## *Financial Planning (Light)*

## Case Study: Estimating and Projecting McDonald's Cash Flows

The following information allows you to practice the relevant steps to derive the cash flow statement from the available balance sheets and income statements. For your convenience, the Excel file "McDonalds Cash Flows" contain the relevant financial information.

**Historical balance sheets:**

| **Balance sheet** | **31.12.2012** | **31.12.2013** |
|---|---|---|
| Cash and equivalents | 2'340 | 2'800 |
| Accounts receivables | 1'380 | 1'320 |
| Inventories | 110 | 122 |
| Other current assets | 1'090 | 808 |
| *Total current assets* | *4'920* | *5'050* |
| Property, Plant & Equipment | 25'290 | 26'370 |
| Investments & Advances | 1'380 | 1'210 |
| Intangible assets | 2'800 | 2'870 |
| Other assets | 1'000 | 1'130 |
| **Total Assets** | **35'390** | **36'630** |
| Accounts payable | 1'140 | 1'090 |
| Taxes payable | 300 | 210 |
| Other current liabilities | 1'960 | 1'870 |
| *Total current liabilities* | *3'400* | *3'170* |
| Long-term debt | 13'630 | 14'130 |
| Other liabilities | 3'060 | 3'320 |
| **Total liabilities** | **20'090** | **20'620** |
| Common stock | 17 | 17 |
| Additional Capital | 6'583 | 6'423 |
| Retained earnings | 39'280 | 41'750 |
| Treasury stock | -30'580 | -32'180 |
| **Total Shareholder's equity** | **15'300** | **16'010** |
| **Total liabilities and equity** | **35'390** | **36'630** |

**Historical income statements:**

| **Income statement** | **2012** | **2013** |
|---|---|---|
| **Net revenues** | **27'570** | **28'110** |
| - COGS (excl D&A) | 15'260 | 15'620 |
| - Depreciation and amortization | 1'490 | 1'590 |
| **Gross income** | **10'820** | **10'900** |
| - SG&A Expenses | 2'460 | 2'410 |
| - Other expenses (income) | -253 | -247 |
| **EBIT** | **8'613** | **8'737** |
| - Interest expenses | 533 | 537 |
| **Pretax income** | **8'080** | **8'200** |
| - Income taxes | 2'620 | 2'610 |
| **Net income** | **5'460** | **5'590** |
| + After-tax interest expenses | 362 | 365 |
| **NOPLAT** | **5'822** | **5'955** |

**Assignments:**

1) Derive the simplified balance sheets for 2012 and 2013 based on the available information. When doing so, make sure to distinguish between operating, investing, and financing activities.
2) Compute 2013's NOPLAT.
3) Based on the simplified financial statements, derive the cash flow statement for 2013. In particular, determine the firm's operating cash flow, free cash flow, and residual cash flow. Assume that the firm is subject to a tax rate of 32%.
4) Try to project the 2014 cash flow statement. To do so, use the following assumptions:

**Income statement assumptions**

| Item | Value | Assumption | Comments |
|---|---|---|---|
| Net revenues 2014 | 27'810 | Analyst forecasts | |
| COGS | 58% | of *Net revenues* | Historical value |
| Depreciation | 6% | of *Long-term assets* **at year end** | Historical value |
| SG&A | 9% | of *Net revenues* | Historical value |
| Other expenses | 0 | | |
| Interest expenses | 3.25% | of *Debt* at the **start of the year** | Market-implied cost of debt |
| Tax rate | 32% | of *Pretax income* | Historical value |

**Balance sheet assumptions**

| Item | Value | Assumption | Comments |
|---|---|---|---|
| Operating assets | 22% | of *Net revenues* | Historical value |
| Long-term assets | 110% | of *Net revenues* | Historical value |
| Operating liabilities | 23% | of *Net revenues* | Historical value |
| Debt | 50% | of *Net revenues* | Historical value |
| Common stock and capital | constant | | |
| Dividend payment | 56% | on *Net income* | Historical value |
| Share repurchases | | Return all excess cash | |