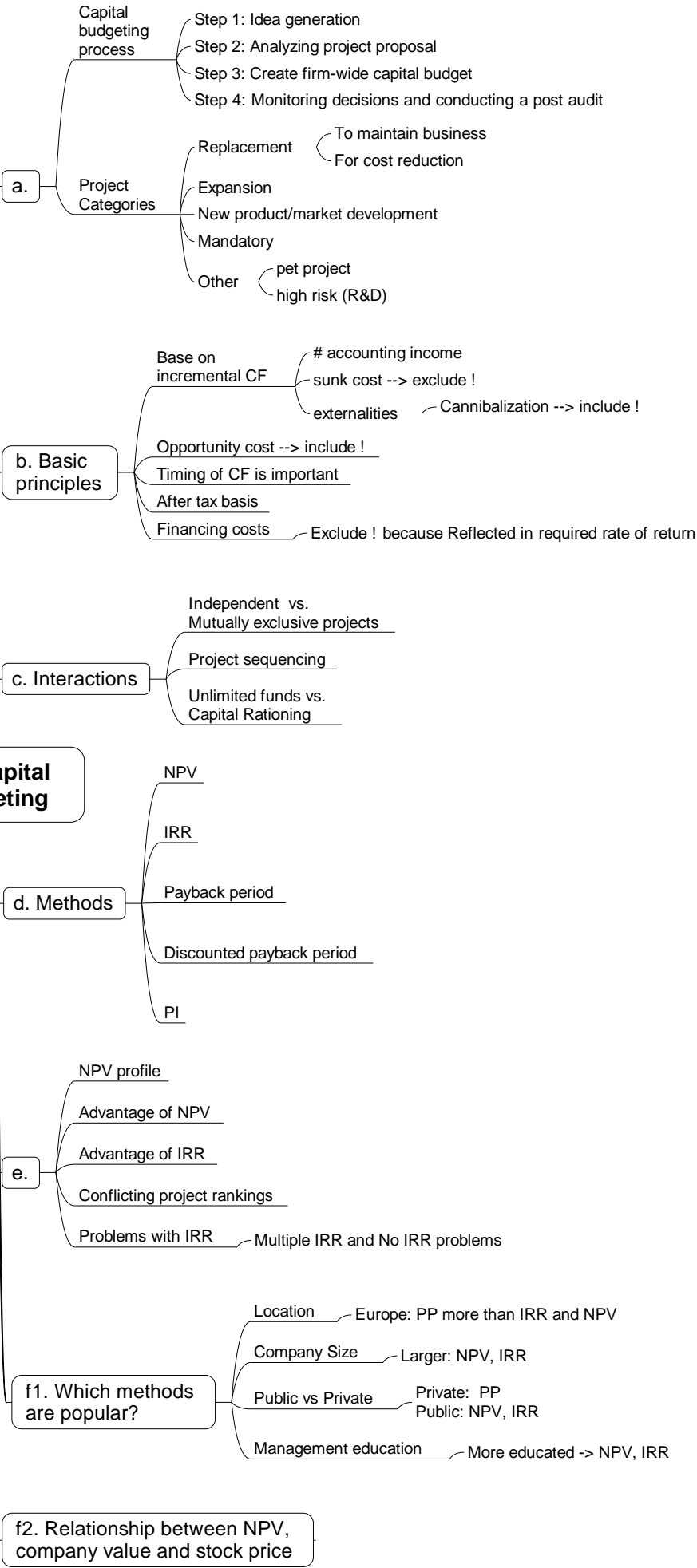


CFA LEVEL 1

