

# Activity: Cash Flow Model Exercise





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- ❖ With the model open, we are going to change the input cells
- ❖ Basically you can change any figures you wish

INPUTS	
Sales (\$)	US\$5000
Unlevered Beta	1.00
Riskfree Rate	10%
Risk Premium	7%
Debt Ratio (Debt %)	40%
Depreciation (\$)	US\$500
Change in Working Capital	US\$0
Capital Expenditures (\$)	US\$500
EBIT Margin (%)	40%
Tax Rate	40%
Interest Cost	10%
Debt Value (Circularity Break)	US\$3116.88



# Activity: Cash Flow Model Exercise

- ❖ These are the inputs I suggest you try - but feel free to use your own

INPUTS	
Sales (\$)	US\$15000
Unlevered Beta	1.00
Riskfree Rate	8%
Risk Premium	6%
Debt Ratio (Debt %)	30%
Depreciation (\$)	US\$1200
Change in Working Capital	US\$300
Capital Expenditures (\$)	US\$1200
EBIT Margin (%)	35%
Tax Rate	25%
Interest Cost	8%



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Debt Value (Circularity Break)	US\$9486.94	Debt = Debt% * Firm Value	US\$9486.94
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- ❖ Now we have to deal with the Circularity Breaker
- ❖ Re-type the numbers in the yellow cell into the Green cell
- ❖ Do this several times until the changes in the yellow cell are minimal
- ❖ I did this just 5 times



# Activity: Cash Flow Model Exercise



- ❖ These are my results
- ❖ How did you get on?
- ❖ You can download this version of the Excel Model from the Resources Section of this lecture
- ❖ Cash Flow Valuation 3 Measures Model - Exercise Results.xls

	CAPITAL CASH FLOW VALUATION		EQUITY CASH FLOW VALUATION		FREE CASH FLOW VALUATION	
Debt	US\$9486.94		US\$9486.94		US\$9486.94	
	Debt = Debt% * Firm Value		Debt = Debt% * Firm Value		Debt = Debt% * Firm Value	
Sales	US\$15000		US\$15000		US\$15000	
EBIT Margin	35%		35%		35%	
EBIT	US\$5250		US\$5250		US\$5250	
Depreciation	US\$1200		US\$1200		US\$1200	
Capital Expenditures	-US\$1200		-US\$1200		-US\$1200	
Change in Working Capital	US\$300		US\$300		US\$300	
OPERATING CASH FLOW	US\$5550		US\$5550		US\$5550	
Taxes	US\$1122.76		US\$1122.76		US\$1312.50	
	Taxes = TR * (EBIT - Interest)		Taxes = TR * (EBIT - Interest)		Taxes = TR * (EBIT)	
Interest	US\$758.96		US\$758.96		US\$758.96	
			US\$758.96			
			Debt Cash Flow			
	US\$4427		US\$3668		US\$4238	
	Capital Cash Flow		Equity Cash Flow		Free Cash Flow	
	14.00%		16.57%		13.40%	
	Expected Asset Return		Expected Equity Return		Weighted Average Cost of Capital	
	US\$31623.13		US\$22136.19		US\$31623.13	
	Capital Cash Flow Value		Equity Cash Flow Value		Free Cash Flow Value	
			US\$9486.94			
			Debt Value			
			US\$31623.13			
			Equity Cash Flow & Debt Value			



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