

Adjustments and Corrections

Chapter 9 in the Financial Modeling and Valuation text book contains several tables that have changed after the book printing date. The solution file, Walmart_Solution.xls, is the most up-to-date. For those following the tables in the book, tables 9.12 – 9.13 and tables 9.15 – 9.24 have changed. The adjusted tables are below:

Table 9.12 Costco Historical YE Adjusted Income Statement

Costco Income Statement	
	YE Adjusted
Revenue	
Sales	91,170.9
Membership fees	1,926.3
Total revenue	93,097.1
<i>Y/Y revenue growth (%)</i>	
Cost of goods sold	81,545.0
<i>COGS as a % of revenue</i>	<u>88%</u>
Gross profit	11,552.1
<i>Gross profit margin (%)</i>	12%
Operating expenses	
Selling, general and administrative	8,132.3
<i>SG&A as a % of revenue</i>	9%
Total operating expenses	<u>8,132.3</u>
EBITDA	3,419.9
<i>EBITDA margin (%)</i>	4%
Depreciation and amortization	881.0
<i>D&A % of Revenue</i>	<u>1%</u>
EBIT	2,538.9
<i>EBIT margin (%)</i>	<u>3%</u>
Other income	
Equity in earnings of unconsolidated affiliates	(9.1)
Foreign-currency transactions gains (losses), net	<u>(41.3)</u>
Total Other Income	(50.4)
Interest	
Interest expense	117.0
Interest income	<u>(46.7)</u>
Net interest expense	<u>70.3</u>
Earnings before tax (EBT)	2,519.0
<i>IBT margin (%)</i>	3%
Income tax expense	918.4

<i>Effective tax rate (%)</i>	<u>36%</u>
Net income (before noncontrolling interests)	1,600.6
Income attributable to noncontrolling interests	65.4
% of net income	<u>4%</u>
Net income (adjusted)	1,535.2
Non-recurring events	
Preopening expenses	29.0
Other items	<u>(3.2)</u>
Total non-recurring events	25.8
Net income (as reported)	1,509.4
Earnings per share (As reported)	
Basic	3.48
Diluted	3.43
Earnings per share (adjusted)	
Basic	3.54
Diluted	3.49
Average common shares outstanding	
Basic	434
Diluted	<u>440</u>

Table 9.13 Costco Historical LTM Income Statement

Costco Income Statement	
	LTM 2012
Revenue	
Sales	95,217.1
Membership fees	2,030.0
Total revenue	97,247.1
<i>Y/Y revenue growth (%)</i>	
Cost of goods sold	85,170.1
<i>COGS as a % of revenue</i>	<u>88%</u>
Gross profit	12,077.0
<i>Gross profit margin (%)</i>	12%
Operating expenses	
Selling, general and administrative	8,458.3
<i>SG&A as a % of revenue</i>	9%
Total operating expenses	<u>8,458.3</u>
EBITDA	3,618.8
<i>EBITDA margin (%)</i>	4%
Depreciation and amortization	895.3
<i>D&A % of Revenue</i>	<u>1%</u>
EBIT	2,723.5
<i>EBIT margin (%)</i>	<u>3%</u>
Other income	
Equity in earnings of unconsolidated affiliates	(12.8)
Foreign-currency transactions gains (losses), net	<u>(42.9)</u>
Total Other Income	(55.6)
Interest	
Interest expense	97.9
Interest income	<u>(48.3)</u>
Net interest expense	<u>49.6</u>
Earnings before tax (EBT)	2,729.5
<i>IBT margin (%)</i>	3%
Income tax expense	986.3

<i>Effective tax rate (%)</i>	<u>36%</u>
Net income (before noncontrolling interests)	1,743.2
Income attributable to noncontrolling interests	59.9
<i>% of net income</i>	<u>3%</u>
Net income (adjusted)	1,683.3
Non-recurring events	
Preopening expenses	24.4
Other items	<u>(0.8)</u>
Total non-recurring events	23.7
Net income (as reported)	1,659.6
Earnings per share (As reported)	
Basic	3.83
Diluted	3.77
Earnings per share (adjusted)	
Basic	3.88
Diluted	3.83
Average common shares outstanding	
Basic	434
Diluted	<u>440</u>

