Chapter 16: **Projections Analysis**

**To answer the questions, use Chapter 16 Problems Spreadsheet – Template.xls**

**Problems**

1. Prepare **Green Landscape Services** projections including **Income Statement and Cash Flow** **Statement** using the following information.

**Company Overview**

GLS is a provider of residential landscape services in 30 states, primarily in the Northeast and Midwest. In Year 0 GLS served approximately 2 million customers.

**Last Year’s Operation Assumptions (Year 0)**

Average revenue per service (ARPS): $60

Average number of services per customer per year: 10 visits

Number of total customers: 2 million

Cost of revenue as 50% of revenue

Operating expenses as 30% of revenue

**Projections’ Assumptions (Years 1-–8)**

ARPS: Increase of 6% per year

Average number of services per customer per year: 10 visits

Total services annual growth rate: 2%

Cost of revenue: 45% of revenues

Operating expense: 30% of revenues

Depreciation: 5% of revenues

Tax rate at 34%

Deferred taxes as % of tax expense: 5%

Working capital is 1% revenue

Capex: 6% of revenues per year

1. Prepare **Alexandria Hotel** projections including **Incomes Statement, Cash Flows Statement and Balance Sheet Statement** using the following information.

**First Year of Operation Assumptions:**

Average Daily Rate = $200

Number of Rooms = 300

Occupancy Rate = 70%

Cost of revenue as % of revenue is 35%

Operating expenses as % of revenue is 15%

Depreciation as % of revenue is 3%

Taxes are 36%

Working capital is 1% of revenue

Capital expenditures as % of revenue is 7%

**Projections’ Assumptions (Year 2 and thereafter)**

ADR Increase: 5%

Number of Rooms = 300

Occupancy Rate = 70%

Cost of room: Keep the same 35% of revenues

Operating expense: Keep the same 15% of revenues

Depreciation: Keep the same 3% of revenues

Tax rate at 36%

Deferred Tax % of Taxes: 5%

Working capital is 1% revenue

Capex: Keep the same 7% of revenues per year

**Balance Sheet (Year 0)**

**ASSETS**

|  |  |
| --- | --- |
| Cash | 1,500,000 |
| Net Working Capital | 1,000,000 |
| Gross Fixed Assets | 15,000,000 |
| Acc. Depreciation | (2,500,000) |
| Net Fixed Assets | 12,500,000 |
| **Total Assets** | **15,000,000** |

**LIABILITIES**

|  |  |
| --- | --- |
| Contra Working Capital | 0 |
| Long Term Loan | 0 |
| Deferred Taxes | 500,000 |
| Total Liabilities | 500,000 |

**EQUITY**

|  |  |
| --- | --- |
| Common Stock | 10,000,000 |
| Retained Earnings | 4,500,000 |
| Total Equity | 14,500,000 |

|  |  |
| --- | --- |
| **Total Liabilities & Equity** | **15,000,000** |

1. Prepare the LBO of **Expo Hotel Corporation** including projections (Income Statement, Cash Flow Statement, Balance Sheet Statement and Debt Schedules using the following information.

**Company Overview**

Expo Hotel Corporation operates as a hotel franchisor worldwide. The company franchises lodging properties under the brand names of Beautiful Inn, Beautiful Suites, Expo, and Experience Suites. As of December 31, Year 0, the company had approximately 6,900 franchised hotels with 56,000 rooms in approximately 40 countries and territories.

**LBO Transaction**

Whitestone Partners (PW), a private equity firm, signed an agreement to acquire Expo Hotel Corporation (“Expo”), a publicly traded company, for $37.50 per share. Total acquisition cost includes the purchase of 100% of Expo’s 100 million shares and the refinancing of $750 million of existing debt. In addition to the acquisition, there will be transaction fees of $100 million.

**Transaction Overview**

PW is in the process of raising the necessary funds to cover the purchase all the shares of the company, refinance Expo’s existing debt, and pay the transaction fees. The proposed structure is as follows:

**Bank Debt:** JPP Bank approved a 2-tranch loan (revolver, term loan) based on the company’s last year EBITDA (Year 0). The money terms were as follows:

**Revolver:** $200 million ($0 funded on day one)—assume 0.5% fees on unfunded and LIBOR+4.0% on any funded outstanding

**TERM LOAN**

|  |  |
| --- | --- |
| **Amount** | 3.0x Year 0 EBITDA |
| **Interest** | LIBOR + 4.0% |
| **Term** | 7 years |
| **Scheduled Payments** | Year 1: 1%, Year 2: 1%, Year 3: 1%, Year 4: 1%, Year 5: 1%, Year 6: 1%, Year 7: 94% |

**LIBOR Assumptions**

Starting LIBOR at 2.5%, increasing 0.5% in Year 1, 0.5% in Year 2, and 1.0% in Year 3

**Senior Unsecured Notes**

Morgan Stanley, an investment bank, managed to raise the senior unsecured notes. The money terms were as follows:

|  |  |
| --- | --- |
| **Amount** | 2.5x Year 0 EBITDA |
| **Interest** | 8% |
| **Term** | 8 years |
| **Scheduled Payments** | Year 1–7: 0%, Year 8: 100% (bullet payment) |

**Equity**

**The balance of the financing.** The expected equity return is calculated based on CAPM where the risk-free rate is 2.0%, the market return is 12%, and the industry beta is 2.0x.

**Last Year’s Operation Assumptions (Year 0)**

Average daily rate (ADR): $140

Occupancy rate: 67%

Cost of revenue as 50% of revenue

Operating expenses as 20% of revenue

**Projections’ Assumptions (Years 1–8)**

ADR increase of 5% per year

Occupancy rate stays at 67%

No growth on the number of rooms

Cost of revenue: 50% of revenues

Operating expense: 30% of revenues

Depreciation: 5% of revenues

Amortization of fees—use 7 years

Tax rate at 34%

Deferred taxes as % of tax expense: 5%

Accounts receivables days: 30 days

Inventory day (assume no inventory)

Accounts payable days: 20 days

Other current assets as % of revenues: 1.0%

Other current liabilities as % of revenues: 1.5%

Capex: 5% of revenues per year

**Pre-Transaction Balance Sheet (Year 0)**

|  |  |
| --- | --- |
|  | **Pre- Transaction** |
|  | **Year 0** |
| **Current Assets** |  |
| Cash | 50,000 |
| Accounts Receivable | 160,000 |
| Other Current Assets | 20,000 |
| **Total Current Assets** | 230,000 |
|  |  |
| Goodwill |  |
| Capitalized Fees |  |
|  |  |
| Gross PP&E | 1,700,000 |
| Less Accumulated Depreciation | (200,000) |
| Net PP&E | 1,500,000 |
|  |  |
| Investment in JV | 35,000 |
| **Total Assets** | 1,765,000 |
|  |  |
| **Current Liabilities** |  |
| Accounts Payable | 50,000 |
| Other Current Liabilities | 30,000 |
| **Total Current Liabilities** | 80,000 |
|  |  |
| Existing Long Term Debt | 750,000 |
| Revolver |  |
| Term Loan |  |
| Senior Unsecured Notes |  |
| Total Long Term Debt | 750,000 |
|  |  |
| Other Liabilities / Deferred Taxes | 50,000 |
| **Total Liabilities** | 880,000 |
|  |  |
| **Shareholder's Equity** |  |
| Common Stock | 445,000 |
| Retained Earnings | 440,000 |
| **Total Shareholder's Equity** | 885,000 |
|  |  |
| **Total Liabilities & Equity** | 1,765,000 |