MID-TERM EXAM (ON-LINE - MONDAYS - FALL 2019

Name: | | A1

Question 1 (35 points)

Prepare the Cash Flow Statement and Ratio Analysis

Balance Sheet (000's)	**2017**	**2018**
Current Assets		
Cash	67,500	86,100
Accounts Receivable	67,500	87,000
Inventories	52,500	65,000
Prepaid Expenses	15,000	13,000
Total Current Assets	202,500	251,100
Property and Equipment		
Land	3,750,000	3,750,000
Building	675,000	800,000
Furniture & Equipment	75,000	100,000
Total Gross P&E	4,500,000	4,650,000
Less Accumulated Depreciation	(450,000)	(550,000)
Net P&E	4,050,000	4,100,000
Long-Term Investments	300,000	400,000
Total Assets	4,552,500	4,751,100
Liabilities and Owners Equity		
Current Liabilities		
Accounts Payable	52,500	65,000
Accrued Income Taxes	18,000	15,000
Accrued Expenses	15,000	10,000
Current Portion of Long Term Debt	30,000	30,000
Total Current Liabilities	115,500	120,000
Long-Term Debt:	1,800,000	1,700,000
Deferred Income Taxes	18,000	22,000
Total Liabilties	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

Income Statement (000's)	**2017**	**2018**
Revenues by Geography		
U.S.	1,200,000	1,400,000
Europe	180,000	210,000
Asia	60,000	75,000
Total Revenue	1,440,000	1,685,000
Cost of Revenues by Geography		
U.S.	330,000	405,000
Europe	150,000	172,500
Asia	37,500	52,500
Total Cost of Revenue	517,500	630,000
Gross Profit	922,500	1,055,000
Operating Expenses		
Administrative & General	217,500	247,500
Marketing Expenses	112,500	120,000
Other Operating Expenses	15,000	18,000
Total Operating Expenses	345,000	385,500
EBITDA	577,500	669,500
Depreciation	90,000	100,000
EBIT	487,500	569,500
Interest Expense	144,000	136,000
EBT	343,500	433,500
Taxes	137,400	173,400
Net Income	206,100	260,100

Cash Flow Statement (000's)	2018
Net Income	260,100
Plus Depreciation	100,000
Plus Deffered 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
Investment Activities	
Capital Expenditures	(150,000)
Investments (Change)	(100,000)
Total Investment Activities	(250,000)
Cash Available Before Financing Activities	88,600
Financing Activities	
ST Debt Payments	-
LT Payments	(100,000)
Equity Contribution	30,000
Total Financing Activities	(70,000)
Free Cash Flow	18,600
Beginning Cash	67,500
Ending Cash	86,100

Ratio Analysis

	2017	2018
Trend Analysis Ratios		
Revenue Growth		17.01%
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 WAC(

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, 2018 and open its doors for business on January 1st, 2019. The estimated total cost of both properties is $320 million, plus additional $40 million for renovations. PHP estimated 2017 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 equiy. He received an approval for the bank loan for 4 times 2017 EBITDA and able to raise the balance of financing in a from 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 Sources	Amount	Rate / Expected Return
Bank Loan	Based on 4x 2019 EBITDA	6% Fixed
Corporate Bond		9% Fixed
Equity	100,000,000	Exp. Return based on CAPM

Transaction Uses	Amount		2%
Cost of Property	320,000,000		10%
Renovation	40,000,000		1.8
Refinance Debt	40,000,000		0.164
Transaction Fees & Expenses			
Total Uses	400,000,000		

Transaction Sources	Amount	Interest /Expected Return	% Capital	Interest /Expected Return After Tax	WACC
Bank Loan	200,000,000	6.00%	**50.0%**	**3.840%**	**1.920%**
Corporate Bonds	100,000,000	9.00%	**25.0%**	**5.760%**	**1.440%**
Equity	100,000,000	**16.40%**	**25.0%**	**16.400%**	**4.100%**
Total	400,000,000		**100.0%**		**7.460%**

Question 3 (25 points)

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

Sources ($000s)	Amount	Uses ($000s)	Amount
Revolver	20,000	Stock Purchase	2,500,000
Term Loan A	450,000	Refinance Existing Debt	650,000
Term Loan B	550,000	Transaction Fees & Expenses	130,000
Senior Secured Notes	300,000		
Total Debt	1,320,000		
Equity	1,960,000		
Total Sources	3,280,000	**Total Uses**	3,280,000

	PRE-TRANSACTION	TRANSACTION ADJUST.		PROFORMA B/S
	2018	Debit	Credit	2018
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
Acccrued 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			300,000	300,000
Exisiting Debt	650,000	650,000		-
Senior Secured Notes				-
Total Debt	650,000			1,320,000
Deferred Taxes	20,000			20,000
Other Liabilities	10,000			10,000
Total Liabilities	820,000			1,490,000
OWNER'S EQUITY				
Common Stock	1,190,000	1,190,000	1,960,000	1,960,000
Add'l Paid-in-Capital	40,000	40,000		-
Retained Earnings	450,000	450,000		-
Total Equity	1,680,000			1,960,000
Total Liabilities & Equity	2,500,000	3,280,000	3,280,000	3,450,000

Question 4 (25 points)

Calculate the Interest Payments of the bank loan below based on increasing LIBOR.

Bank Loan Amount	200,000	
Term	5	Years
Pricing (Libor + Spread)	4.50%	(Spread)
Starting LIBOR (Year 0)	2.25%	

Years	1	2	3	4	5
LIBOR Increase every year	0.500%	0.500%	1.000%	0.000%	0.000%

Years	1	2	3	4	5
Scheduled Payments	20,000	30,000	40,000	50,000	60,000

	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		**14,500**	**13,950**	**13,125**	**9,625**	**5,250**
Total Financing Payment		**34,500**	**43,950**	**53,125**	**59,625**	**65,250**

Interest Rate Calculations						
LIBOR	**2.25%**	**2.75%**	**3.25%**	**4.25%**	**4.25%**	**4.25%**
LIBOR Increases		**0.50%**	**0.50%**	**1.00%**	**0.00%**	**0.00%**
Spread		**4.50%**	**4.50%**	**4.50%**	**4.50%**	**4.50%**
Total Interest Rate		**7.25%**	**7.75%**	**8.75%**	**8.75%**	**8.75%**