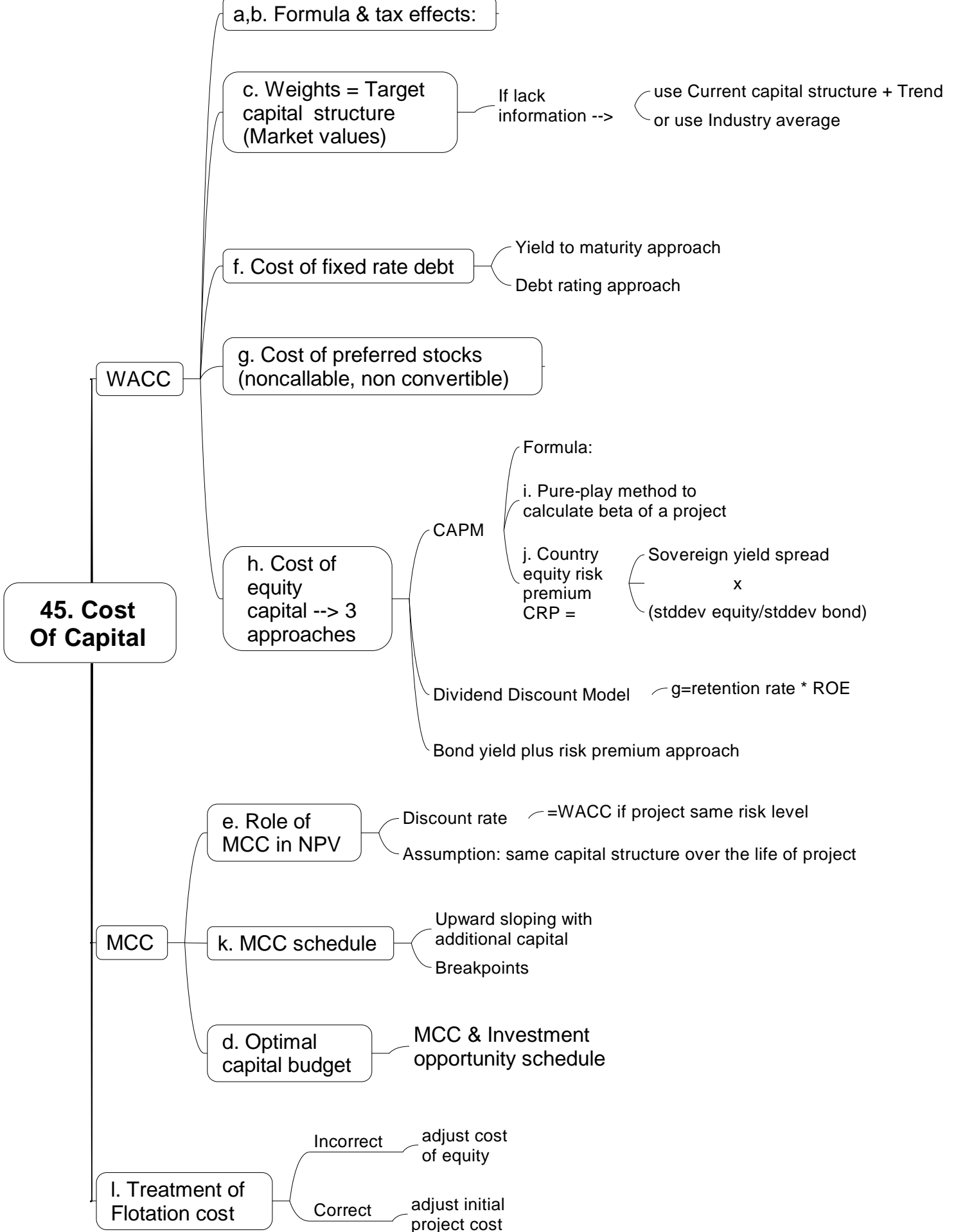
STUDY SESSION 11

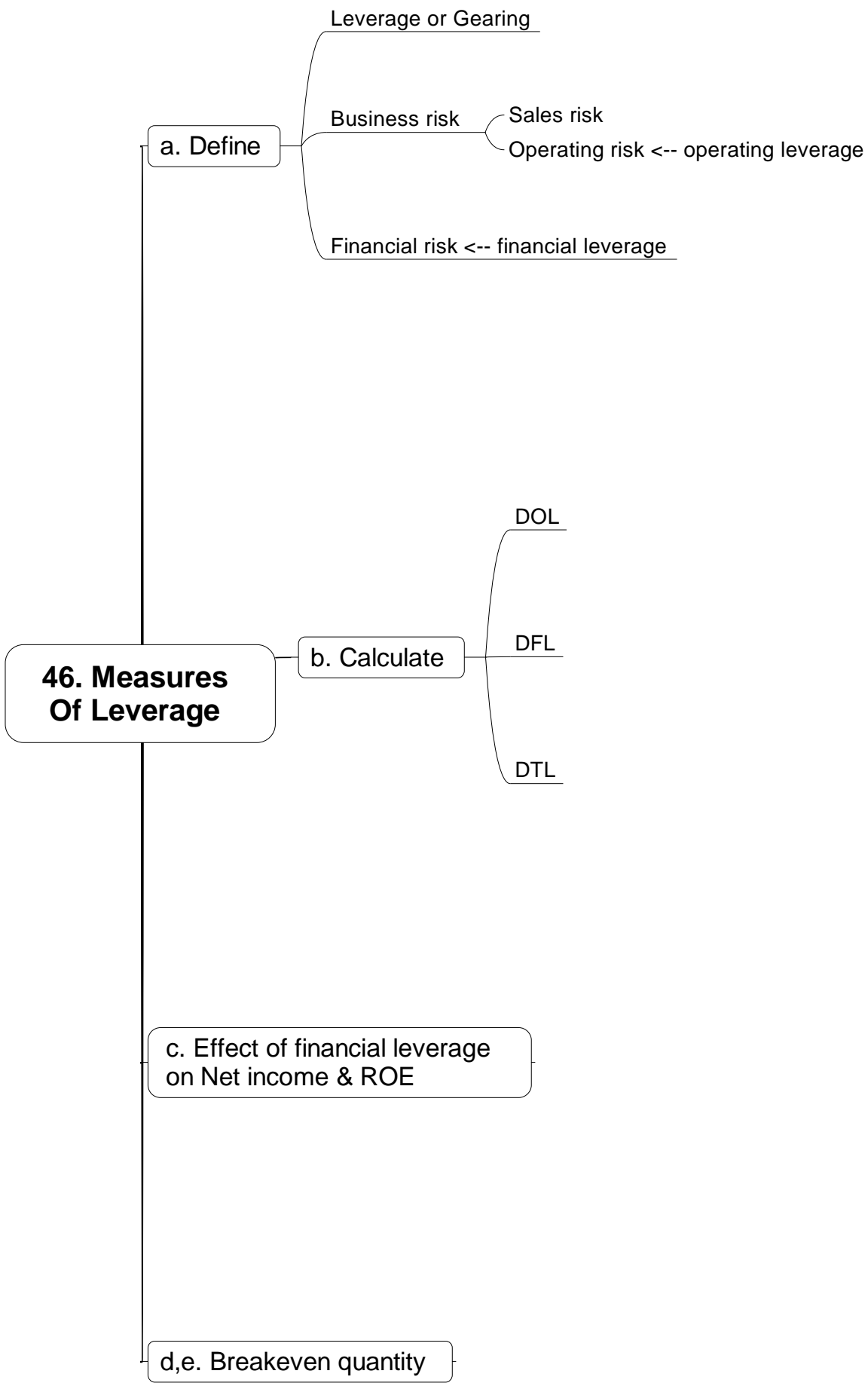