Table 9.15 Costco Projected Expenses

Costco Income Statement		Estimates	
		2012A	2013E
Cost of goods sold		86,823.0	92,553.3
<i>COGS as a % of revenue</i>		<u>88%</u>	<u>88%</u>
Gross profit		12,314.0	13,126.7
<i>Gross profit margin (%)</i>		12%	12%
Operating expenses			
Selling, general and administrative		8,610.0	9,178.3
<i>SG&A as a % of revenue</i>		9%	<u>9%</u>
Total operating expenses		<u>8,610.0</u>	<u>9,178.3</u>
EBITDA		3,704.0	3,948.5
<i>EBITDA margin (%)</i>		4%	4%

Table 9.16 Costco Projected Depreciation

Costco Income Statement		Estimates	
		2012A	2013E
EBITDA		3,704.0	3,948.5
<i>EBITDA margin (%)</i>		4%	4%
Depreciation and amortization		908.0	967.9
<i>D&A % of Revenue</i>		1%	1%
EBIT		2,796.0	2,980.5
<i>EBIT margin (%)</i>		3%	3%

Table 9.17 Costco Projected Other Income and Interest

Costco Income Statement		Estimates	
		2012A	2013E
EBIT		2,796.0	2,980.5
<i>EBIT margin (%)</i>		3%	3%
Other income			
Equity in earnings of unconsolidated affiliates		(14.0)	(14.0)
Foreign-currency transactions gains (losses), net		(40.0)	(40.0)
Total Other Income		(54.0)	(54.0)
Interest			
Interest expense		95.0	95.0
Interest income		(49.0)	(49.0)
Net interest expense		46.0	46.0
Earnings before tax (EBT)		2,804.0	2,988.5
<i>IBT margin (%)</i>		3%	3%

Table 9.18 Costco Projected Taxes

Costco Income Statement		Estimates	
		2012A	2013E
Earnings before tax (EBT)		2,804.0	2,988.5
<i>IBT margin (%)</i>		3%	3%
Income tax expense		1,013.4	1,080.1
<i>Effective tax rate (%)</i>		36%	36%
Net income (before noncontrolling interests)		1,790.6	1,908.5

Table 9.19 Costco Projected Non-Controlling Interests

Costco Income Statement		Estimates	
		2012A	2013E
Net income (before noncontrolling interests)		1,790.6	1,908.5
Income attributable to noncontrolling interests		58.0	59.9
% of net income		3%	3%
Net income (adjusted)		1,732.6	1,848.6

Table 9.20 Costco Projected EPS

Costco Income Statement		Estimates	
		2012A	2013E
Net income (adjusted)		1,732.6	1,848.6
Non-recurring events			
Preopening expenses		23.6	0.0
Other items		0.0	0.0
Total non-recurring events		23.6	0.0
Net income (as reported)		1,709.0	1,848.6
Earnings per share (As reported)			
Basic		3.94	4.26
Diluted		3.89	4.20
Earnings per share (adjusted)			
Basic		4.00	4.26
Diluted		3.94	4.20
Average common shares outstanding			
Basic		434	434
Diluted		440	440

