



Capital Structure

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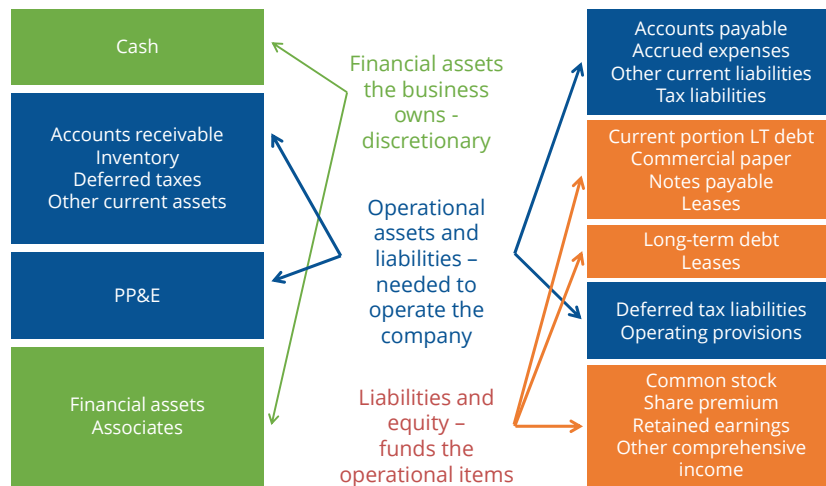
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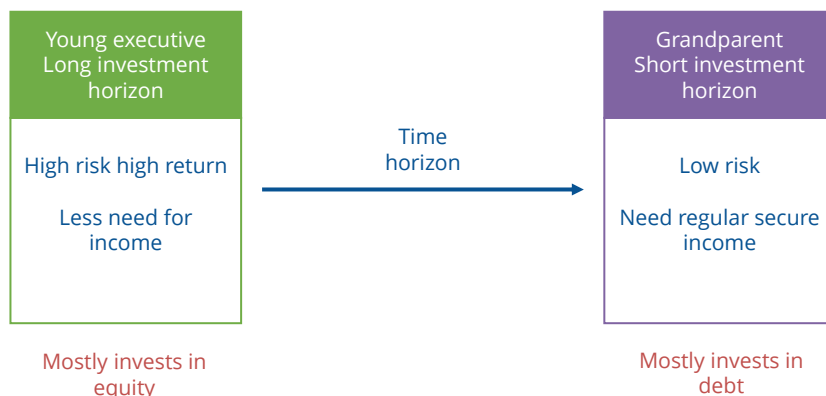
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Financing Vs Operating



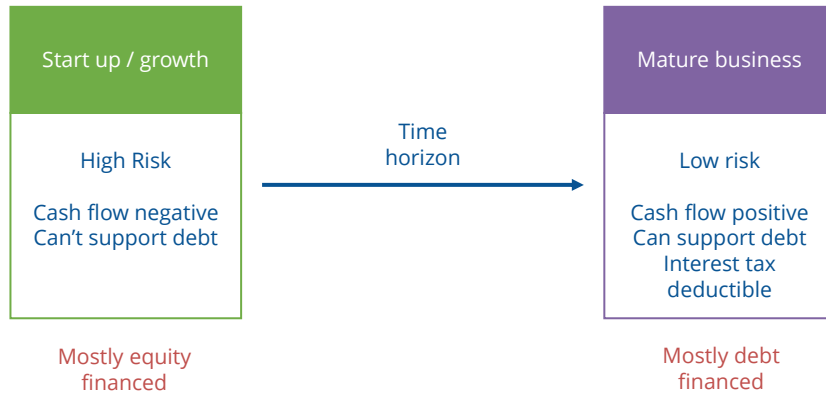
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Equity Vs Debt - Investors



