



WALL STREET PREP CORE MODELING COURSE

Trading Comparables Modeling

CASE STUDY: EXTR

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Introduction to Valuation

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Valuation

- If I own a home, I am concerned primarily with the equity value of the home, or the total value of the home?
- Also, am I concerned with the original price I paid (book value) or what it's currently worth (market value)?
- And assuming I'm concerned with what it's currently worth, do I look to comparable homes to assess the value (relative valuation), or should I rely on a cash flow analysis that considers the present value of all the rental income the property can generate (DCF valuation)?



The same questions apply to the valuation of businesses

- All of these concepts matter, all are interrelated, and depending on your motivations and perspective, you will focus on some more than on others
- There are various ways to define value, so before getting into the specifics of Comps valuation, let's get precise on some definitions

Equity value vs. Enterprise value

- I decide to start a hot dog business
- Before I can sell hot dogs, I secure financing - \$500k with debt and \$450k with equity

Assets Cash: \$950k	Liabilities Debt \$500k
	Equity \$450k
I incorporated my company and arbitrarily issued myself 90k shares. Since my equity value is \$450k, I record the value of each share as \$5.	



Equity value vs. Enterprise value

- I use some of the cash to purchase inventories / equipment
- 20k of the equipment purchased was not paid for with cash; instead, it was invoiced.
- This put a \$20k A/P liability on my B/S

Assets	Liabilities	Equity
Cash: \$50k	A/P \$20k	
Inventory: \$500k	Debt \$500k	
PP&E: \$420k		\$450k



Equity value vs. Enterprise value

- Enterprise value = value of operating assets minus operating liabilities
- Value of operating assets = all assets except for cash
- Cash is usually treated as a non-operating asset, and is netted against debt
- Treating cash as a non-operating asset is akin to saying “I can always use my cash to pay down debt”, so thinking of a net debt figure is more appropriate than disaggregating debt and cash
- Operating liabilities = all liabilities except for debt



Using the B/S on the prior page, answer the following:

Total assets

970
520
450

Enterprise value

Total liabilities

Net debt

Equity value

Equity value vs. Enterprise value

Using the B/S on the prior page, answer the following:

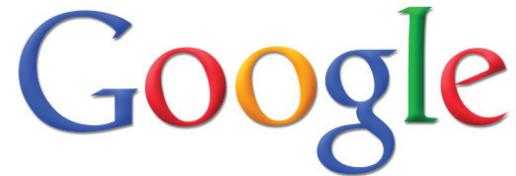
Total assets	970	Enterprise value	900
Total liabilities	520	Net debt	450
Equity value	450	Equity value	450



- Notice that the equation $\text{Assets} = \text{Liabilities} + \text{Equity}$ are simply being re-expressed, such that:
 - $\text{Enterprise value} - \text{Net debt} = \text{Equity value}$
 - This is a common way to discuss value so make sure you are comfortable with the basic intuition

Book value vs. Market value

- So far, we looked at value from the perspective of the original investment in the business, or book value (BV)
- Most businesses are worth far more than the BV on their balance sheets would suggest
- What tools do we have to determine the market value of the business?
- For a publicly traded company, the equity market value is readily observable via the company's share price x shares outstanding, called market capitalization



Book value vs. market value

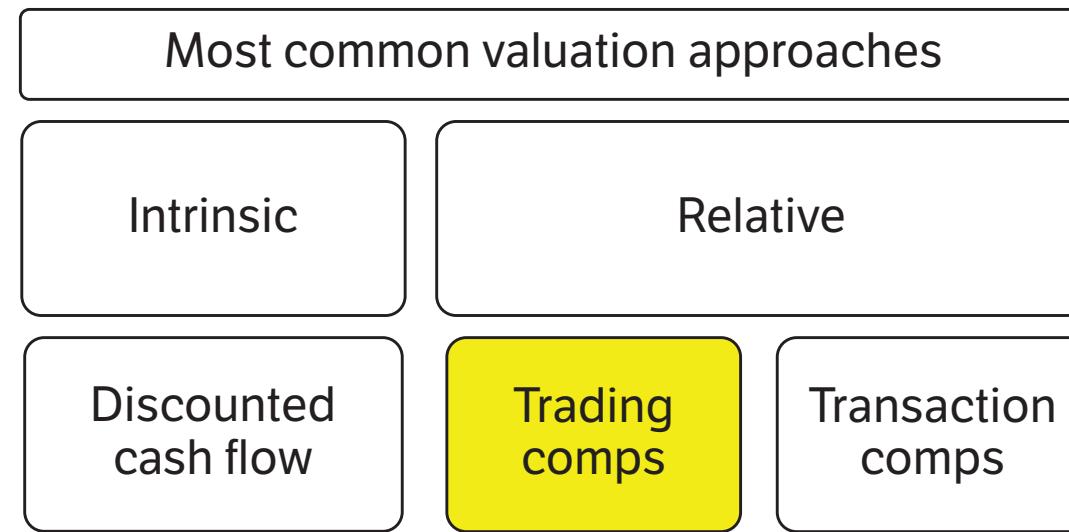
- Google has an equity book value of \$75b per the company's latest 10-Q
- Google shares trade at \$875 per share
- With 337m shares outstanding, this implies an equity market value (market cap) of \$290 billion
- Google has \$50b in cash, \$5b in debt per the company's latest 10Q, implying (market) enterprise value of \$290b + (\$5b-\$50b) = \$245b

Introduction to Trading Comps

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Relative valuation vs. DCF valuation

- While intrinsic valuation (DCF) is derived from the fundamental analysis of the company's cash flow generation potential, relative valuation ("comps") is derived by comparing a company to its comparable peers.



Why we use trading comps to value companies

- The purpose of a trading comps analysis is to determine what is the “appropriate” value of a company, based on the market values of operationally similar companies.
- When you try to gauge the fair value of your house by comparing to the values of houses nearby, you’re doing a comps analysis.

Comps are analyzed using multiples

- Companies are trickier to value than houses because finding truly comparable companies is difficult
- Even if you find comparable businesses operationally, you need to standardize for various factors, most notably size differences
- Because of the need to account for this difference, we don't compare absolute values but rather multiples (equity/enterprise values are standardized against various measures of a firm's profitability)

Some of the most common multiples are

Enterprise value multiples	Equity value multiples
Enterprise Value (EV) / EBITDA	P/E ratio (Share price / EPS)
EV/ Revenue	Market cap / Net income
EV/EBIT	P/E to growth (PEG ratio)



Why we use trading comps to value companies

- In addition to the need to standardize for size differences, other non-operational differences should be taken into account so as to not distort the comparison
- Financial leverage differences
 - Enterprise value numerator is a measure of value independent of leverage
 - Revenue, EBITDA, EBIT and unlevered cash flow denominator provide a measure of profit independent of leverage
- Accounting differences (depreciation method, useful life assumptions)
 - Use profit metrics before D&A such as Revenue, EBITDA and unlevered free cash flows
 - Useful for companies with comparable levels of capital intensity (otherwise dangerous)
- Temporary distortions (nonrecurring items)
 - When using multiples that use historical profits as the denominator, those profits must be “scrubbed” to exclude distortive one-time items such as restructuring expenses, litigation costs, and one time gains on sale

Why we use trading comps to value companies

- Other accounting differences (lease classification, LIFO vs. FIFO)
 - Must be treated on industry-specific basis
 - May require adjustments to both numerator and denominator
- Business life cycle differences
 - Comparable companies operationally may be at different phases of their life cycle (early stage vs. growth vs. maturity vs. decline)
 - Multiples like PEG standardize against different long-term growth rates, while others like EV/Revenue and EV/EBITDA facilitate comparisons for early stage companies generating losses

P/E ratio

Definition	Share price / EPS Equity value / Net income
Description	EPS used as proxy for economic equity value
Issues	EPS is a measure of accounting profit only during a particular period Accounting profits can be misleading because they include noncash and nonrecurring items, and accounting assumptions (such as historical vs. market costing), and can be manipulated Also, high PE valuation relative to peers could be justified when high PE firm has higher growth prospects Less relevant for high growth companies
Most appropriate for	<ul style="list-style-type: none">• Mature lifecycle companies• Companies with positive earnings• Companies with similar capital structures
Underlying value driver	$\frac{ROE - g}{ROE \times (cost\ of\ equity - g)}$

PEG ratio

Definition	PE ratio / long-term growth rate
Description	<ul style="list-style-type: none">• Standardizes PE ratios against companies' expected growth rates (g)• Higher PEG ratio companies are considered overvalued
Issues	<ul style="list-style-type: none">• EPS is a measure of accounting profit only during a particular period• Accounting profits can be misleading because they include noncash and nonrecurring items, and accounting assumptions (such as historical vs. market costing), and can be manipulated
Most appropriate for	<ul style="list-style-type: none">• Companies with positive earnings but at different lifecycle stages• Meaningless for negative earnings or negative growth
Underlying value driver	$\frac{ROE - g}{g \times ROE \times (cost\ of\ equity - g)} \times \frac{1}{100}$

Price to book ratio

Definition	<ol style="list-style-type: none">1. Equity value / book value of equity2. Equity value per share / book value of equity per share3. Book value is often adjusted to exclude goodwill (“tangible book value”)
Description	<ul style="list-style-type: none">• Compares market value of equity to book value of equity• Solves “only one period” problem of PE ratios• For financial institutions whose equity is marked to market, also solves some of historical cost problems
Issues	<ul style="list-style-type: none">• For non-financials, book value usually not an accurate measure of true equity value because of the historical nature of the balance sheet• Book value may be negative (large historical losses) making the ratio not meaningful
Most appropriate for	<ul style="list-style-type: none">• Banks / manufacturing / other asset-intensive businesses
Underlying value driver	$\frac{ROE - g}{Cost \text{ of } equity - g}$

EV / EBIT

Definition	Enterprise value / Earnings before interest & taxes
Description	<ul style="list-style-type: none">• Isolates core operations without impact of financing decision (interest expense) and taxes
Issues	<ul style="list-style-type: none">• Unadjusted EBIT is accounting measure of profitability, which includes noncash expenses (D&A), nonrecurring items, and differing assumptions from firm to firm which reduces quality of comparison. These are often adjusted for comparability.
Most appropriate for	<ul style="list-style-type: none">• Companies with positive operating income• Service-based businesses (low capital intensive firms)• Business with varying levels of capital intensity
Underlying value driver	$\frac{ROIC - g}{ROIC \times (wacc - g)} \times (1 - \text{tax rate})$

EV / EBITDA

Definition	Enterprise value/Earnings before interest taxes depreciation & amortization
Description	<ul style="list-style-type: none">D&A is a huge noncash expense for capital intensive businessesCompanies can use different depreciation methods, and useful life assumptions to equipment so D&A – a noncash accounting expense – can significantly skew the comparison of operating profitability across two otherwise identical firms
Issues	<ul style="list-style-type: none">Less appropriate for companies with different levels of capital intensityImagine two capital-intensive companies generating the same EBITDA – the one that requires more capital to achieve it would show a lower EV/EBITDA multiple making comparison on EV/EBITDA basis less useful than EV/EBIT
Most appropriate for	<ul style="list-style-type: none">Used to value many industries – most popular EV multipleParticularly useful for high capital-intensive firms within a particular industry with similar levels of capital intensity
Underlying value driver	$\frac{ROIC - g}{ROIC \times (wacc - g)} \times (1 - \text{tax rate}) \times \left(\frac{D\&A}{EBITDA} \right)$

EV / Revenue

Definition	Enterprise value / Revenue
Description	<ul style="list-style-type: none">Useful for early stage, high growth companies, with limited or negative profitability.
Issues	<ul style="list-style-type: none">Presumes peers have comparable cost structureAs such, this is a multiple of last resort – useful for businesses that are valued primarily based on future prospects and current operations do not provide much insight.
Most appropriate for	<ul style="list-style-type: none">Businesses with negative EBITDA (High growth, young industries)Businesses with similar cost structures (retailers)
Underlying value driver	$\frac{ROIC - g}{ROIC \times (wacc - g)} \times (1 - \text{tax rate}) \times (\text{Operating margin})$

Internet & Cable companies

Multiples	<ul style="list-style-type: none">• EV / monthly subscribers• EV / website hits (internet only)
Description	<ul style="list-style-type: none">• Early stage internet businesses with no revenue and negative profitability can value their business by looking at operating metrics like website hits or subscribers, under the assumption that they proxy future profitability evenly across all the companies being compared
Issues	<ul style="list-style-type: none">• Suffers from the major pitfall that monthly users, subscribers, and website hits do not necessarily lead to revenues and profits, or will do so at different rates for different businesses (i.e. a Facebook user does not convert to profits at the same rate as a Google user)• Accordingly, use with extreme caution

Oil & Gas / Energy companies

Multiples	<ul style="list-style-type: none">• EV / Debt adjusted cash flow (DACF)⁽¹⁾• EV / EBITDAX (X stands for exploration expense)• EV / Unlevered Free Cash Flows
Description	<ul style="list-style-type: none">• Exploration activities represent one of the largest investments for Oil & Gas companies• Companies can choose from two accounting treatments for exploration activities: 1) Full cost or 2) Successful efforts• Full cost capitalizes and subsequently depletes, depreciates, and amortizes (DD&A) all exploration activities• Alternatively, successful efforts capitalizes only successful exploration activities, while expensing dry holes• As a result, different accounting choices can lead to large accounting differences• EV/DACF and EV/EBITDAX both standardize for these differences by ignoring the DD&A expense and current exploration investment altogether• EV / Unlevered free cash flows standardizes for these differences by calculating cash flows after all exploration activities

¹ Debt adjusted cash flows defined as cash from operations plus after tax-interest expense

Real estate investment trusts (REITs)

Multiples	<ul style="list-style-type: none">• Share price / FFO per share• Share price / AFFO per share <p>Where:</p> <ul style="list-style-type: none">• Funds from operations = Net income + D&A + Gains on Sale• Adjusted FFO = FFO – Capital expenditures + Nonrecurring Items
Description	<ul style="list-style-type: none">• Real estate generates a lot of D&A which, especially for land, skews the true picture of operating profitability.• Price/FFO and Price/AFFO are levered multiples, so comparisons to similarly levered REIT's will be most meaningful

Trading comps analysis: The process

1. Select comparable companies (peer group)
2. Pick which multiples you will use (EV/EBITDA, P/E)
3. Pick which timeframe you will use
 - Last twelve months (LTM)
 - Forecast basis (1 year forward or 2 year forward)
4. For each multiple, apply the calculated mean or median to the target company's corresponding operating metrics to arrive at a value.
 - Example 1: Multiply the derived average LTM PE ratio by company's LTM EPS to arrive at equity value per share
 - Example 2: Multiply the derived median 1 year forward EV / EBITDA multiple by the company's 1 year forward EBITDA projection to arrive at enterprise value



Comparable Company Analysis Exercise

\$ in millions, except per share data

Company	Colgate
Share price	\$30 / share
Shares outstanding	30 million
Revenue	\$1,000
EBITDA	\$200
Net income	\$75
Net debt	\$200

Peer group	<u>EV/ Sales</u>	<u>EV/ EBITDA</u>	<u>P/E</u>
Kimberly Clark	1.0x	6.0x	15.0x
Unilever	2.0	8.0	19.0
Procter & Gamble	1.5	6.5	17.0
Avon Products	<u>1.0</u>	<u>5.8</u>	<u>14.6</u>
<i>Mean</i>	<i>1.4</i>	<i>6.6</i>	<i>16.4</i>

Implied Colgate share price

Is Colgate overvalued based on comps?

Comparable Company Analysis Exercise

\$ in millions, except per share data

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	<u>EV/ Sales</u>	<u>EV/ EBITDA</u>	<u>P/E</u>
Peer group mean	1.4x	6.6x	16.4x
Implied Colgate enterprise value	\$1,400	\$1,320	N/A
Less: Colgate net debt	200	200	N/A
Equals: Colgate implied equity value	1,200	1,120	1,230
Colgate shares outstanding (mm)	30	30	30

Implied Colgate share price

\$40	\$37.3	\$41
No	No	No

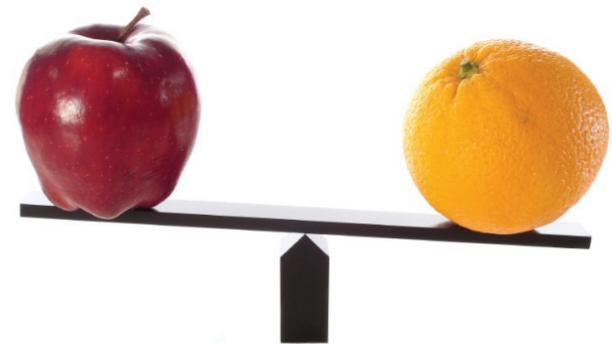
Is Colgate overvalued based on comps?

