

Lecture #3

FINANCIAL ANALYSIS

Financial Analysis – example (Celerity Technology)

Perfect World – all cash – Lemonade stand



I/S and CF – Differences (Taxes – Depreciation, Amortization of Fees (Capitalized))

- Capex (Non deductible)
- Working Capital (Timing Differences) – Changes in Balance Sheet
- Financing Activities (New/repayment of debt)

Income Statement

- Unlike the Balance Sheet that is a snap-shot at a particular time, the Income Statements show the flow over time (one year / one quarter/ one month)
- Measures profitability for that period
- EBITDA

Cash Flow Statement

- Working Capital
- Capex (Maintenance / Growth Capex)
- Acquisitions
- Selling Assets/property – Disposition of Assets
- Principal Payments
- Raising New Financing/IPO Equity
- Beginning/Ending Cash

Celerity Technogy Company ("CTC")

Financial Statement Analysis

Balance Sheet (000's)	2008	2009	\$ Change	% Change
Current Assets				
Cash	50,000	70,000	20,000	40.0%
Accounts Receivable	45,000	60,000	15,000	33.3%
Inventories	30,000	35,000	5,000	16.7%
Prepaid Expenses	10,000	9,000	(1,000)	-10.0%
Total Current Assets	<u>135,000</u>	<u>174,000</u>	<u>39,000</u>	<u>28.9%</u>
Property and Equipment				
Land	2,500,000	2,500,000	-	0.0%
Building	450,000	550,000	100,000	22.2%
Furniture & Equipment	50,000	75,000	25,000	50.0%
Total Gross P&E	<u>3,000,000</u>	<u>3,125,000</u>	<u>125,000</u>	<u>4.2%</u>
Less Accumulated Depreciation	<u>(300,000)</u>	<u>(365,000)</u>	<u>(65,000)</u>	<u>21.7%</u>
Net P&E	<u>2,700,000</u>	<u>2,760,000</u>	<u>60,000</u>	<u>2.2%</u>
Long-Term Investments	200,000	250,000	50,000	25.0%
Total Assets	<u><u>3,035,000</u></u>	<u><u>3,184,000</u></u>	<u><u>149,000</u></u>	<u><u>4.9%</u></u>
Liabilities and Owners Equity				
Current Liabilities				
Accounts Payable	35,000	40,000	5,000	14.3%
Accrued Income Taxes	12,000	10,000	(2,000)	-16.7%
Accrued Expenses	10,000	8,000	(2,000)	-20.0%
Current Portion of Long Term Debt	20,000	10,000	(10,000)	-50.0%
Total Current Liabilities	<u>77,000</u>	<u>68,000</u>	<u>(9,000)</u>	<u>-11.7%</u>
Long-Term Debt:	1,200,000	1,180,000	(20,000)	-1.7%
Deferred Income Taxes	12,000	17,000	5,000	41.7%
Total Liabilities	<u>1,289,000</u>	<u>1,265,000</u>	<u>(24,000)</u>	<u>-1.9%</u>
Owners' Equity				
Common Stock	1,000,000	1,000,000	-	0.0%
Paid-in-Capital	-	24,200	24,200	
Retained Earnings	746,000	894,800	148,800	19.9%
Total Owners' Equity	<u>1,746,000</u>	<u>1,919,000</u>	<u>173,000</u>	<u>9.9%</u>
Total Liabilities & Owner's Equity	<u><u>3,035,000</u></u>	<u><u>3,184,000</u></u>	<u><u>149,000</u></u>	<u><u>4.9%</u></u>

Income Statement (000's)	2008	2009	<u>Operating Ratios for 2009</u>	
Revenues by Geography			Rev. Growth	% Breakdown
U.S.	800,000	920,000	15.0%	82.9%
Europe	120,000	140,000	16.7%	12.6%
Asia	40,000	50,000	25.0%	4.5%
Total Revenue	960,000	1,110,000	15.6%	100.0%
Cost of Revenues by Geography			Gross Margin	Gross Profit
U.S.	220,000	270,000	70.7%	650,000
Europe	100,000	115,000	17.9%	25,000
Asia	25,000	35,000	30.0%	15,000
Total Cost of Revenue	345,000	420,000	62.2%	690,000
Gross Profit	615,000	690,000		
Operating Expenses			As % of Sales	
Administrative & General	145,000	165,000	14.9%	
Marketing Expenses	75,000	80,000	7.2%	
Other Operating Expenses	10,000	12,000	1.1%	
Total Operating Expenses	230,000	257,000	23.2%	
EBITDA	385,000	433,000	39.0%	(EBITDA Margin)
Depreciation	60,000	65,000	5.9%	Deprec.as % of Revenues
EBIT	325,000	368,000	33.2%	EBIT Margin
Interest Expense	130,000	120,000	10.0%	Interest Rate
EBT	195,000	248,000		Interest Exp. / (Avg Debt incl. LT and ST)
Taxes	78,000	99,200	40.0%	Tax Rate
Net Income	117,000	148,800	13.4%	NI Margin

Cash Flow Statement (000's)	2009	<u>Operating Ratios for 2009</u>	
Net Income	148,800		
Plus Depreciation	65,000		
Plus Deferred Taxes	5,000		
Cash Income	218,800		
Working Capital Activities			
Change in Accounts Receivable	(15,000)	1.4%	A/R Charge as % of Rev.
Change in Inventory	(5,000)		
Change in Prepaid Expenses	1,000		
Change in Accounts Payable	5,000		
Change in Accrued Income Taxes	(2,000)		
Change in Accrued Expenses	(2,000)		
Total Change in Working Capital	(18,000)	1.6%	WC as % of Revenues
Operating Cash Flow (OCF)	200,800		
Investment Activities			
Capital Expenditures	(125,000)	11.3%	Capex as % Revenues
Investments (Change)	(50,000)		
Total Financing Activities	(175,000)		
Cash Available Before Financing Activities	25,800		
Financing Activities			
ST Debt Payments	(10,000)		
LT Payments	(20,000)	30,000	Total Debt Payments
Equity Contribution	24,200		
Total Financing Activities	(5,800)		
Free Cash Flow	20,000		
Beginning Cash	50,000		
Ending Cash	70,000		