**CORPORATE
FINANCE**

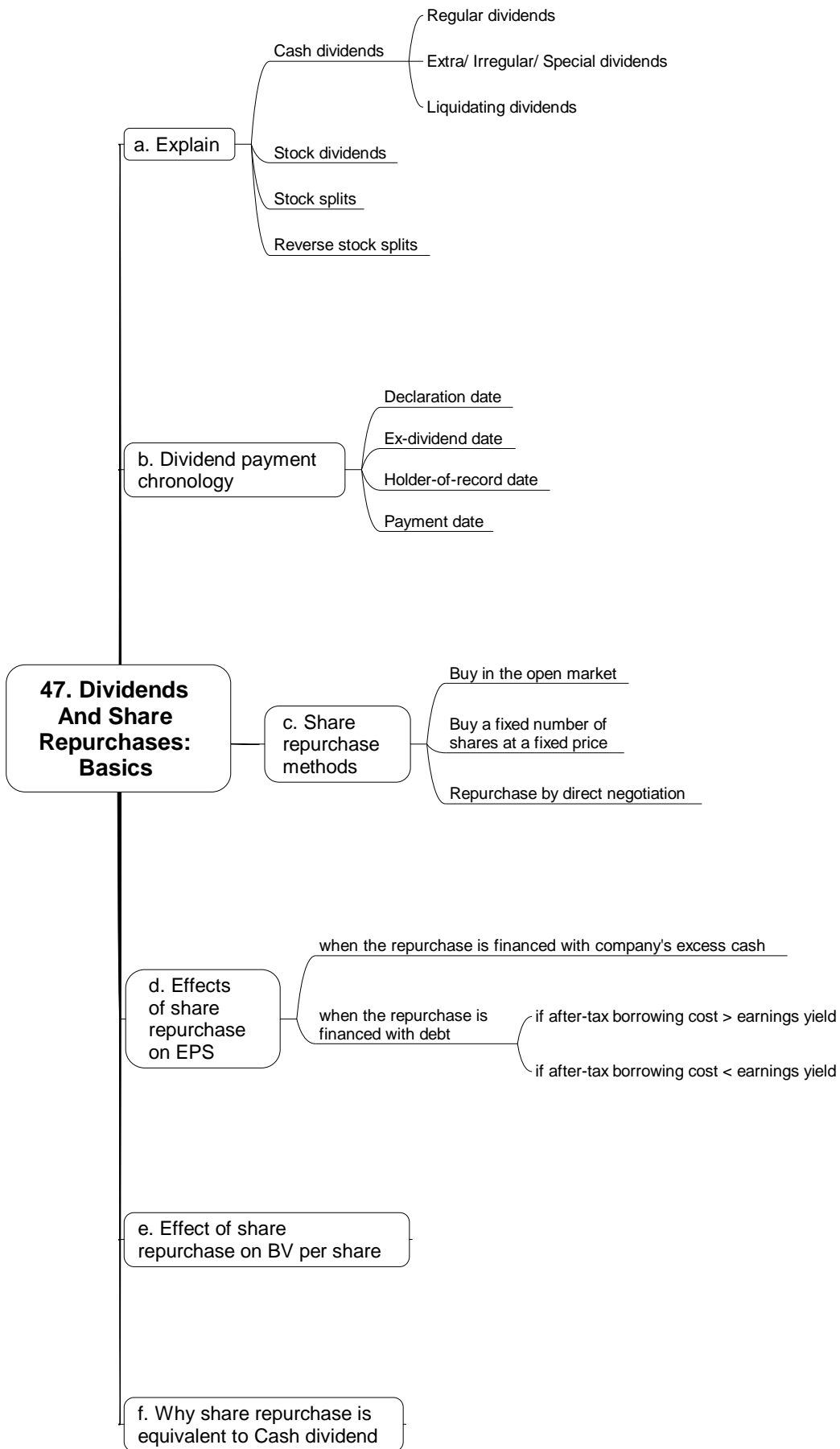