Table 9.21 Costco Comparable Analysis

Costco Income Statement														Estimates
	Actuals													
	Q1 2011A	Q2 2011A	Q3 2011A	Q4 2011E	2011A	Q1 2012A	Q2 2012A	Q3 2012A	Q4 2012E	2012A	YE Adjusted	LTM 2011	2013E	
Revenue														
Sales	18,823.0	20,449.0	20,188.0	27,588.0	87,048.0	21,181.0	22,508.0	21,849.0	31,524.0	97,062.0	91,170.9	95,217.1	103,468.1	
Membership fees	416.0	426.0	435.0	590.0	1,867.0	447.0	459.0	475.0	694.0	2,075.0	1,926.3	2,030.0	2,212.0	
Total revenue	19,239.0	20,875.0	20,623.0	28,178.0	88,915.0	21,628.0	22,967.0	22,324.0	32,218.0	99,137.0	93,097.1	97,247.1	105,680.0	
Y/Y revenue growth (%)													6.6%	
Cost of goods sold	16,757.0	18,235.0	18,067.0	24,680.0	77,739.0	18,931.0	20,139.0	19,543.0	28,210.0	86,823.0	81,545.0	85,170.1	92,553.3	
COGS as a % of revenue	87%	87%	88%	88%	87%	88%	88%	88%	88%	88%	88%	88%	88%	
Gross profit	2,482.0	2,640.0	2,556.0	3,498.0	11,176.0	2,697.0	2,828.0	2,781.0	4,008.0	12,314.0	11,552.1	12,077.0	13,126.7	
Gross profit margin (%)	13%	13%	12%	12%	13%	12%	12%	12%	12%	12%	12%	12%	12%	
Operating expenses														
Selling, general and administrative	1,750.0	1,843.0	1,795.0	2,448.0	7,836.0	1,940.0	1,967.0	1,949.0	2,754.0	8,610.0	8,132.3	8,458.3	9,178.3	
SG&A as a % of revenue	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	
Total operating expenses	1,750.0	1,843.0	1,795.0	2,448.0	7,836.0	1,940.0	1,967.0	1,949.0	2,754.0	8,610.0	8,132.3	8,458.3	9,178.3	
EBITDA	732.0	797.0	761.0	1,050.0	3,340.0	757.0	861.0	832.0	1,254.0	3,704.0	3,419.9	3,618.8	3,948.5	
EBITDA margin (%)	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Depreciation and amortization	191.0	195.0	196.0	273.0	855.0	205.0	209.0	202.0	292.0	908.0	881.0	895.3	967.9	
D&A % of Revenue	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	
EBIT	541.0	602.0	565.0	777.0	2,485.0	552.0	652.0	630.0	962.0	2,796.0	2,538.9	2,723.5	2,980.5	
EBIT margin (%)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	
Other income														
Equity in earnings of unconsolidated affiliates	0.0	(3.0)	(3.0)	(4.0)	(10.0)	0.0	(2.0)	(4.0)	(8.0)	(14.0)	(9.1)	(12.8)	(14.0)	
Foreign-currency/transactions gains (losses), net	2.0	8.0	8.0	(27.0)	(9.0)	(26.0)	3.0	(3.0)	(14.0)	(40.0)	(41.3)	(42.9)	(40.0)	
Total Other Income	2.0	5.0	5.0	(31.0)	(19.0)	(26.0)	1.0	(7.0)	(22.0)	(54.0)	(50.4)	(55.6)	(54.0)	
Interest														
Interest expense	26.0	27.0	27.0	36.0	116.0	27.0	27.0	19.0	22.0	95.0	117.0	97.9	95.0	
Interest income	(7.0)	(9.0)	(10.0)	(15.0)	(41.0)	(11.0)	(11.0)	(11.0)	(16.0)	(49.0)	(46.7)	(48.3)	(49.0)	
Net interest expense	19.0	18.0	17.0	21.0	75.0	16.0	16.0	8.0	6.0	46.0	70.3	49.6	46.0	
Earnings before tax (EBT)	520.0	579.0	543.0	787.0	2,429.0	562.0	635.0	629.0	978.0	2,804.0	2,519.0	2,729.5	2,988.5	
IBT margin (%)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	
Income tax expense	177.5	206.1	196.3	277.4	857.2	228.7	217.7	219.4	347.5	1,013.4	918.4	986.3	1,080.1	
Effective tax rate (%)	34%	36%	36%	35%	35%	41%	34%	35%	36%	36%	36%	36%	36%	
Net income (before noncontrolling interests)	342.5	372.9	346.7	509.6	1,571.8	333.3	417.3	409.6	630.5	1,790.6	1,600.6	1,743.2	1,908.5	
Income attributable to noncontrolling interests	20.0	21.0	17.0	22.0	80.0	8.0	18.0	19.0	13.0	58.0	65.4	59.9	59.9	
% of net income	6%	6%	5%	4%	5%	2%	4%	5%	2%	3%	4%	3%	3%	
Net income (adjusted)	322.5	351.9	329.7	487.6	1,491.8	325.3	399.3	390.6	617.5	1,732.6	1,535.2	1,683.3	1,848.6	
Non-recurring events														
Preopening expenses	7.9	2.6	5.1	14.2	29.8	5.9	3.9	3.9	9.8	23.6	29.0	24.4	0.0	
Other items	2.6	1.3	0.6	(4.6)	0.0	(0.6)	1.3	0.7	(1.4)	0.0	(3.2)	(0.8)	0.0	
Total non-recurring events	10.5	3.9	5.7	9.6	29.8	5.3	5.3	4.6	8.5	23.6	25.8	23.7	0.0	
Net income (as reported)	312.0	348.0	324.0	478.0	1,462.0	320.0	394.0	386.0	609.0	1,709.0	1,509.4	1,659.6	1,848.6	
Earnings per share (As reported)														
Basic	0.72	0.80	0.74	1.10	3.35	0.74	0.91	0.89	1.40	3.94	3.48	3.83	4.26	
Diluted	0.71	0.79	0.73	1.08	3.30	0.73	0.90	0.88	1.39	3.89	3.43	3.77	4.20	
Earnings per share (adjusted)														
Basic	0.74	0.81	0.75	1.12	3.42	0.75	0.92	0.90	1.42	4.00	3.54	3.88	4.26	
Diluted	0.73	0.79	0.74	1.10	3.37	0.74	0.91	0.89	1.40	3.94	3.49	3.83	4.20	
Average common shares outstanding														
Basic	434	437	437	436	436	434	435	434	434	434	434	434	434	
Diluted	441	443	444	443	443	441	439	439	440	440	440	440	440	