“Which is a better way to value a business – DCF or comps?”

- They're both important. The DCF provides an academically rigorous measure of value, BUT it is very sensitive to assumptions which makes it easily to manipulate.
- Trading comps tell you how the market is ACTUALLY valuing similar businesses to the one you are analyzing (i.e. real-world derived value vs. model derived value).
- Another way to think of it is that comps provide a market-based sanity-check to intrinsic valuation (and vice versa).
- Another difference is implementation – you can't build a proper DCF without detailed financials but you only need a few data points (such as EBITDA, sales, net income) to get a comps-based valuation, so it makes it easier to value private companies or companies with limited availability of financial information.
- BUT if you were to peel the onion a little (and revisit the underlying value equations for each multiple outlined earlier in this section), you'd also recognize that applying a peer-derived multiple to value a business is implicitly making a whole bunch of assumptions about future cash flows, cost of capital, and returns that you make explicitly when building a DCF so they are actually very related concepts.

“What’s the downside to over-reliance on comps?”

- Always comparing apples to oranges. Truly comparable companies are rare and differences are hard to account for. Explaining value gaps between the company and its comparable involves judgment.
- In addition, thinly traded, small capitalization or poorly followed stocks may not reflect fundamental value. Lastly, many people feel that the stock market is emotional and that it sometimes fluctuates irrationally (i.e. the market can be wrong).



“If the market is what matters, when valuing a public company, do we even need a comps analysis? Why not just use the market cap of the company directly to value it?”

- If the market was perfectly efficient, it stands to reason that it would price individual equities correctly rendering a comps analysis pointless.
- However, the thinking behind a comps analysis for a public company is that the market may be efficient on average, but it can be off when pricing individual companies.

“When using comps to value a public company, should I include the company in the peer group?”

- Some professionals prefer to exclude the target of the analysis from the peer group because it will skew the multiple towards the target company’s actual trading values. Despite this, logic dictates that the target be included (when it is public).
- If the intuition behind a comps analysis is that the market may misprice individual stocks but is correct on the whole, clearly the target company should be included in its own market-based valuation.

“Should I use a median or mean when calculating the comps-derived multiples”

- For larger peer groups, calculating relevant peer group statistic using median is preferable to mean calculations because it limits distortions from outliers. For smaller peer groups (less than 5) with no outliers, mean is preferable.

“Should I place more weight on LTM or forward multiples?”

- That entirely depends on the specifics of the situation. Using historical (LTM) profits is nice because it represents actual bird-in-hand results, and forecasts for smaller cap companies can be hard to come by. However, LTM suffers from the problem that markets value companies off future – not historical – profits and cash flows.
- If LTM results do not include a lot of nonrecurring items and no significant margin and growth changes are expected over the next 2 years, LTM results can – and should – be used side-by-side with forward multiples. If these conditions are not met, forward multiples should be relied on more heavily.

Conclusion

- Trading comps analysis compares the current trading level of a company to its peers and values the company based on the valuation multiples of other publicly traded companies with similar operating and financial statistics
- Trading comps analysis seeks to determine how the market values the earnings, cash flows, net asset value, assets, or other characteristics of similar companies and compares these ratios (which vary from industry to industry) to the company's performance and/or uses them to impute an aggregate market value of the company
- A useful shorthand for valuation
- The intuition: market is efficient on average, but may be off when pricing individual companies

Preparing to spread comps (case study)

3

Selecting a peer group

- Key to a good comparable company analysis
- Look for companies that are similar operationally and financially to the target
- Unfortunately, almost always comparing apples and oranges

Selecting a peer group

Similar operational characteristics	Similar financial characteristics
Nature of business (industry, products, markets, customers) Industry position Seasonality / cyclicalities	Size Leverage Margins Growth prospects

What resources can help determine which companies are comparable?

- Primary resources

- Equity research
- 10-K competition section
- Colleagues familiar with the industry
- Form 8-K related to a merger (within the fairness opinion)
- NAICS /SIC code screens
- News articles/finance websites
- Client (only when applicable)

- Third party services

- Bloomberg terminal (relative value screen)
- Capital IQ
- FactSet

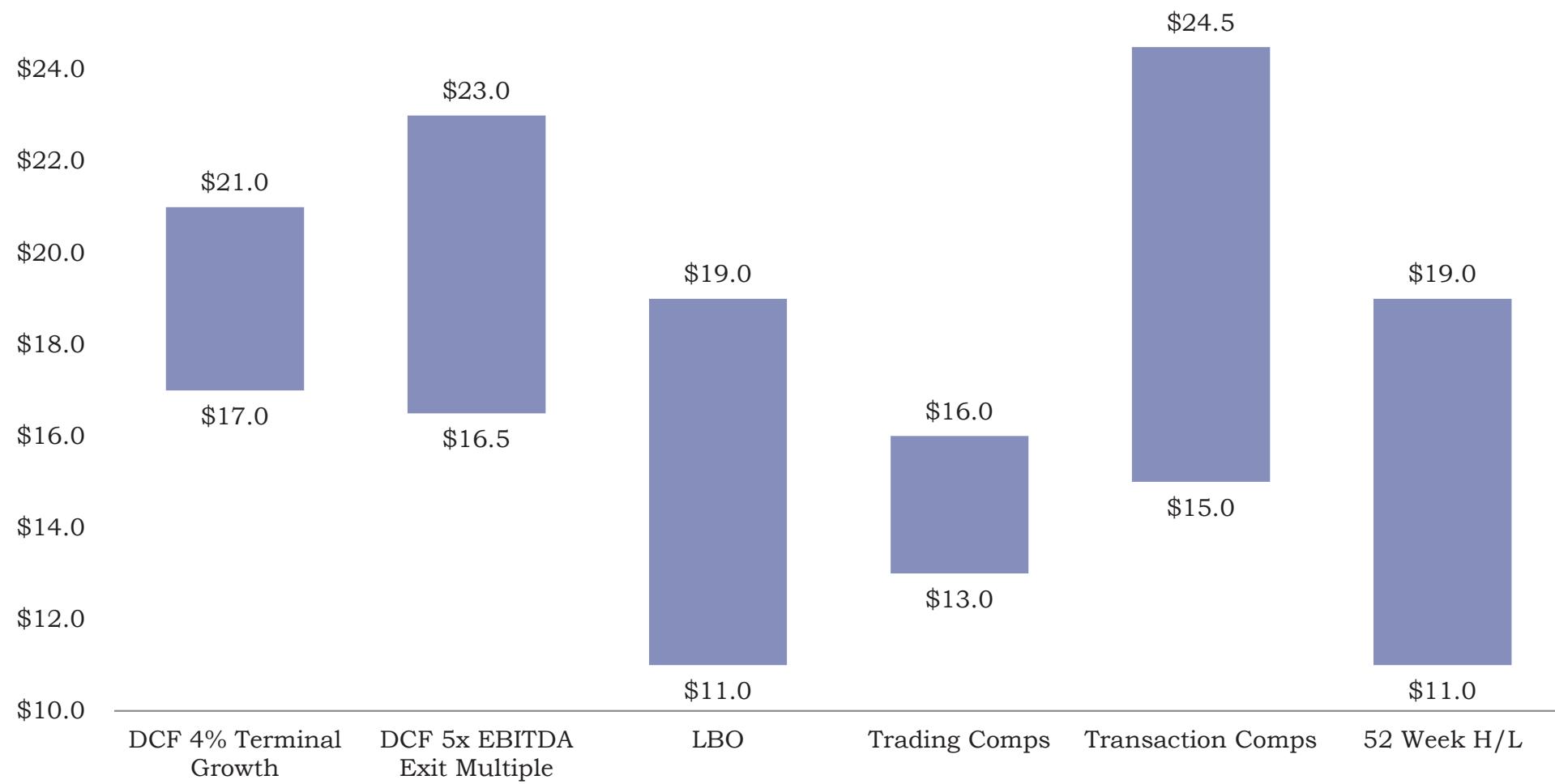


Results are presented in an output worksheet...

COMPARABLE COMPANY ANALYSIS OUTPUT

Name	Ticker	Market capitalization (mm)	Enterprise value (EV)	Last Twelve Months (LTM)				Year 1 Forecast - Calendar Year				Year 2 Forecast - Calendar Year				LT growth rate	
				Revenues	EBITDA	EBIT	EPS	Revenues	EBITDA	EBIT	EPS	Revenues	EBITDA	EBIT	EPS		
Extreme Networks, Inc.	EXTR	332.2	256.5	324.8	12.5	6.8	0.06	320.6	28.5	22.8	0.23	337.5	37.7	30.4	0.30	14.0%	
Brocade Communi.	BRCD	2,200.8	2,328.4	2,157.4	409.8	210.1	0.20	2,211.0	607.1	413.0	0.60	2,288.0	611.6	412.0	0.55	8.0%	
Juniper Networks	JNPR	8,329.7	5,898.7	4,379.6	661.5	488.8	0.58	4,409.7	861.8	687.8	0.87	4,899.3	1,129.0	955.0	1.21	15.0%	
Netgear	NTGR	1,276.7	907.2	1,227.8	145.2	130.5	2.49	1,362.4	167.9	164.1	2.89	1,557.2	190.2	180.8	3.10	20.0%	
Last Twelve Months (LTM)				Year 1 Forecast - Calendar Year				Year 2 Forecast - Calendar Year									
Name	Ticker																
		EV / Revenues	EV / EBITDA	EV / EBIT	P/E	EV / Revenues	EV / EBITDA	EV / EBIT	P/E	EV / Revenues	EV / EBITDA	EV / EBIT	P/E	EV / Revenues	EV / EBITDA	EV / EBIT	PEG ratio
Extreme Networks, Inc.	EXTR	0.8x	20.6x	37.9x	54.0x	0.8x	9.0x	11.2x	15.2x	0.8x	6.8x	8.4x	11.7x	1.1x			
Brocade Communi.	BRCD	1.1x	5.7x	11.1x	24.2x	1.1x	3.8x	5.6x	8.2x	1.0x	3.8x	5.7x	8.9x	1.0x			
Juniper Networks	JNPR	1.3x	8.9x	12.1x	26.9x	1.3x	6.8x	8.6x	17.9x	1.2x	5.2x	6.2x	12.9x	1.2x			
Netgear	NTGR	0.7x	6.2x	7.0x	13.2x	0.7x	5.4x	5.5x	11.4x	0.6x	4.8x	5.0x	10.6x	0.6x			
				High	1.3x	20.6x	37.9x	54.0x	1.3x	9.0x	11.2x	17.9x	1.2x	6.8x	8.4x	12.9x	1.2x
				Low	0.7x	5.7x	7.0x	13.2x	0.7x	3.8x	5.5x	8.2x	0.6x	3.8x	5.0x	8.9x	0.6x
				Median	0.9x	7.6x	11.6x	25.5x	0.9x	6.1x	7.1x	13.3x	0.9x	5.0x	5.9x	11.1x	1.1x
				Mean	1.0x	10.4x	17.0x	29.6x	1.0x	6.3x	7.7x	13.2x	0.9x	5.2x	6.3x	11.0x	1.0x
				EXTR	0.8x	20.6x	37.9x	54.0x	0.8x	9.0x	11.2x	15.2x	0.8x	6.8x	8.4x	11.7x	1.1x

...and represent one component in a suite of valuation methodologies. In investment banking, these are presented to client in pitches, live deals (mandates), and fairness opinions.



Case study: Extreme Networks (NASDAQ: EXTR)

- Founded in 1996 in California, Extreme is a provider of network infrastructure equipment (primarily Ethernet switches) and services for enterprises, data centers, and service providers.
- Extreme sells via distributors, resellers, system integrators, strategic partners, and directly to certain accounts.
- End-customers are businesses, hospitals, schools, hotels, telecommunications companies and government agencies.
- Fiscal 2013 year end revenue was \$300m, with \$10 in net income.



Extreme Ethernet switch



What is an Ethernet switch?

A device used to connect multiples computers, servers, laptops, printers, or other Ethernet enabled devices to a Local Area Network (LAN). Switches are often incorporated into routers

The process of building comps

Step 1: Pick comps

- CIQ / FactSet / Bloomberg
- SIC/NAICS Code Screens
- Equity research
- SEC filings
- Colleagues

Step 2: Calculate multiples

- Input market data
- Input options data
- Input LTM data
- Input balance sheet data
- Input projection data

Step 3: Present results

- Analyze output of comps analysis

Picking comps

- Without industry expertise, this is usually a process of triangulation.
- **Target company filings**
 - A good place to start is with the company's 10-K competition and MD&A sections but a full list likely isn't going to be there.
- **Sell-side equity research**
 - Determine the analysts covering the target company and check their coverage universe
- **Third party services**
 - Bloomberg, Capital IQ, and FactSet make it easy to screen by SIC and NAICS codes
 - These services also curate comp sets but can be hit or miss

Using company filings to screen for comps



2013 10-K

Item 1: Business

Competition

The market for network switches, which is part of the broader market for networking equipment, is extremely competitive and characterized by rapid technological progress, frequent new product introductions, changes in customer requirements and evolving industry standards. We believe the principal competitive factors in the network switching market are:

- expertise and familiarity with network protocols, network switching and network management;
- product performance, features, functionality and reliability;
- price/performance characteristics;
- timeliness of new product introductions;
- adoption of emerging industry standards;
- customer service and support;
- size and scope of distribution network;
- brand name;
- breadth of product offering;
- access to customers; and
- size of installed customer base.

We believe that we compete with our competitors with respect to many of the foregoing factors. However, the market for network switching solutions is dominated by a few large companies, particularly Brocade Communications Systems, Inc., Cisco Systems, Inc., Hewlett-Packard Company, Huawei, and Juniper Networks Inc. Most of these competitors have longer operating histories, greater name recognition, larger customer bases, broader product lines and substantially greater financial, technical, sales, marketing and other resources.

Using sell-side research to screen for comps

Wedbush's Extreme Networks analyst coverage ⁽¹⁾

Company Coverage	Primary Industry	Analyst Coverage Start Date
Citrix Systems, Inc. (NasdaqGS:CTXS)	Application Software	Sep 26, 2007 11:31 AM
Aruba Networks, Inc. (NasdaqGS:ARUN)	Communications Equipment	Dec 11, 2008 07:47 PM
Brocade Communications Systems, Inc. (NasdaqGS:BRCD)	Communications Equipment	Dec 15, 2011 04:25 PM
Cisco Systems, Inc. (NasdaqGS:CSCO)	Communications Equipment	Sep 07, 2007 10:11 AM
Extreme Networks Inc. (NasdaqGS:EXTR)	Communications Equipment	Jun 25, 2008 12:00 AM
F5 Networks, Inc. (NasdaqGS:FFIV)	Communications Equipment	Sep 25, 2006 01:57 PM
Juniper Networks, Inc. (NYSE:JNPR)	Communications Equipment	Jun 29, 2010 01:14 PM
Netgear Inc. (NasdaqGS:NTGR)	Communications Equipment	Jun 25, 2008 12:00 AM
Plantronics, Inc. (NYSE:PLT)	Communications Equipment	Jul 26, 2006 06:27 PM
Polycom, Inc. (NasdaqGS:PLCM)	Communications Equipment	Jan 12, 2009 12:53 PM
Radware Ltd. (NasdaqGS:RDWR)	Communications Equipment	Sep 25, 2006 02:32 PM
Riverbed Technology, Inc. (NasdaqGS:RVBD)	Communications Equipment	Jan 30, 2007 04:43 PM
ShoreTel, Inc. (NasdaqGS:SHOR)	Communications Equipment	Aug 15, 2007 01:39 PM
NetApp, Inc. (NasdaqGS:NTAP)	Computer Storage and Peripherals	Jan 10, 2012 04:24 PM
AT&T, Inc. (NYSE:T)	Integrated Telecommunication Services	Jul 12, 2007 10:21 AM
Fortinet Inc. (NasdaqGS:FTNT)	Systems Software	Dec 29, 2009 06:10 PM
Imperva Inc. (NYSE:IMPV)	Systems Software	Jul 10, 2012 04:22 PM

Viewing 1-17 of 17 Companies

¹ Source: Capital IQ

Case study: Extreme Networks Comps Set

Comp	Comments
Aruba Networks ARUN	Aruba Networks, Inc. provides network access solutions for the mobile enterprises worldwide. <ul style="list-style-type: none">• Same industry, seemingly similar products, covered by research analyst covering EXTR• Not identified by EXTR as competitor and vice versa• Bigger than EXTR
Brocade Comm. Systems BRCD	Brocade Communications Systems, Inc. engages in the supply of Internet protocol based Ethernet networking solutions and storage area networking (SAN) solutions to businesses and organizations worldwide. <ul style="list-style-type: none">• Same industry, seemingly similar products, covered by research analyst covering EXTR• Identified by EXTR as competitor and vice versa• Bigger than EXTR
Juniper Networks JNPR	Juniper Networks, Inc. designs, develops, and sells products and services that provide network infrastructure for networking requirements of service providers, enterprises, governments, and research and public sector organizations worldwide. <ul style="list-style-type: none">• Same industry, seemingly similar products, covered by research analyst covering EXTR• Identified by EXTR as competitor and vice versa• Bigger than EXTR
Cisco Systems CSCO	Cisco Systems, Inc. designs, manufactures, and sells Internet protocol (IP) based networking and other products related to the communications and information technology industries worldwide. <ul style="list-style-type: none">• Same industry, broader offering, covered by research analyst covering EXTR• Identified by EXTR as competitor• Much bigger than EXTR – too big?

