,000	4,650,000	Total Cost of Revenue	517,500	630,000
Less Accumulated Depreciation	(450,000)	(550,000)	Gross Profit	922,500	1,055,000
Net P&E	4,050,000	4,100,000			
Long-Term Investments	300,000	400,000	Operating Expenses		
Total Assets	4,552,500	4,751,100	Administrative & General	217,500	247,500
			Marketing Expenses	112,500	120,000
Liabilities and Owners Equity			Other Operating Expenses	15,000	18,000
Current Liabilities			Total Operating Expenses	345,000	385,500
Accounts Payable	52,500	65,000	EBITDA	577,500	669,500
Accrued Income Taxes	18,000	15,000	Depreciation	90,000	100,000
Accrued Expenses	15,000	10,000	EBIT	487,500	569,500
Current Portion of Long Term Debt	30,000	30,000	Interest Expense	144,000	136,000
Total Current Liabilities	115,500	120,000	EBT	343,500	433,500
Long-Term Debt:	1,800,000	1,700,000	Taxes	137,400	173,400
Deferred Income Taxes	18,000	22,000	Net Income	206,100	260,100
Total Liabilities	1,933,500	1,842,000			
Owners' Equity					
Common Stock	1,500,000	1,500,000			
Paid-in-Capital	-	30,000			
Retained Earnings	1,119,000	1,379,100			
Total Owners' Equity	2,619,000	2,909,100			
Total Liabilities & Owner's Equity	4,552,500	4,751,100			

Cash Flow Statement (000's) **2019**

Net Income	260,100
Plus Depreciation	100,000
Plus Deferred Taxes	4,000
Cash Income	364,100

Working Capital Activities

Change in Accounts Receivable	(19,500)
Change in Inventory	(12,500)
Change in Prepaid Expenses	2,000
Change in Accounts Payable	12,500
Change in Accrued Income Taxes	(3,000)
Change in Accrued Expenses	(5,000)
Total Change in Working Capital	(25,500)

Operating Cash Flow (OCF)	338,600
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Investment Activities

Capital Expenditures	(150,000)
Investments (Change)	(100,000)
Total Investment Activities	(250,000)

Cash Available Before Financing Activities	88,600
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Financing Activities

ST Debt Payments	-
LT Payments	(100,000)
Equity Contribution	30,000
Total Financing Activities	(70,000)

Free Cash Flow	18,600
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Beginning Cash	67,500
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Ending Cash	86,100
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Ratio Analysis	2018	2019
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Trend Analysis Ratios

Revenue Growth	17.01%
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Solvency Ratios

LTD / Total Capitalization	40.7%	36.9%
EBITDA / Interest (Coverage Ratio)	4.01x	4.92x
LTD / EBITDA (Leverage Ratio)	3.12x	2.54x

Profitability Ratios

Gross Margin	64.1%	62.6%
EBITDA Margin	40.1%	39.7%
Return on Assets (ROA)		5.6%
Return on Equity (ROE)		9.4%

Question 2 (25 points)

Based on the case below please construct the Transaction Sources & Uses and calculate the WACC

Phatchance Hotel Properties, Inc.

Jack Von Crook, a hotel investor, is in the process of purchasing Phatchance Hotel Properties, Inc. ("PHP"). PHP operates two hotels in Miami, Florida with total of 800 rooms. He is anticipated to complete the necessary renovations on these properties by December 31, 2019 and open its doors for business on January 1st, 2020. The estimated total cost of both properties is \$320 million, plus additional \$40 million for renovations. PHP estimated 2019 EBITDA of \$50 million and outstanding debt of \$40 million.

Capital Raising:

The total capital needed to purchase and renovate PHP, as well as refinance its current debt outstanding will be sourced from bank loan and corporate bonds proceeds, as well as private equity (Assume that there are no transaction fees). Jack Von Crack is planning to contribute \$100 million of equity. He received an approval for the bank loan for 4 times 2019 EBITDA and able to raise the balance of financing in a form of Corporate Bonds.

Pricing is as follows:

Bank Loan @ 6.0% Fixed Rate, Corporate Bonds @ 9.0% Fixed Rate and the Equity expected return is calculated based on CAPM with risk free rate of 2.0%, beta of 1.8x and equity market return of 10.0%.

Transaction Uses	Amount (\$ million)		
Purchase of Properties	320	Risk Free	2.00%
Renovation	40	Beta	1.8
Refinancing of Debt	40	Market Ret	10%
Total	400		

TAX RATE = 26.0%

Transaction Sources	Amount (\$ million)	Interest /Expected Return	% Capital	Interest /Expected Return After Tax	WACC %
Bank Loan	200	6.00%	50.0%	4.440%	2.220%
Corporate Bonds	100	9.00%	25.0%	6.660%	1.665%
Equity	100	16.40%	25.0%	25.000%	6.250%
Total	400		100.0%		10.135%

Question 3 (25 points)

Use the Transaction Sources & Uses below to Construct the opening balance sheet

Sources (\$000s)	Amount
Revolver	20,000
Term Loan A	450,000
Term Loan B	550,000
Senior Secured Notes	300,000
Total Debt	1,320,000
Equity	1,910,000
Total Sources	3,230,000

Uses	Amount
Stock Purchase	2,500,000
Refinance Existing Debt	600,000
Transaction Fees & Expenses	130,000
Total Uses	3,230,000

	PRE-TRANSACTION 2019	TRANSACTION ADJUST. Debit	Credit	PROFORMA B/S 2019
Cash	80,000			80,000
Accounts Receivable	110,000			110,000
Inventory	45,000			45,000
Other Current Assets	15,000			15,000
Total Current Assets	250,000			250,000
Gross Fixed Assets	2,100,000			2,100,000
(Accum. Depreciation)				-
Total Fixed Assets	2,100,000			2,100,000
Capitalized Exp.		130,000		130,000
Purchase Goodwill		820,000		820,000
Other Investm's & Assets	150,000			150,000
Total Assets	2,500,000			3,450,000
LIABILITIES & SHAREHOLDER EQUITY				
Accounts Payable	80,000			80,000
Accrued Expenses	40,000			40,000
Other Current Liabilities	20,000			20,000
Total Current Liabilities	140,000			140,000
Revolver			20,000	20,000
Term Loan A			450,000	450,000
Term Loan B			550,000	550,000
New Term Loan				-
Exisiting Debt	650,000	600,000		50,000
Senior Secured Notes			300,000	300,000
Total Debt	650,000			1,370,000
Deferred Taxes	20,000			20,000
Other Liabilities	10,000			10,000
Total Liabilities	820,000			1,540,000
OWNER'S EQUITY				
Common Stock	1,190,000	1,190,000	1,910,000	1,910,000
Add'l Paid-in-Capital	40,000	40,000		-
Retained Earnings	450,000	450,000		-
Total Equity	1,680,000			1,910,000
Total Liabilities & Equity	2,500,000	3,230,000	3,230,000	3,450,000

Question 4 (15 points)

Complete the Debt Schedule Below

Bank Loan Amount 200,000
Term 5 Years
Interest Rate (Fixed Rate) 6.00%

	0	1	2	3	4	5
Bank Loan Information						
Amount Outstanding	200,000	180,000	150,000	110,000	60,000	-
Schedule Payments		20,000	30,000	40,000	50,000	60,000
Interest Payment		12,000	10,800	9,000	6,600	3,600
Total Financing Payment		32,000	40,800	49,000	56,600	63,600