Table 9.22 Costco Summary Operating Statistics

Operating Statistics														
Company	Sales			EBIT			D&A			EBITDA			EPS	
	12A \$MM	LTM \$MM	13E \$MM	12A \$MM	LTM \$MM	13E \$MM	12A \$MM	LTM \$MM	13E \$MM	12A \$MM	LTM \$MM	13E \$MM	12A \$/share	LTM \$/share
Walmart														
COSTCO	93,097.1	97,247.1	105,680.0	2,538.9	2,723.5	2,980.5	881.0	895.3	967.9	3,420	3,619	3,948	\$3.49	\$3.83

Table 9.23 Costco Multiples

Comparable Companies Analysis (in US\$ millions)															
Company	Current Stock Price\$	Market Capitalization (Value)\$	Enterprise Value \$MM	Price / Earnings			E.V. / Revenue			E.V. / EBIT			E.V. / EBITDA		
				12A	LTM	13E	12A	LTM	13E	12A	LTM	13E	12A	LTM	13E
				x	x	x	x	x	x	x	x	x	x	x	x
Walmart															
COSTCO	\$96.94	42 096.4	40 107.4	27.8x	25.3x	23.1x	0.4x	0.4x	0.4x	15.8x	14.7x	13.5x	11.7x	11.1x	10.2x

Table 9.24 Comparable Company Analysis

Comparable Companies Analysis (in US\$ millions)															
Company	Current Stock Price\$	Market Capitalization (Value)\$	Enterprise Value \$MM	Price / Earnings			EV. / Revenue			E.V. / EBIT			E.V. / EBITDA		
				12A x	LTM x	13E x	12A x	LTM x	13E x	12A x	LTM x	13E x	12A x	LTM x	13E x
Walmart	\$73.82	248,459.0	300,010.0	16.3x	15.4x	15.1x	0.7x	0.7x	0.6x	11.3x	11.0x	10.8x	8.6x	8.4x	8.2x
COSTCO	\$96.94	42,096.4	40,107.4	27.8x	25.3x	23.1x	0.4x	0.4x	0.4x	15.8x	14.7x	13.5x	11.7x	11.1x	10.2x
Target	\$62.79	41,486.5	58,558.5	14.7x	14.2x	13.6x	0.8x	0.8x	0.8x	11.0x	11.1x	10.7x	7.9x	7.8x	7.6x
Dollar General	\$47.16	15,854.0	18,338.4	20.2x	17.4x	15.4x	1.2x	1.2x	1.0x	12.3x	11.5x	10.3x	10.4x	9.8x	8.7x
Dollar Tree	\$37.74	8,697.1	8,581.6	9.4x	16.1x	15.3x	1.3x	1.2x	1.2x	11.0x	10.2x	9.8x	9.1x	8.5x	8.1x
Family Dollar Store	\$66.12	7,645.8	8,100.9	19.3x	18.6x	16.2x	0.9x	0.9x	0.8x	12.2x	11.8x	10.6x	9.5x	9.1x	8.1x
Median				19.3x	17.4x	15.4x	0.9x	0.9x	0.8x	12.2x	11.5x	10.6x	9.5x	9.1x	8.1x
High				27.8x	25.3x	23.1x	1.3x	1.2x	1.2x	15.8x	14.7x	13.5x	11.7x	11.1x	10.2x
Low				9.4x	14.2x	13.6x	0.4x	0.4x	0.4x	11.0x	10.2x	9.8x	7.9x	7.8x	7.6x