44. Capital Budgeting



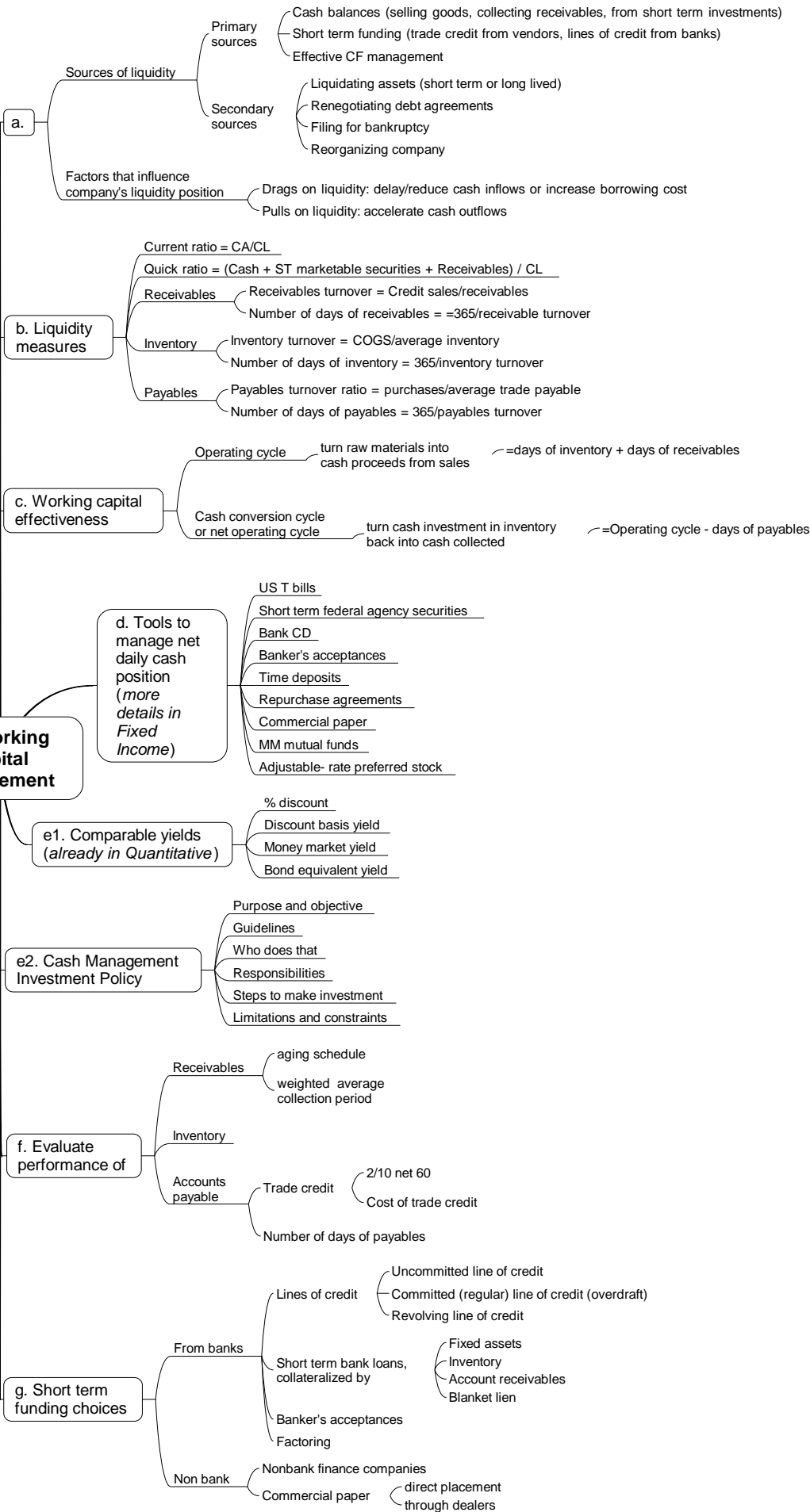
f2. Relationship between NPV, company value and stock price