Case study: Extreme Networks Comps Set

Comp	Comments
F5 Networks FFIV	<p>F5 Networks, Inc. provides application delivery networking technology that secures and optimizes the delivery of network-based applications, and the security, performance, and availability of servers and other network resources.</p> <ul style="list-style-type: none">• Same industry, different products, covered by research analyst covering EXTR• Not identified by EXTR as competitor• Much bigger than EXTR
Netgear NTGR	<p>NETGEAR, Inc. provides networking products to consumers, businesses, and service providers. Its Retail business unit offers home networking, storage, and digital media products to connect users with the Internet, and their content and devices.</p> <ul style="list-style-type: none">• Same industry, EXTR reseller, covered by research analyst covering EXTR• Not identified by EXTR as competitor
Radware RDWR	<p>Radware Ltd. develops, manufactures, and markets integrated application delivery and network security solutions worldwide.</p> <ul style="list-style-type: none">• Same industry, covered by research analyst covering EXTR• Not identified by EXTR as competitor• Smaller company like EXTR (but still bigger)
ShoreTel SHOR	<p>ShoreTel, Inc., together with its subsidiaries, engages in the development and sale of Internet protocol (IP) communications systems for enterprises in the United States and internationally.</p> <ul style="list-style-type: none">• Same industry, covered by research analyst covering EXTR• Seemingly similar products but not identified by EXTR as competitor• Only company in comp set of similar size to EXTR

Case study: Extreme Networks Comps Set

Comp	Comments
Plantronics PLT	<p>Plantronics, Inc., together with its subsidiaries, engages in the design, manufacture, and marketing of communications headsets, telephone headset systems, and accessories for the business and consumer markets under the Plantronics brand worldwide.</p> <ul style="list-style-type: none">• Same industry, EXTR reseller, covered by research analyst covering EXTR• Not identified by EXTR as competitor, consumer driven products might be too different from EXTR's business• Bigger than EXTR
Polycom PLCM	<p>Polycom, Inc. provides standards-based unified communications and collaboration (UC&C) solutions for voice and video collaboration.</p> <ul style="list-style-type: none">• Same industry, EXTR reseller, covered by research analyst covering EXTR• Not identified by EXTR as competitor, products might be too different from EXTR's business• Bigger than EXTR
Riverbed RVBD	<p>Riverbed Technology, Inc. provides solutions to the fundamental problems associated with information technology (IT) performance across wide area networks (WANs) in the United States and internationally.</p> <ul style="list-style-type: none">• Same industry, EXTR reseller, covered by research analyst covering EXTR• Not identified by EXTR as competitor, products might be too different from EXTR's business• Bigger than EXTR

Valuation Model

Following modeling steps cover:

Building the EXTR comp

	2012A 9/29/12	2013A 9/28/13	2014P 9/30/14	2015P 9/30/15	2016P 9/30/16	2017P 9/30/17
Market securities	121,251	146,761	152,456	161,000	167,912	178,863
	10,930	15,102	13,454	14,318	14,959	15,695
	791	1,764	1,805	1,887	1,971	2,063
	2,583	3,463	3,453	3,453	3,453	3,453
Trade receivables	14,220	14,421	14,421	14,421	14,421	14,421
	15,452	16,597	19,467	23,655	28,031	32,621
Less Goodwill	5,359	5,756	4,706	3,721	2,858	2,282
	5,478	5,146	5,146	5,146	5,146	5,146
Total current assets	176,064	207,000	214,908	227,600	238,781	254,550
	21,175	22,367	22,905	24,412	25,506	26,760
Non-current assets (current & non-current)	20,015	23,916	23,858	23,925	23,816	23,956
	0	0	0	0	0	0
	0	16,960	16,960	16,960	14,460	14,460
Property, plant & equipment	16,664	20,208	23,208	26,208	29,208	32,208
Less accumulated depreciation	57,854	83,451	86,930	91,505	92,990	97,384
Total non-current assets	16,422	19,764	21,978	24,191	26,616	29,162
	0	0	(23,968)	(47,336)	(71,904)	(95,672)
	101,289	104,256	130,439	160,311	191,549	224,347
Less accumulated depreciation	499	(471)	(471)	(471)	(471)	(471)
Total assets	118,210	123,549	127,978	136,095	145,791	157,166
	170,498	170,498	170,498	170,498	170,498	170,498

	Revenues	Operating expenses	SG&A	R&D	Interest expense	EBITDA	Depreciation	Capital expenditures	Net income	EPS	EV	FCF	EPS growth	EV growth	FCF growth	PE ratio	P/E	EV/EBITDA	EV/FCF	EV/P/E
iPhone	626.3	629.3	607.5	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	583.2	
iPad	591.7	590.7	450.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	443.2	
Mac	1,301.6	1,278.8	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	1,314.7	
iPod	174.9	159.7	167.2	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	165.5	
ASPs	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	8,001	
iTunes / Software / Services	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	3,683	

Open the following files to begin:

- Comparable Company Template EXTR
- EXTR 2013 10K.pdf
- EXTR Q4 2013 PR.pdf
- EXTR Q2 2014 10Q.pdf
- EXTR Q2 2014 PR.pdf
- EXTR 2.pdf (Factset IS estimates)
- EXTR 3.pdf (Factset EPS estimates)

This is what we are working towards...

	A	B	C	D	E	F	G	H
1	COMPARABLE COMPANY ANALYSIS INPUT							
2								
3	MARKET DATA INPUTS							
4	(\$ in millions, except per share data)							
5								
6	Company name	Extreme Networks	Juniper Networks	Cisco Systems	Aruba Networks	F5 Networks		
7	Ticker	EXTR	BRCD	JNPR	CSCO	ARUN	FFIV	
8	Date of latest quarter	12/31/13	1/25/14	3/31/14	1/25/14	1/31/14	3/31/14	
9	Date of latest fiscal year end (FYE)	6/30/13	10/26/13	12/31/13	7/27/13	7/31/13	9/30/13	
10	Latest quarter	Q2	Q1	Q1	Q2	Q2	Q2	
11	Stock price on current date	\$5.56	\$9.25	\$24.48	\$23.00	\$19.70	\$103.52	
12	Share price date	4/25/14	4/25/14	4/25/14	4/25/14	4/25/14	4/25/14	
13								
14	SHARES DATA							
15	Basic shares outstanding	95.867	435.208	473.341	5,151.281	106.770	75.443	
16	Options exercisable							
17	Tranche 1	0.949	9.586	2.300	5.000	9.351	0.140	
18	Tranche 2	0.031		2.300	32.000			
19	Tranche 3	0.546		2.100	10.000			
20	Tranche 4	0.395		2.100	77.000			
21	Tranche 5	0.394		2.300	108.000			
22	Tranche 6	0.901		3.200				
23	Tranche 7	0.986		2.900				
24	Tranche 8	0.586		1.900				
25	Tranche 9	0.007		0.800				
26	Tranche 10	0.060		0.600				
27	Tranche 11							
28	Tranche 12							
29	Tranche 13							
30	Tranche 14							
31		4.855	9.586	20.500	232.000	9.351	0.140	
32	Exercise price							
33	Tranche 1	\$2.39	\$6.37	\$13.76	\$6.33	\$5.35	\$13.48	
34	Tranche 2	\$3.17		\$18.33	\$17.80			
35	Tranche 3	\$3.30		\$22.60	\$19.13			
36	Tranche 4	\$3.52		\$24.15	\$22.84			
37	Tranche 5	\$3.68		\$25.07	\$30.69			
38	Tranche 6	\$3.85		\$26.55				
39	Tranche 7	\$4.36		\$28.52				
40	Tranche 8	\$6.50		\$33.16				
41	Tranche 9	\$8.36		\$40.26				
42	Tranche 10	\$11.00		\$44.00				
	Input	Output	Valuation Matrix	Football Field				

Input tab

- Contains the raw data for each comp
 - Each comp is organized vertically

This is what we are working towards...

	A	B	C	D	E	F	G	H	I	J	K	L	M	N			
1	DO NOT MODIFY																
2	Company name	Ticker	zation (mm)	e value (EV)	Revenues - LTM	EBITDA - LTM	EPS - LTM	Calendar year 1	ndar year 1	ndar year 1	ndar year 1						
3					EV / Revenues - LTM	EV / EBITDA	EV / EBIT	P/E - LTM	EV / Revenue	EV / EBITDA	EV / EBIT	Y P/E - Y					
4	COMPARABLE COMPANY ANALYSIS OUTPUT																
5																	
6																	
7	Name	Ticker	Market capitalizati on (mm)	Enterprise value (EV)	Last Twelve Months (LTM)				Year 1 Forecast - Calendar Year				Year 2 Forecast - Calendar Year				
8	<i>Place target in first position</i>																
9	Extreme Networks	EXTR	541.6	528.8	370.2	39.7	32.1	0.3	597.3	70.9	49.2	0.4	674.1	103.4	67.0	0.6	0.2
10	Juniper Networks	JNPR	11,630.8	9,501.0	4,780.0	1,083.6	931.3	1.3	4,993.0	1,290.0	1,087.0	1.6	5,260.0	1,490.0	1,283.0	2.0	0.1
11	Brocade	BRCD	4,053.3	3,653.3	2,198.7	613.5	524.7	0.8	2,201.3	651.6	549.6	0.8	2,241.5	664.1	553.6	0.9	0.1
12	Cisco Systems	CSCO	118,780.2	88,877.2	47,873.0	14,985.0	13,602.0	2.0	47,151.9	15,542.2	13,319.5	2.0	49,234.3	16,381.3	13,999.3	2.2	0.1
13	Aruba Networks	ARUN	2,237.6	1,959.3	637.5	116.7	102.2	0.6	755.2	166.7	141.2	0.9	868.9	181.6	178.7	1.1	0.2
14																	
15																	
16																	
17																	
18																	
19																	
20																	
21	Name	Ticker	Last Twelve Months (LTM)				Year 1 Forecast - Calendar Year				Year 2 Forecast - Calendar Year						
22			EV / Revenues	EV / EBITDA	EV / EBIT	P/E	EV / Revenues	EV / EBITDA	EV / EBIT	P/E	EV / Revenues	EV / EBITDA	EV / EBIT	P/E	PEG ratio		
23	Extreme Networks	EXTR	1.4	13.3	16.5	18.2	0.9	7.5	10.8	13.0	0.8	5.1	7.9	9.1	0.9		
24	Juniper Networks	JNPR	2.0	8.8	10.2	18.4	1.9	7.4	8.7	15.2	1.8	6.4	7.4	12.3	1.2		
25	Brocade	BRCD	1.7	6.0	7.0	11.1	1.7	5.6	6.6	11.0	1.6	5.5	6.6	10.7	1.2		
26	Cisco Systems	CSCO	1.9	5.9	6.5	11.3	1.9	5.7	6.7	11.3	1.8	5.4	6.3	10.6	1.4		
27	Aruba Networks	ARUN	3.1	16.8	19.2	34.3	2.6	11.8	13.9	22.7x	2.3	10.8	11.0	18.1	1.2		
28	-																
29	-																
30	-																
31	-																
32	-																
33																	
34		High	3.1x	16.8x	19.2x	34.3x	2.6x	11.8x	13.9x	22.7x	2.3x	10.8x	11.0x	18.1x	1.4x		
35		Low	1.4	5.9	6.5	11.1	0.9	5.6	6.6	11.0	0.8	5.1	6.3	9.1	0.9		
36		Median	1.9	8.8	10.2	18.2	1.9	7.4	8.7	13.0	1.8	5.5	7.4	10.7	1.2		
37		Mean	2.0	10.1	11.9	18.7	1.8	7.6	9.3	14.7	1.7	6.6	7.8	12.1	1.2		
38		Mean (excl. EXTR)	2.1	9.4	10.7	18.8	2.0	7.6	9.0	15.1	1.9	7.0	7.8	12.9	1.2		
39		EXTR	1.4	13.3	16.5	18.2	0.9	7.5	10.8	13.0	0.8	5.1	7.9	9.1	0.9		
40																	
41																	
42																	
43																	
44																	

Output tab

- Contains the output data
- Enables us to easily compare key multiples and financial statistics

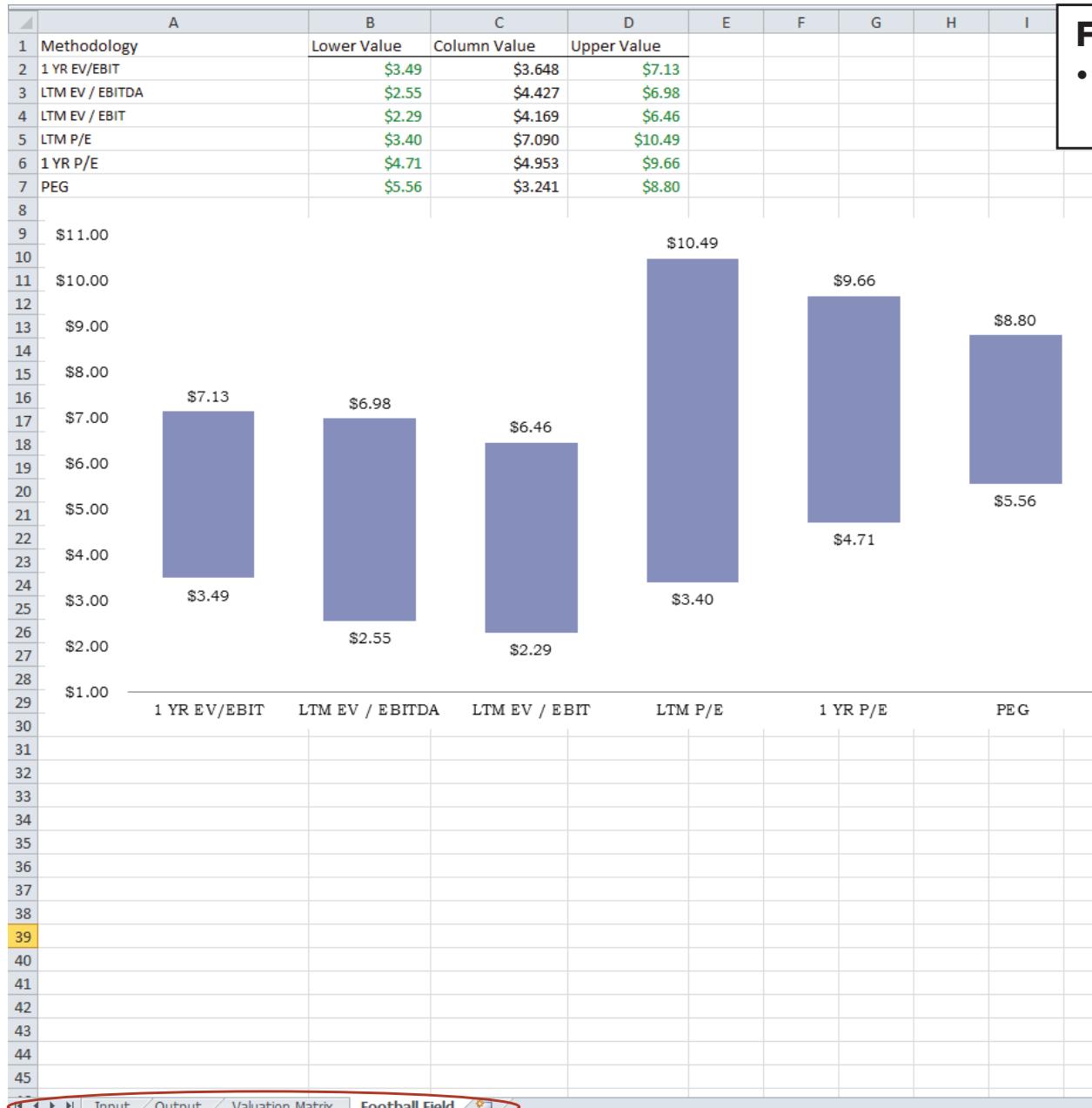
This is what we are working towards...