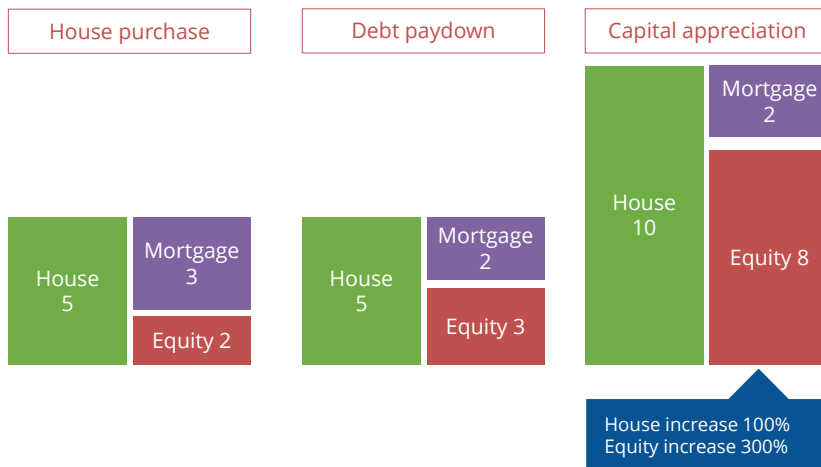
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Equity Vs Debt – Companies



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Leverage Effect



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Equity Accounts

The Hershey Company stockholders' equity

Preferred stock, shares issued: none in 2014 and 2013	—
Common stock, shares issued: 299,281,967 in 2014 and 299,281,527 in 2013	299,281
Class B common stock, shares issued: 60,619,777 in 2014 and 60,620,217 in 2013	60,620
Additional paid-in capital	754,186
Retained earnings	5,860,784
Treasury—common stock shares, at cost: 138,856,786 in 2014 and 136,007,023 in 2013	(5,161,236)
Accumulated other comprehensive loss	(358,573)
The Hershey Company stockholders' equity	1,455,062
Noncontrolling interests in subsidiaries	64,468
Total stockholders' equity	1,519,530

Preference stock

- No vote
- Fixed dividends
- Treated as debt for valuation

Common stock

- Par value
- APIC = Subscription price less par value
- Multiple classes

Non-controlling interests

- Equity owned by third parties
- Directly in subsidiaries

Other comprehensive income

- Waiting to hit the income statement
- Usually non-cash

Treasury stock

- Value of shares repurchased by the company

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Which Share Number for Market Capitalization?

Oracle Corporation stockholders' equity:

Preferred stock, \$0.01 par value- authorized: 1.0 shares; outstanding: none	-
Common stock, \$0.01 par value and additional paid in capital- authorized: 11,000 shares; outstanding: 4,464 shares and 4,646 shares as of May 31, 2014 and 2013, respectively	21,077
Retained earnings	25,965
Accumulated other comprehensive loss	(164)
Total Oracle Corporation stockholders' equity	46,878
Noncontrolling interests	569
Total equity	47,447

Preference shares

Not voting shareholders

Authorized shares

Maximum shares the board can issue

Issued shares

Shares physically in existence

-

Treasury shares

Shares in existence but owned by the company

=

Outstanding shares

Shares owned outside the company (front of 10-K)

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Free Float Shares

Excludes untraded shares such as restricted shares, those held by families and governments

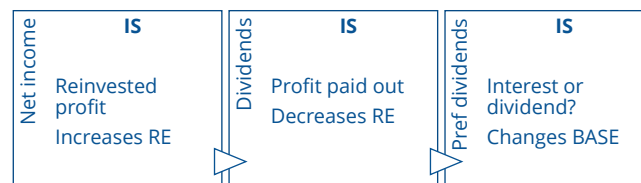
Free float market capitalization =
Share price * (shares outstanding – shares not traded)

Small free float

Little shareholder control
Volatile share price
High premium in M&A

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Retained Earnings



Net income, dividends and preference dividends are connected



B	Beginning	- Retained earnings
A	Addition	- Net income
S	Subtraction	- Common dividends
S	Subtraction	- Preference dividends <i>if classed as dividends</i>
E	Ending	- Retained earnings