48. Working Capital Management



Steps to construct sales-driven pro forma FSs

See the example on the next page

49. FSA (Pro Forma IS & BS)

Estimating sales

average compound growth rate of sales over 5-10 years

regression analysis of GDP growth and sales growth

economic cycles

seasonality

specific events

new product introductions
changes in regulation
competing products

Reconcile IS and BS

$L+E > A \rightarrow$ surplus

reduce L+E

pay down debt entirely

pay down debt + buy back common stocks

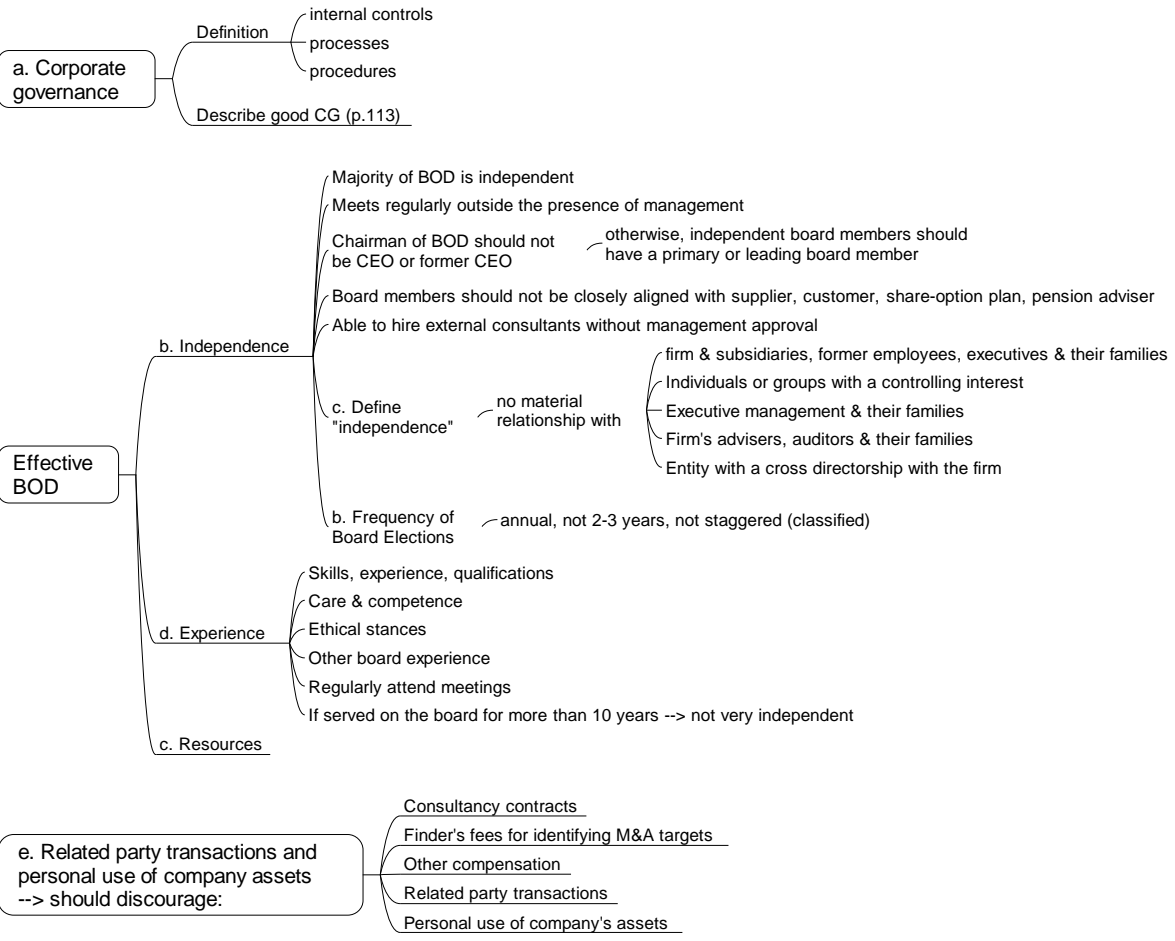
increase A

CAPEX

$L+E < A \rightarrow$ deficit

49. CONSTRUCTING PRO-FORMA FINANCIAL STATEMENTS

(\$ thousands)	Yr 2010	Proportional to sales	Yr 2011
INCOME STATEMENT			
Sales	23,405.0		sales projected to increase 5%
Cost of goods sold	9,876.9	42.2%	
SG&A	6,857.7	29.3%	
Interest expense (7%)	1,008.0		
Nonoperating income	93.6	0.4%	
Earnings before tax	5,756.0		
Income tax (31.4%)	1,807.4		
Net income	3,948.6		
Dividends (30%)	1,184.6		
Retained earnings	2,764.1		
BALANCE SHEET			
Current assets	9,362.0	40.0%	
Net PPE	25,745.5	110.0%	
Total assets	35,107.5		
Current liabilities	3,978.9	17.0%	
Long-term debt	14,400.0		
Common stock	3,000.0		
Retained earnings	13,728.7		
Total liabilities+equity	35,107.5		



50. Corporate Governance