	A	B	C	D	E	F	G	H	I	J	K	L	M	
1	Extreme Networks valuation													
2														
3	Last Twelve Months (LTM)							Year 1 Forecast - Calendar Year				Year 2 Forecast		
4		EV / Revenues	EBITDA	EV / EBIT	P/E	EV / Revenues	EBITDA	EV / EBIT	P/E	EV / Revenues	EB			
5														
6	Median	2.0x	10.1x	11.9x	18.7x	1.8x	7.6x	9.3x	14.7x	1.7x	6.6x	7.8x	12.1x	1.2x
7	High	3.1	16.8	19.2	34.3	2.6	11.8	13.9	22.7	2.3	10.8	11.0	18.1	1.4
8	Low	1.4	5.9	6.5	11.1	0.9	5.6	6.6	11.0	0.8	5.1	6.3	9.1	0.9
9														
10														
11	Comps-derived EXTR value													
12														
13	Median													
14	Enterprise value	740.9	403.3	381.3	543.5	1,066.4	537.6	459.1	595.5	1,116.4	686.7	525.6	709.2	714.1
15	Net debt	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)
16	Equity value	753.7	416.1	394.1	556.3	1,079.2	550.4	472.0	608.3	1,129.2	699.5	538.4	722.0	726.9
17	Shares outstanding	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4
18	Share price	\$7.74	\$4.27	\$4.05	\$5.71	\$11.08	\$5.65	\$4.85	\$6.24	\$11.59	\$7.18	\$5.53	\$7.41	\$7.46
19														
20	High													
21	Enterprise value	1,137.7	667.0	616.1	1,008.9	1,549.6	833.4	682.2	928.3	1,520.0	1,115.4	734.8	1,060.5	844.5
22	Net debt	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)
23	Equity value	1,150.5	679.8	628.9	1,021.8	1,562.4	846.2	695.0	941.2	1,532.8	1,128.3	747.7	1,073.3	857.4
24	Shares outstanding	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4
25	Share price	\$11.81	\$6.98	\$6.46	\$10.49	\$16.04	\$8.69	\$7.13	\$9.66	\$15.74	\$11.58	\$7.68	\$11.02	\$8.80
26														
27	Low													
28	Enterprise value	528.8	235.7	210.0	318.3	528.8	397.6	326.8	445.9	528.8	528.8	425.5	528.8	528.8
29	Net debt	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)	(12.8)
30	Equity value	541.6	248.5	222.8	331.1	541.6	410.5	339.7	458.7	541.6	541.6	438.4	541.6	541.6
31	Shares outstanding	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4	97.4
32	Share price	\$5.56	\$2.55	\$2.29	\$3.40	\$5.56	\$4.21	\$3.49	\$4.71	\$5.56	\$5.56	\$4.50	\$5.56	\$5.56
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Valuation matrix

- Shows us the implied target share price based on the comp set

This is what we are working towards...



Football field

- A graphical representation of the valuation matrix

Getting the raw data

- Latest 10-K and corresponding Q4 press release
- If latest quarter is anything other than the 4th quarter, you'll also need the **latest 10-Q and corresponding press release**
- Latest equity research & EPS consensus estimates
- Last 12 months news run:
 - Look specifically for stock splits, major acquisitions & other material changes

10-Ks and 10-Qs

- To find the latest filings, go to company website (investor relations), sec.gov, or data services like CIQ/FS.

Press release & conference call transcripts

- Released up to several weeks prior to filing 10-Qs and 10-Ks
- Less general detail than the 10-Qs and 10-Ks, but contain more non-GAAP disclosures critical for analysts
- If you ignore the PR, you may be ignoring an entire quarter of available results!

Equity research reports & EPS consensus estimates

- Available via Thomson, FactSet, and CIQ
- Reports are almost always published within several days following a company's latest quarter press release.

Gather appropriate filings and press release for EXTR and complete cells C8:C9

Input the latest fiscal year and reported quarter as of 4/28/14

Comparable Company Analysis Input					
Market Data Inputs (\$ in millions, except per share data)					
Company name	Extreme Networks				
Ticker	EXTR				
Date of latest quarter					
Date of latest fiscal year end (FYE)					
Latest quarter	Select:	Select:	Select:	Select:	
Stock price on current date	\$5.56				
Share price date	4/25/14	4/25/14	4/25/14	4/25/14	
Shares Data					
Basic shares outstanding					
Options exercisable					
Tranche 1					
Tranche 2					
Tranche 3					
Tranche 4					
Tranche 5					
Tranche 6					
Tranche 7					
Tranche 8					
Tranche 9					
Tranche 10					
Tranche 11					
Tranche 12					
Tranche 13					
Tranche 14					
Exercise price	0.000	0.000	0.000	0.000	
Tranche 1					
Tranche 2					

EDGAR Search Results					
www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001078271&type=&dateb=&owner=1000000					
8-K	Documents	Size: 32 KB	Current report, item 5.02	2014-02-18	000-25711 14622597
SC 13G/A	Documents	Size: 37 KB	Acc-no: 0001011438-14-000132 (34 Act)	2014-02-14	005-56641 14616359
SC 13G/A	Documents	Size: 147 KB	[Amend]Statement of acquisition of beneficial ownership by individuals	2014-02-14	005-56641 14611106
SC 13G/A	Documents	Size: 19 KB	Acc-no: 0000902219-14-000676 (34 Act)	2014-02-14	005-56641 14610738
SC 13G	Documents	Size: 105 KB	[Amend]Statement of acquisition of beneficial ownership by individuals	2014-02-13	005-56641 14605402
SC 13G/A	Documents	Size: 13 KB	Acc-no: 0001037389-14-000009 (34 Act)	2014-02-12	005-56641 14599229
10-Q	Documents	Size: 51 KB	[Amend]Statement of acquisition of beneficial ownership by individuals	2014-02-06	000-25711 14580374
8-K	Documents	Size: 10 MB	Quarterly report [Sections 13 or 15(d)]	2014-02-05	000-25711 14576596
SC 13G/A	Documents	Size: 485 KB	Current report, items 2.02 and 9.01	2014-01-29	005-56641 14555027
8-K/A	Documents	Size: 12 KB	Acc-no: 0001086364-14-000842 (34 Act)	2014-01-13	000-25711 14524531
S-8 POS	Documents	Size: 2 MB	[Amend]Current report, item 9.01	2013-12-10	333-131705 131266615
8-K	Documents	Size: 67 KB	Securities to be offered to employees in employee benefit plans, post-effective amendments	2013-11-25	000-25711 131241250
S-8	Documents	Size: 41 KB	Acc-no: 0001078271-13-000088 (33 Act)	2013-11-22	333-192507 131238550
		Size: 467 KB	Current report, item 5.07		
			Acc-no: 0001078271-13-000081 (34 Act)		
			Size: 467 KB		
			Securities to be offered to employees in employee benefit plans		
			Acc-no: 0001078271-13-000079 (33 Act)		
			Size: 467 KB		

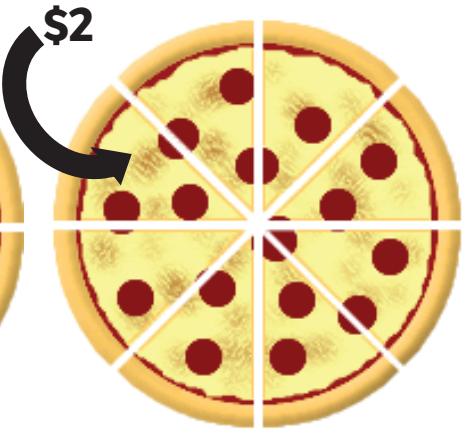
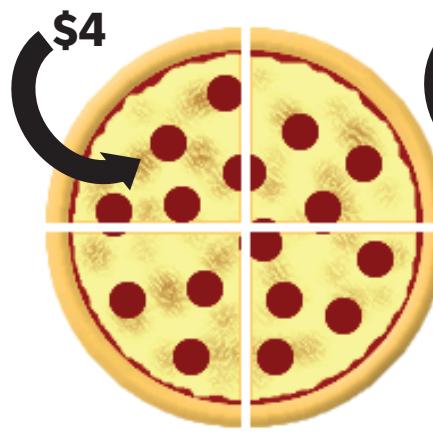
Shares outstanding



Diluted vs. basic shares outstanding

- You should use diluted shares instead of actual (basic) shares when calculating market capitalization.
- This is because the market share price accounts for not just the actual shares outstanding, but also potentially dilutive securities.
 - Ignoring this in the share count would underestimate the market cap of the business

The observed price for a slice of pizza depends on the size of the slice...



...and if you want to calculate the price of the entire pie, you'd better understand exactly how many slices are in the pie.

If you get the number of slices wrong, you'll get the price for the entire pie wrong.

Diluted shares outstanding

- Market cap = share price x diluted shares outstanding:
- **Diluted shares** = Actual share count (basic shares) + dilutive securities(shares that aren't quite common stock yet but can become common stock)

Dilutive securities:

- **Stock options** are issued to pay and motivate employees. Gives employees the option to purchase common stock at a given price over an extended period of time
- **Warrants** are similar to options. They are certificates entitling the holder to acquire shares of stock at a certain price within a stated period. When warrants are exercised, the holder must pay a certain amount of money to obtain the shares. Also, when stock warrants are attached to debt, the debt remains after the warrants are exercised
- **Convertible bonds** are bonds that the company issues that can be converted into common shares upon a certain strike price. The conversion feature allows the corporation an opportunity to obtain equity capital without giving up more ownership control than necessary and/or entice investors to accept lower interest rates than they would normally accept on a straight debt issue
- **Convertible preferred** is similar to convertible debt, except that it is preferred stock

Calculating shares outstanding

A business with an equity value of \$500m has 100m shares outstanding

- What would you expect this company's share price would be? _____

Now assume optionholders hold 25m exercisable options (assume a \$0 exercise price)

- What would you expect this company's share price would be? _____

Now assume that in addition to the options, convertible preferred shareholders hold 15m shares, each convertible into 5 shares of common stock (assume no dividends and no liquidation value).

- What would you expect this company's share price would be? _____

Basic shares outstanding

- You can find the latest outstanding number of common shares outstanding by looking at the front page of the latest filing (i.e., 10-Q or 10-K)

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-25711

EXTREME NETWORKS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

[State or other jurisdiction
of incorporation or organization]

77-0430270

[I.R.S Employer
Identification No.]

3585 Monroe Street,
Santa Clara, California

95051

[Address of principal executive office]

[Zip Code]

Registrant's telephone number, including area code: (408) 579-2800

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the Registrant's Common Stock, \$.001 par value, outstanding at April 24, 2013 was 92,989,772.

92,989,772

Options

- Typically, you find options information in the 10-K, NOT in the 10-Q
- For trading comps, use exercisable options.

The following table summarizes significant ranges of outstanding and exercisable options at June 30, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding (000's)	Weighted- Average Remaining Contractual Life <i>(In years)</i>	Weighted- Average Exercise Price	Number Exercisable (000's)	Weighted- Average Exercise Price	
\$1.69 – \$2.82	983	5.93	\$ 2.12	904	\$ 2.12	
\$2.95 – \$3.02	249	5.89	\$ 2.99	152	\$ 3.00	
\$3.03 – \$3.03	1,217	5.13	\$ 3.03	567	\$ 3.03	
\$3.17 – \$3.25	383	4.54	\$ 3.21	140	\$ 3.17	
\$3.29 – \$3.29	1,881	6.08	\$ 3.29	97	\$ 3.29	
\$3.43 – \$3.68	1,210	4.93	\$ 3.61	735	\$ 3.58	
\$3.74 – \$4.18	955	4.71	\$ 3.86	864	\$ 3.86	
\$4.22 – \$4.22	7	3.16	\$ 4.22	7	\$ 4.22	
\$4.25 – \$4.25	935	4.15	\$ 4.25	886	\$ 4.25	
\$4.26 – \$9.80	1,186	2.31	\$ 6.05	1,186	\$ 6.05	
\$1.69 – \$9.80	<u>9,006</u>	4.87	\$ 3.68	<u>5,538</u>	\$ 3.94	

Finding the options footnote

Search for the terms “exercisable”, “options outstanding”, or “granted” to quickly find the footnote in a long 10-K

Options

- A tranche of options is a class of options with the same weighted average strike price.
- We evaluate options on a tranche-by-tranche basis to see if they are “in the money.”
- Each tranche has an exercise (strike) price, which the owner must pay to exercise the option
 - “**In-the-money**” options are options in which the strike price < current stock price
 - “**At-the-money**” options are options in which the strike price = current stock price
 - “**Out-of-the-money**” options are options in which the strike price > current stock price
- We only include “in the money” options in the share count because these are the options that have potential to dilute the company’s shareholder base.

The following table summarizes significant ranges of outstanding and exercisable options at July 3, 2011 :

	Options Outstanding				Options Exercisable		
	Range of Exercise Prices	Number Outstanding (000's)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (000's)	Weighted-Average Exercise Price	
Options tranches			(In years)				
\$1.69 – \$1.85	148	7.13	\$ 1.79	120	\$ 1.81		
\$2.05 – \$2.05	1,075	6.85	\$ 2.05	748	\$ 2.05		
\$2.09 – \$3.02	522	4.39	\$ 2.57	342	\$ 2.47		

Calculating options using the treasury stock method (TSM)

- An approach to calculating diluted shares that assumes that proceeds from exercised options and warrants are used to repurchase outstanding shares at the current share price.
- Minimizes dilutive impact of option conversion on existing shareholders.
- Most common approach in practice

Treasury stock method example:

	Options exercisable	Exercise price	Status
Tranche 1:	1.5 million	\$10.00	"in-the-money"
Tranche 2:	2.0 million	\$20.00	"out-of-the-money"

Current stock price: \$15.00

Dilutive effect from options: = $1.5 \text{ million} - (\$10.00 * 1.5 \text{ million}) = 0.5 \text{ million shares}$
\$15.00

Stock splits

- When companies announce stock splits, all share count and dilutive securities counts **prior to split must be adjusted to reflect the split.**
 - Otherwise, the market share price will reflect a post-split price while the share count will be pre-split, leading to a huge underestimation of market cap
 - To avoid this, always confirm that no split has taken place subsequent to the latest financial report.
- If you have access to a Bloomberg terminal, the easiest way to check is to select ‘CACS’ on the Bloomberg terminal to review recent corporate actions.



Exhibit 99.1

Apple Expands Capital Return Program to Over \$130 Billion

Board of Directors also Approves Seven-for-One Stock Split

CUPERTINO, California—April 23, 2014—Apple * today announced that its Board of Directors has authorized another significant increase to

Dual classes

- Sometimes companies issue 2 or more classes of common stock (A and B), where one class has more voting rights.
- The rationale is to allow management, families, and other insiders to retain voting control without a 1-for-1 stake in equity.
- Count both classes equally in the share base and include a footnote.



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 000-50726

Google Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

77-0493581
(I.R.S. Employer Identification No.)

1600 Amphitheatre Parkway
Mountain View, CA 94043
(Address of principal executive offices) (Zip Code)
(650) 253-0000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

As of June 30, 2013, the aggregate market value of shares held by non-affiliates of the Registrant (based upon the closing sale price of such shares on the Nasdaq Global Select Market on June 28, 2013) was \$214,573,249,181.

As of January 30, 2014, there were 279,883,488 shares of the registrant's Class A common stock outstanding and 56,167,343 shares of the registrant's Class B common stock outstanding.

Dealing with convertible preferred stock in comps

- If the company has convertible preferred stock on its balance sheet, analysts must determine whether to assume conversion for the purposes of calculating diluted shares outstanding
- If conversion is assumed, exclude the preferred stock from the balance sheet and any preferred dividends from the cash flow statement.
- To determine whether the preferred stock should be assumed converted, employ 2 tests:
 - Test 1: Are the convertibles in the money or out of the money?
 - If in-the-money, proceed to test 2
 - Test 2: Is assuming conversion dilutive or anti-dilutive
 - If dilutive, assume conversion for purposes of calculating shares

Test 1: In the money?

- If the market share price is > conversion price, the convertible preferred stock is in the money.

$$\text{Conversion price} = \frac{\text{Liquidation (redemption value) of preferred shares}}{\text{Conversion ratio} \times \text{preferred shares outstanding}}$$

- **Liquidation value** represents that value that the firm must pay to eliminate the obligation in the event of liquidation or sale, and is proxied by the book value of the preferred stock on the balance sheet.
- **The conversion ratio** represents the number of common shares that each convertible share can receive upon conversion
- **Preferred shares outstanding** represent the number of preferred convertible shares currently outstanding (do not confuse this with shares authorized which are typically much bigger).
- **The conversion price** represents the value of each common share held by preferreds post-conversion given the liquidation (book) value.