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Debt Products

	Borrowing direct from banks / finance companies	Issuing securities into the financial markets
< 1 year	Revolving credit facility Overdraft	Commercial paper Notes payable
> 1 year	Term loans Capital / finance leases	Investment grade bonds High yield bonds

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Debt Products

CURRENT LIABILITIES:

Accounts Payable	141,685
Accrued Expenses	282,736
Short- Term Portion of Deferred Lease Credits	26,629
Income Taxes Payable	32,804
Short- Term Portion of Borrowings, Net	2,102
TOTAL CURRENT LIABILITIES	485,956

LONG- TERM LIABILITIES:

Long- Term Portion of Deferred Lease Credits	106,393
Long- Term Portion of Borrowings, Net	291,310
Leasehold Financing Obligations	50,521
Other Liabilities	181,286
TOTAL LONG- TERM LIABILITIES	629,510

Capital / finance leases

Include as debt. Related to building / equipment financing

Short term debt

Notes payable, revolving credit facility, commercial paper, overdrafts, current portion of long term debt

Long term debt

Bonds, bank / term loans

Don't include "other liabilities"

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Net Debt

Cash	Debt
Cash equivalents	Overdraft
Commercial paper	Notes payable
Short term deposits	Short term debt
Money market instruments	Commercial paper
	Revolving credit facility
	Current portion of long term debt
	Bonds
	Bank loans
	Loan notes
	Debentures
	Long term debt
	Convertible debt (bond proportion only)
	Capital / finance leases
	Preference shares (if treated as debt)

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Interest and Repayment

Four year 100m loan with straight line repayment and an interest rate of 5% on beginning balance

Debt schedule	Year 1	Year 2	Year 3	Year 4
Beginning	100.0	75.0	50.0	25.0
Repayment (year end)	(25.0)	(25.0)	(25.0)	(25.0)
Ending	75.0	50.0	25.0	0.0
Interest expense	(5.0)	(3.8)	(2.5)	(1.3)

Year 1	Assets =		Liabilities + Equity	
Issue of loan	Cash	+100	Debt	+100
Repayment of loan	Cash	(25)	Debt	(25)
Interest expense	Cash	(5)	RE	(5)

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Interest and Repayment – BS presentation

Debt schedule	Year 1	Year 2	Year 3	Year 4
Beginning debt	100.0	75.0	50.0	25.0
Repayment (year end)	(25.0)	(25.0)	(25.0)	(25.0)
Ending debt	75.0	50.0	25.0	0.0
Interest expense	(5.0)	(3.8)	(2.5)	(1.3)

Balance sheet presentation	Year 1	Year 2	Year 3	Year 4
End of the year				
Current portion of long term debt	25.0	25.0	25.0	0.0
Long term debt	50.0	25.0	0.0	0.0

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Paid In Kind Interest – BS Presentation

Interest is accrued or 'rolled up' onto the balance of the loan

Debt schedule	Year 1	Year 2	Year 3	Year 4
Beginning	100.0	105.0	110.3	115.8
PIK interest accrual	5.0	5.3	5.5	5.8
Repayment (year end)				(121.6)
Ending	105.0	110.3	115.8	0.0

Interest gets larger with time via compounding

Repayment includes principal and interest

Balance sheet presentation	Year 1	Year 2	Year 3	Year 4
End of the year				
Current portion of LT debt			115.8	0.0
Long-term debt	105.0	110.3	0.0	0.0

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Leverage Ratios

$\frac{\text{Debt}}{\text{Equity}}$	Leverage Debt funding relative to owner funding
$\frac{\text{Total debt}}{\text{EBITDA}}$	EBITDA based leverage Ability to service debt
$\frac{\text{EBITDA}}{\text{Interest expense}}$	Interest coverage Ability to service interest

Moody's downgrades
Petrobras to junk status

Petrobras	2009	2010	2011	2012	2013	2014
Total debt / EBITDA	1.7x	1.9x	2.4x	3.2x	4.1x	5.1x

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