

Homework Assignment 2

- 1) Partial income statements and balance sheets for Nike, Inc. are available in Excel format on the course web page. Assume that the price per share is \$50 and there are 297 million shares outstanding.

Assuming that all financing needs are met by issuing debt (bank loan), fill in the missing blanks. You should assume that interest expense for a given year equals the interest rate of 8% multiplied by the average of the beginning and ending debt outstanding. Be sure to include existing debt in your interest expense calculation (e.g. notes payable, long-term debt).

- 2) Proforma analysis at Teuer Furniture. This question refers to the Teuer Furniture case (which you can find in the course packet). As a member of Ms. Jerabek's team, you are responsible for estimating the value of Teuer Furniture as well as the value of one share of stock. You should use discounted cash flow to value the firm. The questions below should help guide you.

1. *Pro-forma financials.* To value Teuer Furniture, the first step is to construct a pro-forma income statement and pro-forma balance sheet. You should use the assumptions and data from the case. Templates have been provided for you. As a check that your numbers are correct, verify that the balance sheet balances.¹
2. *Discounted cash flow.* Value Teuer Furniture by constructing the cash flow to assets for the next six years (2013 to 2018). Your value should not include the 2012 cash flows. You will need to include a terminal value in your valuation. Assume that the long term growth rate of Teuer Furniture's cash flows is 2.5% and their firm's cost of capital is 13.7%. What is the value of Teuer Furniture on a per share basis?
3. *Key assumptions.* The value of Teuer that you calculated is a function of the assumptions made by you and the finance team. Which assumptions are the key assumptions?

Note: The solution to this case will be discussed in the TA session on Wednesday, January 15, but written solutions will not be distributed. See the course calendar for the time and location.

¹ This check only works if you construct the equity numbers on the balance sheet in the correct method. If you calculate equity as assets minus liabilities, then this check will be meaningless.