Test 2: Dilutive or antidilutive

- Companies with preferred stock usually issue preferred dividends.
- When assuming conversion, we must reflect that preferreds will no longer receive dividends.
- If the dividend is sufficiently high, its elimination due to conversion will actually be antidilutive. In this case, we assume that preferred shareholders will not opt to convert (logic being they are getting a larger fraction of profits as preferred rather than as common – see exercise below).

	Scenario 1	Scenario 2	Scenario 3
Net income	100.0	100.0	100.0
Preferred dividends	15.0	10.0	20.0
Net income to common	85.0	90.0	80.0
Basic shares	170.0	170.0	170.0
Basic EPS	\$0.500	\$0.529	\$0.471
Pref. stock dividend yield	15.0%	10.0%	20.0%
Diluted net income	\$100.00	\$100.00	\$100.00
Dilutive impact of converted shares	30.0	30.0	30.0
Diluted EPS	\$0.500	\$0.500	\$0.500
As-converted pref. shares as % of total	15.0%	15.0%	15.0%
Dilutive or antidilutive?			

Real world exercise: Colgate's convertible preferred stock

- Information about convertible securities can usually be found on the balance sheet and in the footnotes of a company's 10-K and 10-Q's.

Exercise: Testing Colgate's convertible preferred stock in 2010

Using the disclosures on the next two slides and the assumptions below answer the following:

Does Colgate's convertible preferred stock meet conversion tests in **2010**?

Assumptions

In 2010, Colgate had:

- 2,405,192 convertible preferred shares outstanding
- 487,800,000 weighted average basic shares outstanding
- CL share price as of time of the analysis of \$66.84
- Calculate Basic & Diluted EPS using the information provided here and in the disclosures in the next two slides, do not use the company's reported EPS.



Real world exercise: Colgate's convertible preferred stock

8. Capital Stock and Stock-Based Compensation Plans

Preference Stock

The Company has the authority to issue 50,000,000 shares of Preference stock. In 1989, the Company approved the issuance of 6,315,149 shares of Series B Convertible Preference stock (the Preference stock) without par value. Each share of Preference stock, which was convertible into eight shares of common stock, had a redemption price of \$ 65 per share and paid cumulative dividends equal to the higher of \$ 2.44 or the current dividend paid on eight common shares for the comparable six-month period. As a result of rules issued by the IRS related to employer stock held in defined contribution plans, the Company issued a notice of redemption with respect to the 2,405,192 shares of Preference stock outstanding on December 29, 2010. At the direction of the Company's Employee Stock Ownership Plan trustee, the shares of Preference stock were converted into 19,241,536 shares of common stock. The common stock for the conversion was issued from treasury shares. See Note 9 for further information about the Company's Employee Stock Ownership Plan.

Dividend payments in 2012 were \$1,277 , an increase from \$1,203 in 2011 and \$1,142 in 2010. Common stock dividend payments increased to \$ 2.44 per share in 2012 from \$2.27 per share in 2011 and \$2.03 per share in 2010. On March 8, 2012, the Company's Board of Directors increased the quarterly common stock cash dividend to \$0.62 per share from \$0.58 per share, effective as of the second quarter 2012. The Series B Preference stock dividend payments were \$16.24 per share in 2010. The Series B Preference Stock was converted to common stock on December 29, 2010.

Real world exercise: Colgate's convertible preferred stock

COLGATE-PALMOLIVE COMPANY

Consolidated Statements of Income

For the years ended December 31,

(Dollars in Millions Except Per Share Amounts)

	2012	2011	2010
Net sales	\$ 17,085	\$ 16,734	\$ 15,564
Cost of sales	<u>7,153</u>	<u>7,144</u>	<u>6,360</u>
Gross profit	<u>9,932</u>	<u>9,590</u>	<u>9,204</u>
Selling, general and administrative expenses	<u>5,930</u>	<u>5,758</u>	<u>5,414</u>
Other (income) expense, net	<u>113</u>	<u>(9)</u>	<u>301</u>
Operating profit	<u>3,889</u>	<u>3,841</u>	<u>3,489</u>
Interest expense, net	<u>15</u>	<u>52</u>	<u>59</u>
Income before income taxes	<u>3,874</u>	<u>3,789</u>	<u>3,430</u>
Provision for income taxes	<u>1,243</u>	<u>1,235</u>	<u>1,117</u>
Net income including noncontrolling interests	<u>2,631</u>	<u>2,554</u>	<u>2,313</u>
Less: Net income attributable to noncontrolling interests	<u>159</u>	<u>123</u>	<u>110</u>
Net income attributable to Colgate-Palmolive Company	<u>\$ 2,472</u>	<u>\$ 2,431</u>	<u>\$ 2,203</u>
Earnings per common share, basic	<u>\$ 5.19</u>	<u>\$ 4.98</u>	<u>\$ 4.45</u>
Earnings per common share, diluted	<u>\$ 5.15</u>	<u>\$ 4.94</u>	<u>\$ 4.31</u>

Real world exercise: Colgate's convertible preferred stock

- Information about convertible securities can usually be found on the balance sheet and in the footnotes of a company's 10-K and 10-Q's.

Exercise: Testing Colgate's convertible preferred stock in 2010

Test 1

- Conversion price = \$65 redemption value per share / 8:1 conversion ratio = \$8.13
- Conversion price (\$8.13) < Share price (\$66.84)

Real world exercise: Colgate's convertible preferred stock

Test 2

Preferred shares	2,405,192.0
Preferred dividends/share	16.24
Net income	2,203,000,000 This is pre-preferred dividends
Preferred dividends	39,060,318
Net income to common	2,163,939,682
Basic shares	487,800,000
Basic EPS	\$4.44
Pref. stock dividend yield	1.8% Pref. dividends / Net income
Diluted net income	2,203,000,000 Net income assuming preferred convert
Dilutive impact of converted shares	19,241,536
Diluted EPS	\$4.34
As-converted pref. shares as % of total	Common shares held by preferreds / total dilutive shares 3.8% shares
Dilutive or antidilutive?	Dilutive

Does Colgate's convertible preferred stock meet conversion tests in 2010?

Yes

Convertible debt

- Same mechanics as preferred stock
- Convertible debt is converted to common shares as follows:
- Conversion price =
$$\frac{\text{Book value of convertible debt}}{\text{Common shares debt is convertible into}}$$
- The same 2 conversion tests are employed with convertible debt.
 - **In the money?** As long as conversion price is below market price, test 1 is passed.
 - **Dilutive or antidilutive?** Companies typically pay interest on convertible debt. If we are assuming convertible debt is being converted to common shares, we must assume that convertible holders will no longer receive this interest. If the interest is sufficiently high, such that elimination due to conversion will actually be antidilutive, we cannot assume that debtholders will opt to convert. As such, a dilution test is employed as the second criteria for determining conversion.
- Remember that if we assume conversion, exclude convertible debt from the balance sheet and any associated interest expense from the income statement.

Restricted stock

- Similar to options, restricted stock is another way to provide employees stock based compensation.
- Restricted stock are shares (or the right to shares) subject to vesting and, often, other restrictions. Unlike options, there is no exercise price and employees receive the stock free and clear after vesting.

Treatment of restricted stock in the calculation of diluted shares

- **Vested restricted shares:** Like options, restricted stock vests over several years, but when they vest, they automatically get included in the actual share count, so there is no dilutive impact
- **Unvested shares:** Similarly to unvested options, unvested restricted shares are typically not included in the diluted share count.
 - An alternative approach (rarely used but more conceptually rigorous) is to apply an illiquidity discount to unvested restricted shares and to include this in the diluted share count.
 - Completely ignoring unvested restricted stock leads to an underestimation of market cap and enterprise value.

Restricted stock



2005 Equity Incentive Plan. In December 2004, the Company adopted the 2005 Equity Incentive Plan, or the 2005 Plan, which provides for discretionary grants of non-statutory stock options and stock units for employees, including officers, and other service providers. A total of 12,400,000 shares of common stock have been reserved for issuance under the 2005 Plan. Upon certain changes in control of the Company, all outstanding and unvested options or stock awards under the 2005 Plan will vest at the rate of 50%, unless assumed or substituted by the acquiring entity. During the fiscal year 2013, the Company issued no stock options and 456,837 restricted stock units under the 2005 Plan. As of September 30, 2013, there were no options outstanding, 926,035 restricted stock units outstanding and 2,135,162 shares available for new awards under the 2005 Plan.

A majority of the restricted stock units the Company grants to its employees vest quarterly over a two-year period. The restricted stock units under all plans were granted during fiscal years 2013, 2012 and 2011 with a per-share weighted average fair value of \$86.69, \$99.63 and \$94.99, respectively. The fair value of restricted stock vested during fiscal years 2013, 2012 and 2011 was \$97.5 million, \$93.8 million and \$145.0 million, respectively.

A summary of restricted stock unit activity under the 2005 Plan is as follows:

	Outstanding Stock Units	Weighted Average Grant Date Fair Value
Balance, September 30, 2012	1,717,444	\$ 95.43
Units granted	456,837	89.38
Units vested	(1,078,607)	89.31
Units cancelled	(169,639)	94.16
Balance, September 30, 2013	<u><u>926,035</u></u>	<u><u>\$ 95.47</u></u>

Inputting historicals

5

Calculate EXTR latest diluted shares outstanding

- Latest basic shares outstanding can be found on front cover of latest 10Q
- Locate and input EXTR's tranche by tranche options data in their 10K
- In line with common practice (for better or worse) we ignore restricted shares
- Determine if EXTR has any convertible securities that should be considered

	A	B	C	D	E	F
4	(\$ in millions, except per share data)					
6	Company name	Extreme Networks				
7	Ticker	EXTR				
8	Date of latest quarter	12/31/13				
9	Date of latest fiscal year end (FYE)	6/30/13				
10	Latest quarter	Q2	Select:	Select:	Select:	
11	Stock price on current date	\$5.56				
12	Share price date	4/25/14	4/25/14	4/25/14	4/25/14	
14	SHARES DATA					
15	Basic shares outstanding					
16	Options exercisable					
17	Tranche 1					
18	Tranche 2					
19	Tranche 3					
20	Tranche 4					
21	Tranche 5					
22	Tranche 6					
23	Tranche 7					
24	Tranche 8					
25	Tranche 9					
26	Tranche 10					
27	Tranche 11					
28	Tranche 12					
29	Tranche 13					
30	Tranche 14					
31		0.000	0.000	0.000	0.000	
32	Exercise price					
33	Tranche 1					
34	Tranche 2					
35	Tranche 3					
36	Tranche 4					
37	Tranche 5					
38	Tranche 6					

No current selection 2 / 100 81% Find

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2013
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 000-25711

EXTREME NETWORKS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
[State or other jurisdiction
of incorporation or organization]

77-0430270
[IRS Employer
Identification No.]

145 Rio Robles,
San Jose, California
[Address of principal executive office]

95134
[Zip Code]

Registrant's telephone number, including area code: (408) 579-2800

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the Registrant's Common Stock, \$0.001 par value, outstanding at January 24, 2014 was 95,867,420.

A	B	C
1	COMPARABLE COMPANY ANALYSIS INPUT	
2		
3	MARKET DATA INPUTS	
4	(\$ in millions, except per share data)	
5		
6	Company name	Extreme Networks
7	Ticker	EXTR
13		
14	SHARES DATA	
15	Basic shares outstanding	95.867
16	Options exercisable	
17	Tranche 1	0.949
18	Tranche 2	0.031
19	Tranche 3	0.546
20	Tranche 4	0.395
21	Tranche 5	0.394
22	Tranche 6	0.901
23	Tranche 7	0.986
24	Tranche 8	0.586
25	Tranche 9	0.007
26	Tranche 10	0.060
27	Tranche 11	
28	Tranche 12	
29	Tranche 13	
30	Tranche 14	
31		4.855
32	Exercise price	
33	Tranche 1	\$2.39
34	Tranche 2	\$3.17
35	Tranche 3	\$3.30
36	Tranche 4	\$3.52
37	Tranche 5	\$3.68
38	Tranche 6	\$3.85
39	Tranche 7	\$4.36
40	Tranche 8	\$6.50
41	Tranche 9	\$8.36
42	Tranche 10	\$9.80
43	Tranche 11	
44	Tranche 12	
45	Tranche 13	
46	Tranche 14	
47		
48	Gross proceeds from exercise of options	14.776
49	Gross dilution	4.202
50	Dilution from exercisable options	1.544
51	Dilution from convertible debt	
52	Dilution from convertible preferred stock / other	
53	Diluted shares outstanding	97.412



Check your work

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Input IS and CFS data from the 10K

- Because comps look at EV/Rev, EV/EBITDA, EV/EBIT and PE multiples on an LTM basis, we need to input LTM Revenue, EBITDA, EBIT and EPS data
- We'll start with the latest full year (10K), add the latest "stub period" (the last 6 months results) and then subtract the prior years first 6 months to arrive at LTM.

6	Company name	Networks	Brocade	Networks	Systems	Networks	F5 Networks
7	Ticker	EXTR	BRCD	JNPR	CSCO	ARUN	FFIV
57	LATEST FISCAL YEAR	EXTR	BRCD	JNPR	CSCO	ARUN	FFIV
58		6/30/13	1/0/00	1/0/00	1/0/00	1/0/00	1/0/00
59	Revenues						
60	COGS (enter as -)						
61	Gross Profit	0.000	0.000	0.000	0.000	0.000	
62	SG&A/Other operating expenses (enter as -)						
63	Operating income (EBIT)	0.000	0.000	0.000	0.000	0.000	
64	Nonoperating income / (expense)						
65	Pretax income	0.000	0.000	0.000	0.000	0.000	
66	Tax benefit / (expense)						
67	Net Income	0.000	0.000	0.000	0.000	0.000	
68	Diluted weighted average shares out.						
69							
70	Non-GAAP exclusions						
71	Excluded operating expense / (income)						
72	Excluded nonoperating expense / (income)						
73	Tax effect of non-GAAP exclusions						
74							
75	Normalized (Non-GAAP) financials						
76	EBIT	0.000	0.000	0.000	0.000	0.000	0.000
77	Depreciation and amortization expense						
78	EBITDA	0.000	0.000	0.000	0.000	0.000	0.000
79	Pretax income	0.000	0.000	0.000	0.000	0.000	0.000
80	Tax benefit / (expense)	0.000	0.000	0.000	0.000	0.000	0.000
81	Net income	0.000	0.000	0.000	0.000	0.000	0.000
82							
83	Diluted EPS calculation						
84	Numerator adjustment						
85	Denominator adjustment						
86	Diluted EPS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Find the IS and CFS in the 10K and input the data...

EXTREME NETWORKS, INC. CONSOLIDATED STATEMENTS OF INCOME (In thousands, except per share amounts)		
	June 30, 2013	June 30, 2012
Net revenues:		
Product	\$ 239,955	\$ 261,873
Services	59,388	60,940
Total net revenues	299,343	322,722
Cost of revenues:		
Product	115,862	120,227
Service	20,855	22,648
Total cost of revenues	136,717	142,875
Gross profit:		
Product	124,093	141,646
Service	38,533	38,201
Total gross profit	162,626	179,847
Operating expenses:		
Research and development	40,521	45,640
Sales and marketing	87,202	90,167
General and administrative	26,725	28,658
Restructuring charge, net of reversals	6,836	1,594
Litigation settlement (gain)/loss	(2,095)	(121)
Gain on sale of campus	111,599	(4,249)
Total operating expenses	151,774	165,938
Operating income:		
Operating income	10,852	13,099
Interest income	1,070	1,239
Interest expense	—	(75)
Other income (expense), net	(571)	1,995
Income before income taxes	11,351	17,068
Provision for income taxes	1,678	3,712
Net income	\$ 9,673	\$ 15,872
Net income and diluted net income per share:		
Net income per share – basic	\$ 0.10	\$ 0.17
Net income per share – diluted	\$ 0.10	\$ 0.17
Shares used in per share calculation – basic	93,954	93,451
Shares used in per share calculation – diluted	95,044	94,490

Leave Non-GAAP exclusions blank for now: We'll get to this next

Input D&A data from the cash flow statement

	A	B	C	D
1	COMPARABLE COMPANY ANALYSIS INPUT			
2				
3	MARKET DATA INPUTS			
4	<i>(\$ in millions, except per share data)</i>			
5				
6	Company name	<i>Extreme Networks</i>	<i>Brocade</i>	
7	Ticker	EXTR	BRCD	
57	LATEST FISCAL YEAR	EXTR	BRCD	
58		<i>6/30/13</i>	<i>1/0/00</i>	
59	Revenues	\$299.343		
60	COGS (enter as -)	(136.717)		
61	Gross Profit	162.626	0.000	
62	SG&A/Other operating expenses (enter as -)	(151.774)		
63	Operating income (EBIT)	10.852	0.000	
64	Nonoperating income / (expense)	0.499		
65	Pretax income	11.351	0.000	
66	Tax benefit / (expense)	(1.678)		
67	Net Income	9.673	0.000	
68	Diluted weighted average shares out.	95.044		
69				
70	Non-GAAP exclusions			
71	Excluded operating expense / (income)			
72	Excluded nonoperating expense / (income)			
73	Tax effect of non-GAAP exclusions			
74				
75	Normalized (Non-GAAP) financials			
76	EBIT	10.852	0.000	
77	Depreciation and amortization expense	6.031		
78	EBITDA	16.883	0.000	
79	Pretax income	11.351	0.000	
80	Tax benefit / (expense)	(1.678)	0.000	
81	Net income	9.673	0.000	
82				
83	Diluted EPS calculation			
84	Numerator adjustment			
85	Denominator adjustment			
86	Diluted EPS	\$0.10	\$0.00	

Open Factset's EPS estimates doc (EXTR3.pdf) and locate the 2013 EPS

- We have the GAAP EPS but the “primary” EPS Factset provides is \$0.17
- This is because analysts covering EXTR are usually more interested in the Non-GAAP EPS ex. SOE
- What’s that? And should our comps sets calculate PE multiples using this EPS instead?

