

Bud^{*}

Consider the income statement and the balance sheets for the Bud Company (all numbers are in millions euros).

Income Statement, 2003

Revenue	100
Operating costs	50
Depreciation	10
EBIT	40
Interest	5
Taxes	14
Net income	21
Dividends	9

Balance sheets

Assets	December, 31 2002	December 31,2003	Change
Net Fixed Assets	60	80	20
Working Capital Requirement	40	60	20
Cash	10	0	- 10
Total Assets	110	140	30
Liabilities			
Stockholder's equity	70	82	12
Debt	40	58	18
Total Liabilities	110	140	30

Leverage

(1) Calculate the return on equity for 2003. To what figure would you compare this figure to identify value creation ?

(2) What would have been the net income of the company if it had no debt?

(3) Calculate the return on invested capital for 2003. What does this figure represent?

(4) Why do the ROE and the ROI C differ? Explain.

Statement of cash flow

(5) Compute the cash flow from operating activities for 2003.

* André Farber prepared this case as a base for class discussion.

- (6) How much did Bud invest in 2003?
(7) What was the free cash flow of BUD in 2003?
(8) Compute the cash flow from financing activities for 2003.
(9) How could you check whether your answers to question (4) to (6) are right?

Financial planning

Suppose that the Bud Company expects its revenue to increase to €150m in 2004. You are asked to analyze the implications of this evolution on the financial situation of the company based on the following assumptions:

- Ratio Operating Cost/Revenue = constant
- Depreciation 2004 = Depreciation 2003
- Interest 2004 = Interest 2003
- Payout ratio (Dividend / Net income) = constant
- Ratio WCR / Revenue = constant
- Capital expenditures in 2004 = depreciation
- Debt remains constant

- (10) Calculate the net income for 2004
(11) Calculate the cash flows from operating activities, investing activities and financing activities for 2004
(12) What will be the balance sheet at the end of 2004?
(13) How can you be sure that you didn't make any mistake?