5	Extreme Networks, Inc. (EXTR)												Key Statistics	FactSet Estimates
6	Company name	\$5.55	Next Rpt Date: 06 May '14											
7	Ticker													
57	LATEST FISCAL YEAR													
58	Revenues													
59	COGS (enter as -)													
60	Gross Profit													
61	SG&A/Other operating expenses (enter as -)													
62	Operating income (EBIT)													
63	Nonoperating income / (expense)													
64	Pretax income													
65	Tax benefit / (expense)													
66	Net Income													
67	Diluted weighted average shares out.													
68														
69														
70	<u>Non-GAAP exclusions</u>													
71	Excluded operating expense / (income)													
72	Excluded nonoperating expense / (income)													
73	Tax effect of non-GAAP exclusions													
74														
75	<u>Normalized (Non-GAAP) financials</u>													
76	EBIT	10.852	0.000											
77	Depreciation and amortization expense	6.031												
78	EBITDA	16.883	0.000											
79	Pretax income	11.351	0.000											
80	Tax benefit / (expense)	(1.678)	0.000											
81	Net income	9.673	0.000											
82														
83	<u>Diluted EPS calculation</u>													
84	Numerator adjustment													
85	Denominator adjustment													
86	Diluted EPS	\$0.10	\$0.00											

Find all Non-GAAP items in EXTR's Q4 PR

- Input them into the appropriate categories in the non-GAAP exclusions section
- Your EPS should now be \$0.17 – not \$0.10

GAAP TO NON-GAAP RECONCILIATION (In thousands, except per share amounts) (Unaudited)

Non-GAAP Gross Margin

	Three Months Ended		Year Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Gross profit - GAAP Basis	\$ 43,975	\$ 48,833	\$ 162,626	\$ 179,847
Gross margin - GAAP Basis percentage	55.3%	55.7%	54.3%	55.7%
Adjustments:				
Stock based compensation expense	\$ 3	\$ 212	\$ 720	\$ 788
Gross profit - Non-GAAP Basis	\$ 43,978	\$ 49,045	\$ 163,346	\$ 180,635
Gross margin - Non-GAAP Basis percentage	55.3%	56.0%	54.6%	56.0%

Non-GAAP Operating Income

	Three Months Ended		Year Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
GAAP operating income	\$ 2,943	\$ 5,408	\$ 10,852	\$ 13,909
GAAP operating income percentage	3.7%	6.2%	3.6%	4.3%
Adjustments:				
Stock based compensation expense	\$ 886	\$ 1,537	\$ 6,511	\$ 6,189
Restructuring charge, net of reversals	\$ 593	\$ 237	\$ 6,836	\$ 1,594
Litigation Settlement	\$ —	\$ (53)	\$ 2,197	\$ (53)
Gain on sale of facilities	\$ —	\$ —	\$ (11,539)	\$ —
One-time CEO transition expenses	\$ 2,086	\$ —	\$ 2,086	\$ —
Total adjustments to GAAP operating income	\$ 3,565	\$ 1,721	\$ 6,091	\$ 7,730
Non-GAAP operating income	\$ 6,508	\$ 7,129	\$ 16,943	\$ 21,639
Non-GAAP operating income percentage	8.2%	8.1%	5.7%	6.7%

Non-GAAP Net Income

	Three Months Ended		Year Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
GAAP net income	\$ 3,184	\$ 7,812	\$ 9,673	\$ 15,872
Adjustments:				
Stock based compensation expense	\$ 886	\$ 1,537	\$ 6,511	\$ 6,189
Restructuring charge, net of reversals	\$ 593	\$ 237	\$ 6,836	\$ 1,594
Litigation Settlement	\$ —	\$ (53)	\$ 2,197	\$ (53)
Gain on sale of facilities	\$ —	\$ —	\$ (11,539)	\$ —
One-time CEO transition expenses	\$ 2,086	\$ —	\$ 2,086	\$ —
Currency loss from closing of a foreign subsidiary	\$ —	\$ (1,887)	\$ 465	\$ (1,887)
Total adjustments to GAAP net income	\$ 3,565	\$ (166)	\$ 6,556	\$ 5,843
Non-GAAP net income	\$ 6,749	\$ 7,646	\$ 16,229	\$ 21,715

Earnings per share

Non-GAAP diluted net income per share	\$ 0.07	\$ 0.08	\$ 0.17	\$ 0.23
Shares used in diluted net income per share calculation	94,984	95,225	95,044	94,490

See Appendix: GAAP vs. Non-GAAP
for more detail

	A	B	C	D	E	F	G
1	COMPARABLE COMPANY ANALYSIS INPUT						
2							
3	MARKET DATA INPUTS						
4	(\$ in millions, except per share data)						
5							
6	Company name		Extreme Networks EXTR	Brocade BRCD	Juniper Networks JNPR	Cisco Systems CSCO	Aruba Networks ARUN
7	Ticker						
60	COGS (enter as -)		(136.717)				
61	Gross Profit		162.626	0.000	0.000	0.000	0.000
62	SG&A/Other operating expenses (enter as -)		(151.774)				
63	Operating income (EBIT)		10.852	0.000	0.000	0.000	0.000
64	Nonoperating income / (expense)		0.499				
65	Pretax income		11.351	0.000	0.000	0.000	0.000
66	Tax benefit / (expense)		(1.678)				
67	Net Income		9.673	0.000	0.000	0.000	0.000
68	Diluted weighted average shares out.		95.044				
69							
70	Non-GAAP exclusions						
71	Excluded operating expense / (income)		6.091				
72	Excluded nonoperating expense / (income)		0.465				
73	Tax effect of non-GAAP exclusions						
74							
75	Normalized (Non-GAAP) financials						
76	EBIT		16.943	0.000	0.000	0.000	0.000
77	Depreciation and amortization expense		6.031				
78	EBITDA		22.974	0.000	0.000	0.000	0.000
79	Pretax income		17.907	0.000	0.000	0.000	0.000
80	Tax benefit / (expense)		(1.678)	0.000	0.000	0.000	0.000
81	Net income		16.229	0.000	0.000	0.000	0.000
82							
83	Diluted EPS calculation						
84	Numerator adjustment						
85	Denominator adjustment						
86	Diluted EPS		\$0.17	\$0.00	\$0.00	\$0.00	\$0.00

Input GAAP data for the first six months of FY 2014 and 2013 using the FY2014 Q2 10Q

- Recall that we just inputted the latest full year (10K) but we still need to add the latest “stub period” (the last 6 months results) and then subtract the prior years first 6 months to arrive at LTM.

A	B	C
1 COMPARABLE COMPANY ANALYSIS	INPUT	
2		
3 MARKET DATA INPUTS		
4 (\$ in millions, except per share data)		
5		
6 Company name	Extreme Networks	B
7 Ticker	EXTR	
87		
88 LATEST FISCAL YEAR QUARTERS	EXTR	
89 Actuals through:	Q2	
90 Date ending:	12/31/13	
91 Revenues		
92 COGS (enter as -)		
93 Gross Profit	0.000	
94 SG&A/Other operating expenses (enter as -)		
95 Operating income (EBIT)	0.000	
96 Nonoperating income / (expense)		
97 Pretax income	0.000	
98 Tax benefit / (expense)		
99 Net Income	0.000	
100 Diluted weighted average shares out.		
101		
102 Non-GAAP exclusions		
103 Excluded operating expense / (income)		
104 Excluded nonoperating expense / (income)		
105 Tax effect of non-GAAP exclusions		
106		
107 Normalized (Non-GAAP) financials		
108 EBIT	0.000	
109 Depreciation and amortization expense		
110 EBITDA	0.000	
111 Pretax income	0.000	
112 Tax benefit / (expense)	0.000	
113 Net income	0.000	
114		
115 Diluted EPS calculation		
116 Numerator adjustment		
117 Denominator adjustment		
118 Diluted EPS	\$0.00	
119		
120 LATEST FISCAL YEAR QUARTERS MINUS 1 YEAR	EXTR	
121	12/31/2012	
122 Revenues		

Don't make non-GAAP adjustments yet!

A	B	C
1	COMPARABLE COMPANY ANALYSIS INPUT	
2		
3	MARKET DATA INPUTS	
4	(\$ in millions, except per share data)	
5		
6	Company name	Extreme Networks
7	Ticker	EXTR
87		
88	LATEST FISCAL YEAR QUARTERS	EXTR
89	Actuals through:	Q2
90	Date ending:	12/31/13
91	Revenues	\$222,498
92	COGS (enter as -)	(108,947)
93	Gross Profit	113,551
94	SG&A/Other operating expenses (enter as -)	(126,952)
95	Operating income (EBIT)	(13,401)
96	Nonoperating income / (expense)	(1,269)
97	Pretax income	(14,670)
98	Tax benefit / (expense)	(1,352)
99	Net Income	(16,022)
100	Diluted weighted average shares out.	94,639
101		
102	Non-GAAP exclusions	
103	Excluded operating expense / (income)	
104	Excluded nonoperating expense / (income)	
105	Tax effect of non-GAAP exclusions	
106		
107	Normalized (Non-GAAP) financials	
108	EBIT	(13,401)
109	Depreciation and amortization expense	11,140
110	EBITDA	(2,261)
111	Pretax income	(14,670)
112	Tax benefit / (expense)	(1,352)
113	Net income	(16,022)
114		
115	Diluted EPS calculation	
116	Numerator adjustment	
117	Denominator adjustment	
118	Diluted EPS	(\$0.17)

120	LATEST FISCAL YEAR QUARTERS MINUS 1 YEAR	EXTR
121		12/31/2012
122	Revenues	\$151,678
123	COGS (enter as -)	(70,964)
124	Gross Profit	80,714
125	SG&A/Other operating expenses (enter as -)	(70,903)
126	Operating income (EBIT)	9,811
127	Nonoperating income / (expense)	(0,119)
128	Pretax income	9,692
129	Tax benefit / (expense)	(0,983)
130	Net Income	8,709
131	Diluted weighted average shares out.	95,514
132		
133	Non-GAAP exclusions	
134	Excluded operating expense / (income)	
135	Excluded nonoperating expense / (income)	
136	Tax effect of non-GAAP exclusions	
137		
138	Normalized (Non-GAAP) financials	
139	EBIT	9,811
140	Depreciation and amortization expense	3,093
141	EBITDA	12,904
142	Pretax income	9,692
143	Tax benefit / (expense)	(0,983)
144	Net income	8,709
145		
146	Diluted EPS calculation	
147	Numerator adjustment	
148	Denominator adjustment	
149	Diluted EPS	\$0.09

Sanity check: Make sure the calculated EPS in your model tie to the 10Q



Input non-GAAP exclusions for the first six months of both FY 2014 and 2013 using the FY2014 Q2 PR

Non-GAAP Operating Income

	Three Months Ended		Six Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
GAAP operating income	\$ (13,772)	\$ (3,760)	\$ (13,401)	\$ 9,811
GAAP operating income percentage	(9.4)%	(5.0)%	(6.0)%	6.5%
Adjustments:				
Stock based compensation expense	\$ 3,458	\$ 1,616	\$ 5,033	\$ 3,784
Acquisition and integration costs	\$ 8,688	\$ —	\$ 12,382	\$ —
Restructuring charge, net of reversal	\$ 430	\$ 5,176	\$ 505	\$ 5,167
Amortization of intangibles	\$ 6,472	\$ —	\$ 6,472	\$ —
Purchase accounting adjustments	\$ 11,000	\$ —	\$ 11,000	\$ —
Litigation settlement	\$ —	\$ (421)	\$ —	\$ (421)
Gain of sale of facilities	\$ —	\$ —	\$ —	\$ (11,539)
Total adjustments to GAAP operating income	\$ 30,048	\$ 6,371	\$ 35,392	\$ (3,009)
Non-GAAP operating income	\$ 16,276	\$ 2,611	\$ 21,991	\$ 6,802
Non-GAAP operating income percentage	11.0 %	3.5 %	9.8 %	4.5%

Non-GAAP Net Income

	Three Months Ended		Six Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
GAAP net income	\$ (15,986)	\$ (4,206)	\$ (16,022)	\$ 8,709
Adjustments:				
Stock based compensation expense	\$ 3,458	\$ 1,616	\$ 5,033	\$ 3,784
Acquisition and integration costs	\$ 8,688	\$ —	\$ 12,382	\$ —
Restructuring charge, net of reversal	\$ 430	\$ 5,176	\$ 505	\$ 5,167
Amortization of intangibles	\$ 6,472	\$ —	\$ 6,472	\$ —
Purchase accounting adjustments	\$ 11,000	\$ —	\$ 11,000	\$ —
Litigation settlement	\$ —	\$ (421)	\$ —	\$ (421)
Gain of sale of facilities	\$ —	\$ —	\$ —	\$ (11,539)
Currency loss from closing of a foreign subsidiary	\$ —	\$ 616	\$ —	\$ 465
Total adjustments to GAAP net income	\$ 30,048	\$ 6,987	\$ 35,392	\$ (2,544)
Non-GAAP net income	\$ 14,062	\$ 2,781	\$ 19,370	\$ 6,165
Earnings per share				
Non-GAAP diluted net income per share	\$ 0.14	\$ 0.03	\$ 0.20	\$ 0.06
Shares used in diluted net income per share calculation	98,352	94,501	97,023	95,514

Take note!

- A portion of amortization is being excluded from non-GAAP operating income (EBIT)
- This means that we need to revisit the D&A we added back to EBIT to get to EBITDA
- In addition, notice that the shares used in calculating non-GAAP diluted EPS is slightly different from the diluted shares disclosed in the GAAP based 10Q

C109 f_x =4.143+6.997-6.472

	A	B	C	D	E	F
1	COMPARABLE COMPANY ANALYSIS INPUT					
2						
3	MARKET DATA INPUTS					
4	(\$ in millions, except per share data)					
5						
6	Company name	Extreme Networks	Brocade	Juniper Networks	Cisco Systems	NetApp
7	Ticker	EXTR	BRCD	JNPR	CSCO	NTAP
87						
88	LATEST FISCAL YEAR QUARTERS	EXTR	BRCD	JNPR	CSCO	
89	Actuals through:	Q2	Select:	Select:	Select:	
90	Date ending:	12/31/13	1/0/00	1/0/00	1/0/00	
91	Revenues	\$222.498				
92	COGS (enter as -)	(108.947)				
93	Gross Profit	113.551	0.000	0.000	0.000	
94	SG&A/Other operating expenses (enter as -)	(126.952)				
95	Operating income (EBIT)	(13.401)	0.000	0.000	0.000	
96	Nonoperating income / (expense)	(1.269)				
97	Pretax income	(14.670)	0.000	0.000	0.000	
98	Tax benefit / (expense)	(1.352)				
99	Net Income	(16.022)	0.000	0.000	0.000	
100	Diluted weighted average shares out.	94.639				
101						
102	Non-GAAP exclusions	35.392				
103	Excluded operating expense / (income)					
104	Excluded nonoperating expense / (income)					
105	Tax effect of non-GAAP exclusions					
106						
107	Normalized (Non-GAAP) financials					
108	EBIT	21.991				
109	Depreciation and amortization expense	4.668				
110	EBITDA	26.659				
111	Pretax income	20.722				
112	Tax benefit / (expense)	(1.352)	0.000	0.000	0.000	
113	Net income	19.370	0.000	0.000	0.000	
114						
115	Diluted EPS calculation	2.384				
116	Numerator adjustment	\$0.20				
117	Denominator adjustment					
118	Diluted EPS	\$0.20				\$0.00
119						
120	LATEST FISCAL YEAR QUARTERS MINUS 1 YEAR	EXTR	BRCD	JNPR	CSCO	

Wall Street Prep:
SBC, Acquisition integration costs,
Restructuring, Amortization, Purchase
accounting adjustments, Litigation
settlement, Gain on sale, Q2 PR.

Wall Street Prep: Per Q2 2014 10Q. Adjustment
made to exclude 6.472 in intangible asset
amortization that was excluded in EXTR's non-
GAAP reconciliation to avoid double counting per
EXTR Q2 2014 PR.

Wall Street Prep:
Non-GAAP diluted EPS differs from
reported GAAP diluted shares of
94.639. Per EXTR Q2 non-GAAP
reconciliation.



	A	B	C	
1	COMPARABLE COMPANY ANALYSIS	INPUT		
2				
3	MARKET DATA INPUTS			
4	<i>(\$ in millions, except per share data)</i>			
5				
6	Company name	Extreme Networks	Br	
7	Ticker	EXTR	E	
120	LATEST FISCAL YEAR QUARTERS MINUS 1 YEAR	EXTR		
121		12/31/2012		
122	Revenues	\$151.678		
123	COGS (enter as -)	(70.964)		
124	Gross Profit	80.714		
125	SG&A/Other operating expenses (enter as -)	(70.903)		
126	Operating income (EBIT)	9.811		
127	Nonoperating income / (expense)	(0.119)		
128	Pretax income	9.692		
129	Tax benefit / (expense)	(0.983)		
130	Net Income	8.709		
131	Diluted weighted average shares out.	95.514		
132				
133	Non-GAAP exclusions			
134	Excluded operating expense / (income)	(3.009)		
135	Excluded nonoperating expense / (income)	0.465		
136	Tax effect of non-GAAP exclusions			
137				
138	Normalized (Non-GAAP) financials			
139	EBIT	6.802		
140	Depreciation and amortization expense	3.093		
141	EBITDA	9.895		
142	Pretax income	7.148		
143	Tax benefit / (expense)	(0.983)		
144	Net income	6.165		
145				
146	Diluted EPS calculation			
147	Numerator adjustment			
148	Denominator adjustment			
149	Diluted EPS	\$0.06		

Net debt

6

Net debt

- Since in addition to equity multiples (P/E), which require that we calculate equity value, we will also be calculating EV/EBITDA and EV/Sales multiples, which require that we calculate enterprise value.
- Since Enterprise value = Equity value + Net debt, we need to calculate net debt:

Components of net debt

- Gross debt
 - Debt
 - Non-controlling interests
 - Preferred Stock
- Cash and equivalents
 - Cash and equivalents
 - Marketable securities and investments
 - Other non operating assets

More on gross debt

- Notes payable
 - May be identified separately or lumped in with current portion of long-term debt. If it is lumped together, the Debt footnote will identify them separately.
- Current portion of long-term debt
 - Portion of debt with an overall maturity of more than a year due within 12 months.
 - May be identified separately or lumped in with Notes Payable. If it is lumped together, the Debt footnote will identify them separately.
- Capital leases¹
 - Typically treated as debt equivalents

¹ For lease-intensive industries, off-balance sheet operating leases are also capitalized and included in comps as debt equivalents

Long-term debt (including convertible debt)

- The company's borrowings with a maturity (full repayment) exceeding 12 months
- Debt is identified by tranche in the debt footnote, along with interest rates and dates of maturity
- Additionally, the footnote will disclose the projected aggregate maturities of long-term debt
- When debt is convertible, footnote will often disclose the number of shares the debt is convertible into, in addition to the conversion price

Noncontrolling interests

- Portion of the consolidated business that the common shareholders do not own

Preferred stock (including convertible preferred stock)

- Non-common equity financial claim on the business with priority over common stock
- For convertible stock, footnote will often disclose the conversion features

Input net debt balances from the latest 10Q

1	COMPARABLE COMPANY ANALYSIS INPUT		
2			
3	MARKET DATA INPUTS		
4	(<i>\$ in millions, except per share data</i>)		
5			
6	Company name	Extreme Networks	Brocade
7	Ticker	EXTR	BRCD
150			
151	LAST TWELVE MONTHS (LTM)	EXTR	BRCD
152			
153	<i>LTM ending date:</i>	12/31/13	1/0/00
154	Revenues - LTM	\$370.2	\$0.0
155	EBITDA - LTM	39.7	0.0
156	EBIT - LTM	32.1	0.0
157	EPS - LTM	\$0.31	\$0.00
158			
159	LAST FISCAL YEAR	EXTR	BRCD
160			
161	<i>Year ending date:</i>	6/30/13	1/0/00
162	Revenues - latest FYE	\$299.3	\$0.0
163	EBITDA - latest FYE	23.0	0.0
164	EBIT - latest FYE	16.9	0.0
165	EPS - latest FYE	\$0.17	\$0.00
166			
167	BALANCE SHEET DATA		
168			
169	<i>Data as of:</i>	12/31/13	1/0/00
170	ST debt (incl. current portion of LT debt)		
171	LT debt		
172	Noncontrolling interests		
173	Preferred stock		
174	Gross debt	0.000	0.000
175	Less: Cash & Cash equivalents		
176	Net debt	\$0.000	\$0.000
177			

	A	B	C	D	E
1	COMPARABLE COMPANY ANALYSIS INPUT				
2					
3	MARKET DATA INPUTS				
4	<i>(\$ in millions, except per share data)</i>				
5					
6	Company name		<i>Extreme Networks</i>	<i>Juniper Networks</i>	
7	Ticker		EXTR	BRCD	JNPR
162	Revenues - latest FYE		\$299.3	\$0.0	\$0.0
163	EBITDA - latest FYE		23.0	0.0	0.0
164	EBIT - latest FYE		16.9	0.0	0.0
165	EPS - latest FYE		\$0.17	\$0.00	\$0.00
166					
167	BALANCE SHEET DATA				
168					
169	<i>Data as of:</i>		12/31/13	1/0/00	1/0/00
170	ST debt (incl. current portion of LT debt)		\$4.063		
171	LT debt		95.125		
172	Noncontrolling interests		0.000		
173	Preferred stock		0.000		
174	Gross debt		99.188	0.000	0.000
175	Less: Cash & Cash equivalents		(112.017)		
176	Net debt		(\$12.829)		
177					
178	FORECASTS				
179					



Now that we have all the data need to calculating LTM multiples – we turn to forward multiples

- We have included forecasts from Factset (CIQ and Thomson are also go-tos depending on your firm)

Extreme Networks, Inc. (EXTR)		\$5.65	Next Rpt Date: 06 May '14	Key Statistics	FactSet Estimates								
RATING	TARGET PRICE	LT GROWTH RATE	# of ANALYSTS	U.S. Dollar									
Buy (1.10)	\$9.00	15.0%	5										
Earnings Per Share													
	FY'12	FY'13	Q1 '14	Q2 '14	Q3 '14E	Q4 '14E	FY'14E	Q1 '15E	Q2 '15E	Q3 '15E	Q4 '15E	FY'15E	FY'16E
	JUN '12	JUN '13	SEP '13	DEC '13	MAR '14	JUN '14	JUN '14	SEP '14	DEC '14	MAR '15	JUN '15	JUN '15	JUN '16
EPS	0.23	0.17	0.06	0.14	0.02	0.07	0.28	0.11	0.14	0.13	0.19	0.57	0.65
Guidance (Low)	0.22	-	0.02	0.14	0.01	-	-	-	-	-	-	-	-
Guidance (High)	0.26	-	0.06	0.16	0.06	-	-	-	-	-	-	-	-
EPS - GAAP	0.17	0.10	0.00	-0.17	-0.22	-0.10	-0.49	-0.06	-0.03	-0.03	0.04	-0.09	0.28
EPS - Non GAAP	-	0.10	0.04	0.10	-	-	-	-	-	-	-	-	-
EPS - Non GAAP ex. SOE	0.23	0.17	0.06	0.14	0.02	0.07	0.28	0.11	0.14	0.13	0.19	0.57	0.65

More ▾

Income Statement (M)													
	FY '12	FY '13	Q1 '14	Q2 '14	Q3 '14E	Q4 '14E	FY '14E	Q1 '15E	Q2 '15E	Q3 '15E	Q4 '15E	FY '15E	FY '16E
	JUN '12	JUN '13	SEP '13	DEC '13	MAR '14	JUN '14	JUN '14	SEP '14	DEC '14	MAR '15	JUN '15	JUN '15	JUN '16
Sales	322.7	299.3	75.9	146.6	146.2	160.4	530.5	163.3	167.8	159.5	176.2	663.0	685.0
Guidance (Low)	317.0	-	72.0	145.0	138.0	-	-	-	-	-	-	-	-
Guidance (High)	325.0	-	77.0	160.0	153.0	-	-	-	-	-	-	-	-
Gross Income	180.6	162.6	43.8	83.7	81.8	90.4	299.8	92.7	95.8	90.9	102.2	378.3	399.6
Guidance (Low)	-	-	39.6	78.3	75.9	-	-	-	-	-	-	-	-
Guidance (High)	-	-	43.1	89.6	87.2	-	-	-	-	-	-	-	-
EBITDA	-	21.5	7.7	23.9	9.6	15.7	55.8	17.1	21.6	20.0	27.1	85.8	120.7
Operating Income	21.6	16.9	5.7	16.3	3.7	8.7	34.5	13.1	15.3	14.3	20.6	63.6	70.4
Pretax Income	22.9	18.1	5.7	15.0	2.7	7.9	31.4	12.3	14.6	13.6	19.9	60.7	68.4
Tax Expense	-	1.7	0.4	0.9	1.1	1.1	3.7	1.2	1.2	1.2	1.2	4.7	3.6
Net Income	15.9	9.7	0.0	-16.0	-21.1	-10.0	-47.1	-6.5	-2.4	-3.3	3.4	-8.8	28.0
Guidance (Low)	-	-	0.0	-8.0	-20.0	-	-	-	-	-	-	-	-
Guidance (High)	-	-	4.0	-6.0	-15.0	-	-	-	-	-	-	-	-

Fill in the forecast data

2				
3	MARKET DATA INPUTS			
4	(\$ in millions, except per share data)			
5				
6	Company name	Extreme Networks	Brocade	Juniper Networks
7	Ticker	EXTR	BRCD	JNPR
177				
178	FORECASTS			
179				
180	YEAR 1 FORECAST - FISCAL YEAR	EXTR	BRCD	JNP
181				
182	Year ending date	6/30/14	12/31/00	12/31/00
183	Revenues - Fiscal year 1			
184	EBITDA - Fiscal year 1			
185	EBIT - Fiscal year 1			
186	EPS - Fiscal year 1			
187	Source for estimates:			
188				
189	YEAR 2 FORECAST - FISCAL YEAR	EXTR	BRCD	JNP
190				
191	Year ending date	6/30/15	12/31/01	12/31/01
192	Revenues - Fiscal year 2			
193	EBITDA - Fiscal year 2			
194	EBIT - Fiscal year 2			
195	EPS - Fiscal year 2			
196	Source for estimates:			
197				
198	YEAR 3 FORECAST - FISCAL YEAR	EXTR	BRCD	JNP
199				
200	Year ending date	6/30/16	12/31/02	12/31/02
201	Revenues - Fiscal year 3			
202	EBITDA - Fiscal year 3			
203	EBIT - Fiscal year 3			
204	EPS - Fiscal year 3			
205	Source for estimates:			
206				
207	LONG TERM (5 YEAR) GROWTH RATE	EXTR	BRCD	JNP
208				
209	Long-term growth rate			
210	Comments / Assumptions			

Finishing touches

7

Calendarization

- A comps analysis involves comparing multiples for multiple companies
- However, a problem emerges when the companies all have different fiscal years because in order to compare multiples standardized against some operating metric (like revenue, EBITDA, EBIT, or net income/EPS), they all have to be of the same timeframe.
- As a result, an adjustment is made to all companies to adjust their operating results to a December 31 calendar year end.

Example:

- Current date June 25, 2013
- EXTR FYE – June 30
- EXTR consensus EPS for FYE Jun. 2013 is \$0.16
- EXTR consensus EPS for FYE Jun. 2014 is \$0.27
- EXTR EPS adjusted to December 31, 2013:

EXTR 2013 FY EPS Estimate: \$0.16	<i>June 30, 2013</i>	EXTR 2014 FY EPS Estimate: \$0.27	<i>June 30, 2014</i>
Calendar Year 2013 <i>Dec 31, 2013</i> EXTR EPS Estimate: \$0.22			

Review the calendarization section

	A	B	C
1	COMPARABLE COMPANY ANALYSIS		INPUT
2			
3	MARKET DATA INPUTS		
4	<i>(\$ in millions, except per share data)</i>		
5			
6	Company name		<i>Extreme Networks</i>
7	Ticker		EXTR
210	<i>Source for estimates:</i>		
211			
212	CALENDARIZATION FORMULAS		EXTR
213			
214	Calendar yr 1		12/31/14
215	# of days that fiscal yr 1 is behind calendar yr 1		184
216	# of days that fiscal yr 1 is ahead of calendar yr 1		0
217	Multiply last historical year by:		0.0%
218	Multiply fiscal Yr 1 by:		49.6%
219	Multiply fiscal Yr 2 by:		50.4%
220			
221	YEAR 1 FORECAST - CALENDAR YEAR		EXTR
222	Year ending date		12/31/14
223	Revenues - Calendar year 1		597.3
224	EBITDA - Calendar year 1		70.9
225	EBIT - Calendar year 1		49.2
226	EPS - Calendar year 1		\$0.43
227			
228	YEAR 2 FORECAST - CALENDAR YEAR		EXTR
229	Year ending date		12/31/15
230	Revenues - Calendar year 2		674.1
231	EBITDA - Calendar year 2		103.4
232	EBIT - Calendar year 2		67.0
233	EPS - Calendar year 2		\$0.61
234			

Review the multiples section – the EXTR comp is now complete

	A	B	C
1	COMPARABLE COMPANY ANALYSIS INPUT		
2			
3	MARKET DATA INPUTS		
4	(\$ in millions, except per share data)		
5			
6	Company name	Extreme Networks	E
7	Ticker	EXTR	
234			
235	MULTIPLES		
236			
237	MARKET VALUATION	EXTR	
238			
239	Share price	\$5.56	
240	Diluted shares outstanding (mm)	97.412	
241	Market capitalization (mm)	541.610	
242			
243	Net debt	(12.829)	
244	Enterprise value (EV)	\$528.781	
245			
246	MULTIPLES SUMMARY	EXTR	
247			
248	Last twelve month (LTM)		
249	EV / Revenues - LTM	1.4x	
250	EV / EBITDA - LTM	13.3x	
251	EV / EBIT - LTM	16.5x	
252	P/E - LTM	18.2x	
253	<u>Year 1</u>		
254	EV / Revenues - Year 1	0.9x	
255	EV / EBITDA - Year 1	7.5x	
256	EV / EBIT - Year 1	10.8x	
257	P/E - Year 1	13.0x	
258	<u>Year 2</u>		
259	EV / Revenues - Year 2	0.8x	
260	EV / EBITDA - Year 2	5.1x	
261	EV / EBIT - Year 2	7.9x	
262	P/E - Year 2	9.1x	
263			
264	PE/LTG (PEG ratio)	0.9x	
265			

Spread the following comps alongside EXTR

	A	B	C	D	E	F	G	H
1	COMPARABLE COMPANY ANALYSIS INPUT							
2								
3	MARKET DATA INPUTS							
4	(\$ in millions, except per share data)							
5								
6	Company name	<i>Extreme Networks</i>	<i>Brocade</i>	<i>Juniper Networks</i>	<i>Cisco Systems</i>	<i>Aruba Networks</i>	<i>F5 Networks</i>	
7	Ticker	EXTR	BRCD	JNPR	CSCO	ARUN	FFIV	
8	Date of latest quarter	12/31/13	1/25/14	3/31/14	1/25/14	1/31/14	3/31/14	
9	Date of latest fiscal year end (FYE)	6/30/13	10/26/13	12/31/13	7/27/13	7/31/13	9/30/13	
10	Latest quarter	Q2	Q1	Q1	Q2	Q2	Q2	
11	Stock price on current date	\$5.56	\$9.25	\$24.48	\$23.00	\$19.70	\$103.52	
12	Share price date	4/25/14	4/25/14	4/25/14	4/25/14	4/25/14	4/25/14	
13								

Appendix: GAAP vs. Non GAAP

8

GAAP vs. Non-GAAP

- Companies must present financial statements (balance sheet, income statement, cash flow statement, and statement of shareholders' equity) in accordance with Generally Accepted Accounting Principles (GAAP).
- GAAP reflects an attempt to present information in a useful way to the investing public but there are many grey areas where there are disagreements about the optimal way to present something.
- Some common grey areas where GAAP's accounting treatment differs from the prevailing analyst treatment include:
 - Stock-based compensation expense (SBC)
 - Amortization expense
 - Nonrecurring items

Stock-based compensation expense (SBC)

- Most companies that issue stock options to employees, issue them at-the-money and with vesting periods, meaning employees are unable to immediately derive value from options.
- However, they clearly have some value, and under GAAP companies are required to estimate this value and recognize it as a compensation expense as the options are issued just like regular wages.
 - Companies can use a variety of options pricing models to estimate this value.
- But unlike salary, the company doesn't have to issue cash immediately, or even stock immediately.
 - The expense recognized on the I/S is a noncash expense like depreciation.
- Despite the GAAP requirement, most analysts and investors covering industries where there is a lot of SBC ignore the expense and adjust reported earnings to exclude the expense.
- Since SBC expense reduces GAAP tax expense, when analysts ignore SBC expense, they should also ignore the reduction to GAAP tax expense due to the SBC.

Stock-based compensation expense (SBC)

- Like D&A, SBC is not explicitly identified on the I/S, but because it is a non-cash item, it is added back to net income to get to CFO on the CFS.
- For Apple, like many companies that issue significant amounts of stock as part of employee compensation, this line item can be a significant non-cash component of expenses.



CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended		
	September 28, 2013	September 29, 2012	September 24, 2011
Cash and cash equivalents, beginning of the year	\$ 10,746	\$ 9,815	\$ 11,261
Operating activities:			
Net income	37,037	41,733	25,922
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	6,757	3,277	1,814
Share-based compensation expense	2,253	1,740	1,168
Deferred income tax expense	1,141	4,405	2,868

Amortization

- This non-cash expense is sometimes (but not always) ignored by analysts when analyzing earnings, meaning reported GAAP-based results are adjusted by analysts to exclude the impact of this amortization. When amortization is ignored, EPS is called “Cash EPS”.

Nonrecurring items

- Three broad types of activities are presented separately from the rest of the income statement.
 - **Discontinued operations:** When a company discontinues or sells off a distinct part of its business, the income and expenses from this part of the business, as well as severance, facility closure expenses, etc. will be recognized below net income in a separate category.
 - **Extraordinary items:** Things like losses from the expropriation of assets.
 - **Accounting changes:** If a company changes its accounting method for depreciation or inventory accounting (LIFO vs. FIFO), the corresponding depreciation or cost of goods expenses will change.
- For the above activities, FASB and analysts are generally in agreement – report them net of taxes as a separate line below net income so it doesn't muddy the waters of ongoing profitability.

Nonrecurring items

- Walmart reported income and loss from discontinued operations in the last 3 years.
- It is reported clearly as an aggregate net income/expense line below ‘income from continuing operations’:

WAL-MART STORES, INC.
Consolidated Statements of Income



	Fiscal Years Ended January 31,		
	2012	2011	2010
(Amounts in millions except per share data)			
Revenues:			
Net sales	\$ 443,854	\$ 418,952	\$ 405,132
Membership and other income	3,096	2,897	2,953
	<u>446,950</u>	<u>421,849</u>	<u>408,085</u>
Costs and expenses:			
Cost of sales	335,127	314,946	304,106
Operating, selling, general and administrative expenses	85,265	81,361	79,977
Operating income	<u>26,558</u>	<u>25,542</u>	<u>24,002</u>
Interest:			
Debt	2,034	1,928	1,787
Capital leases	288	277	278
Interest income	(162)	(201)	(181)
Interest, net	<u>2,160</u>	<u>2,004</u>	<u>1,884</u>
Income from continuing operations before income taxes	24,398	23,538	22,118
Provision for income taxes:			
Current	6,742	6,703	7,643
Deferred	1,202	876	(487)
	<u>7,944</u>	<u>7,579</u>	<u>7,156</u>
Income from continuing operations	16,454	15,959	14,962
Income (loss) from discontinued operations, net of tax	(67)	1,034	(79)
Consolidated net income	16,387	16,993	14,883

Nonrecurring items: Unusual or infrequent items

- However, there are certain income and expenses that FASB feels should not be excluded from earnings and therefore require companies to embed within the income statement, but that analysts do frequently want to remove from the I/S results to hone in on core operating profitability. These items include:
 - Restructuring expenses
 - One-time write offs
 - Gains/losses on sale of assets
 - Severance costs
 - Litigation gains/losses

Nonrecurring items: Unusual or infrequent items

- Walmart disclosed \$260 million restructuring expenses in their footnotes.
- US GAAP does not allow this to be reported below net income; this expense was embedded within SG&A:



WAL-MART STORES, INC.
Consolidated Statements of Income

(Amounts in millions except per share data)

Revenues:

	Fiscal Years Ended January 31,		
	2012	2011	2010
Net sales	\$ 443,854	\$ 418,952	\$ 405,132
Membership and other income	3,096	2,897	2,953
	446,950	421,849	408,085

Costs and expenses:

Cost of sales	335,127	314,946	304,106
Operating, selling, general and administrative expenses	85,265	81,361	79,977
Operating income	26,558	25,542	24,002

The pre-tax restructuring charges of \$260 million are classified in operating, selling, general and administrative expenses in the Company's Consolidated Statement of Income for fiscal 2010.

Tax issues with unusual or infrequent (nonrecurring) items

- Can be presented pre-tax or after-tax
- When presented pre-tax, eliminating taxable nonrecurring items should be accompanied by the elimination of their tax impact
- Think of it this way – eliminating nonrecurring items is like pretending they didn't occur
- Extending this logic, if a nonrecurring expense (income) is ignored, so should the associated tax shield (expense)

GAAP vs. Non-GAAP presentation

- The adjustments discussed so far: SBC, other non-cash items, and nonrecurring items are so common for some industries that companies increasingly align their presentations and disclosures to facilitate the analysis.
- While companies are not allowed to deviate from GAAP-basis presentation in the core financial statements, they can provide additional NON-GAAP schedules and provide NON-GAAP future guidance.
- In fact, management guidance is typically presented on a non-GAAP basis, with guidance for expenses and EPS excluding SBC and unusual or infrequent items.
- In parallel, analyst consensus EPS estimates are usually communicated on a non-GAAP basis.
- Industries often have their own additional and unique non-GAAP conventions.

GAAP vs. Non-GAAP presentation

- There is no uniform presentation of these items on the income statement.
- Press releases (PR) and conference call transcripts are the most common places – management often provides analyst-friendly presentations and disclosures in the PR and conference call.
- In the 10K and 10Q, they are often aggregated within major expense categories like COGS, SG&A, operating expenses and will be disclosed in the footnotes.

GAAP vs. Non-GAAP presentation



VMware, Inc.
RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Year Ended December 31, 2013
(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Tax on Employee Stock Transactions	Intangible Amortization	Realignment Charges	Acquisition and Other Related Items	Capitalized Software Development Costs (1)	Gain on Disposition of Certain Lines of Business & Other, Net	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:										
License Services	\$ 2,270	—	—	—	—	—	—	—	—	\$ 2,270
Total revenues	2,937	—	—	—	—	—	—	—	—	2,937
	5,207	—	—	—	—	—	—	—	—	5,207
Operating expenses:										
Cost of license revenues	210	(2)	—	(90)	—	—	(34)	—	—	84
Cost of services revenues	520	(29)	(1)	(2)	—	—	—	—	—	488
Research and development	1,082	(227)	(4)	(4)	—	—	—	—	—	847
Sales and marketing	1,815	(144)	(3)	(7)	—	—	—	—	—	1,661
General and administrative	419	(56)	(2)	—	—	(5)	—	—	—	356
Realignment charges	68	—	—	—	(68)	—	—	—	—	—
Operating income	1,093	458	10	103	68	5	34	—	—	1,771
Operating margin (3)	21.0%	8.8%	0.2%	2.0%	1.3%	—	0.7%	—	—	34.0%

GAAP vs. Non-GAAP presentation



VMware, Inc.
RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Year Ended December 31, 2013
(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Tax on Employee Stock Transactions	Intangible Amortization	Realignment Charges	Acquisition and Other Related Items	Capitalized Software Development Costs (1)	Gain on Disposition of Certain Lines of Business & Other, Net	Tax Adjustment (2)	Non-GAAP, as adjusted
Operating income	1,093	458	10	103	68	5	34	—	—	1,771
Operating margin (3)	21.0%	8.8%	0.2%	2.0%	1.3%	—	0.7%	—	—	34.0%
Investment income	30	—	—	—	—	—	—	—	—	30
Interest expense with EMC, net	(4)	—	—	—	—	—	—	—	—	(4)
Other income (expense), net	28	—	—	—	—	—	—	(31)	—	(3)
Income before income taxes	1,147	458	10	103	68	5	34	(31)	—	1,794
Income tax provision	133								199	332
Tax rate (3)	11.6%									18.5%
Net income	\$ 1,014	458	10	103	68	5	34	(31)	(199)	\$ 1,462
Net income per weighted average share, basic for Class A and Class B (3) (4)	\$ 2.36	\$ 1.07	\$ 0.02	\$ 0.24	\$ 0.16	\$ 0.01	\$ 0.08	\$ (0.07)	\$ (0.46)	\$ 3.41
Net income per weighted average share, diluted for Class A and Class B (3) (5)	\$ 2.34	\$ 1.06	\$ 0.02	\$ 0.24	\$ 0.16	—	\$ 0.08	\$ (0.07)	\$ (0.46)	\$ 3.37

(1) For the year ended December 31, 2013, no costs were capitalized for the development of software products. Amortization expense from previously capitalized amounts was \$34.

(2) Non-GAAP financial information for the quarter is adjusted for a tax rate equal to our annual estimated tax rate on non-GAAP income. This rate is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above. Our estimated tax rate on non-GAAP income is determined annually and may be adjusted during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of revenues and expenses and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rates as described above, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

(3) Operating margin, tax rate and net income per weighted-average share information are calculated based upon the respective underlying, non-rounded data.

(4) Calculated based upon 429,093 basic weighted-average shares for Class A and Class B.

(5) Calculated based upon 433,415 diluted weighted-average shares for Class A and Class B.

Exercise

- Below is a historical and projected I/S . You are also provided with the following information:
 - 2011 COGS Includes a \$14 inventory write-down
 - 2012 COGS includes a \$18 inventory write-down
 - 2012 SG&A includes a \$12 litigation gain

	Actuals		Projected			
	2010	2011	2012	2013	2014	2015
Revenues	124.0	135.0	148.0	161.7	176.6	193.0
COGS	54.0	71.0	74.0	78.8	86.1	94.0
Gross Profit	70.0	64.0	74.0	82.9	90.6	99.0
SG&A	18.0	20.0	12.0	20.2	22.0	24.1
Operating Income	52.0	44.0	62.0	62.7	68.6	74.9
Interest Expense	5.0	5.0	5.0	5.0	5.0	5.0
Pretax Income	47.0	39.0	57.0	57.7	63.6	69.9
Taxes	11.0	13.0	16.0	16.3	18.0	19.8
Net Income	36.0	26.0	41.0	41.4	45.6	50.1
Diluted EPS	\$0.36	\$0.26	\$0.41	\$0.41	\$0.46	\$0.50
Diluted Shares Outstanding	100.0	100.0	100.0	100.0	100.0	100.0
Growth rates and ratios						
Revenue growth rate	8.9%	9.6%	9.3%	9.3%	9.3%	Forecast growth rate using the last two historical years' average
Gross profit margin	56.5%	47.4%	50.0%	51.3%	51.3%	51.3% Forecast GPM using the last three historical years' average
SG&A margin	14.5%	14.8%	8.1%	12.5%	12.5%	12.5% Forecast SG&A margin using the last three historical years' average
Tax rate	23.4%	33.3%	28.1%	28.3%	28.3%	28.3% Forecast tax rate using the last three historical years' average

Exercise

- Using the disclosures on the prior page, create a normalized I/S (including both historicals and forecasts) that reflect the elimination of nonrecurring items
 - Assume write downs were tax deductible and litigation gain was taxable, at a 35% tax rate
- Was it in management's interest to disclose the nonrecurring items?

	Actuals		Projected				
	2010	2011	2012	2013	2014	2015	
Revenues	124.0	135.0	148.0	148.0	148.0	148.0	
Normalized COGS							
Gross Profit							
Normalized SG&A							
Operating Income							
Interest Expense							
Pretax Income							
Normalized Taxes							
Normalized Net Income							
Normalized Diluted EPS							
Diluted Shares Outstanding	100.0	100.0	100.0	100.0	100.0	100.0	
Growth rates and ratios							
Revenue growth rate							Forecast growth rate using the last two historical years' average
Gross profit margin							Forecast GPM using the last three historical years' average
SG&A margin							Forecast SG&A margin using the last three historical years' average
Tax rate							Forecast tax rate using the last three historical years' average

Solution

	Actuals			Projected		
	2010	2011	2012	2013	2014	2015
Revenues	124.0	135.0	148.0	161.7	176.6	193.0
Normalized COGS	54.0	57.0	56.0	66.6	72.8	79.5
Gross Profit	70.0	78.0	92.0	95.1	103.9	113.5
Normalized SG&A	18.0	20.0	24.0	24.5	26.8	29.3
Operating Income	52.0	58.0	68.0	70.5	77.0	84.2
Interest Expense	5.0	5.0	5.0	5.0	5.0	5.0
Pretax Income	47.0	53.0	63.0	65.5	72.0	79.2
Normalized Taxes	11.0	17.9	18.1	18.8	20.6	22.7
Normalized Net Income	36.0	35.1	44.9	46.8	51.4	56.5
Normalized Diluted EPS	\$0.36	\$0.35	\$0.45	\$0.47	\$0.51	\$0.56
Diluted Shares Outstanding	100.0	100.0	100.0	100.0	100.0	100.0

Growth rates and ratios

Revenue growth rate	8.9%	9.6%	9.3%	9.3%	9.3%	Forecast growth rate using the last two historical years' average
Gross profit margin	56.5%	57.8%	62.2%	58.8%	58.8%	58.8% Forecast GPM using the last three historical years' average
SG&A margin	14.5%	14.8%	16.2%	15.2%	15.2%	15.2% Forecast SG&A margin using the last three historical years' average
Tax rate	23.4%	33.8%	28.7%	28.6%	28.6%	28.6% Forecast tax rate using the last three historical years' average

- It was in management's interest to identify the nonrecurring items, as their elimination shows improved margins and profitability. Since forecasts in this model are driven off historical ratios, the operating forecasts improve when eliminating historical nonrecurring items.

GAAP to non-GAAP exercise

- The following GAAP-based I/S was prepared by Lemonade Stand Enterprises (LSE).
- In addition, LSE provided the following non-GAAP disclosures:

\$ in thousands, except per share data	Jan. 1 – Dec. 31, 2015
Revenue	240.0
Cost of Goods Sold	68.0
SG&A	23.4
Operating income (EBIT)	148.6
Interest expense, net	2.0
Non-operating income / (expenses)	(10.0)
Pretax income	136.6
Less: Tax expense	54.6
Net income	82.0
Basic shares (weighted avg.)	8,500.0
EPS	9.642
Tax rate	40%
EBITDA	161.0

Pre-tax stock-based compensation

\$7m in COGS; \$2m in SG&A

Other items

- \$4m in pre-tax restructuring expenses in COGS; \$1m in SG&A
- \$12m pre-tax loss on sale in non-operating income / (expenses)
- \$2m pre-tax litigation gain in non-operating income / (expenses)

Please convert the GAAP I/S to a non-GAAP I/S

GAAP to non-GAAP exercise

\$ in thousands, except per share data	Jan. 1 – Dec. 31, 2015
Revenue	240.0
Cost of Goods Sold	
SG&A	
Operating income (EBIT)	
Interest expense, net	
Non-operating income / (expenses)	
Pretax income	
Less: Tax expense	
Net income	
Basic shares (weighted avg.)	8,500.0
EPS	
Tax rate	40%
EBITDA	

Pre-tax stock based compensation

\$7m in COGS; \$2m in SG&A

Other items

1. \$4m in pre-tax restructuring expenses in COGS; \$1m in SG&A
2. \$12m pre-tax loss on sale in non-operating income / (expenses)
3. \$2m pre-tax litigation gain in non-operating income / (expenses)