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Deloitte Touche Tohmatsu

Slovak Republic Restructuring for Privatization Course

Module II: Managing Cash Flow and Value

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Deloitte Touche Tohmatsu International

Module 2
Managing Cash Flow and Value

Objective:
This module focuses on providing participants with an understanding of the how to manage for and maximize cash flow and how management of cash flows impacts the value of the company. Through simulation models and exercises, participants will learn how each of the components can be impacted and how to weigh alternative financial and operating strategies.

I. Review
- A. Review of modules offered
- B. Review of Module I
  - 1 Why is understanding and managing cash flow important?
  - 2 Ratio analysis
  - 3 Framework of the DCF model
  - 4 Calculating cash flow
  - 5 Discussion of the components of cash flow
  - 6 Importance of forecasting cash flow

II. The Relationship Between Cash Flow and Company Value
- A. The link between discounted cash flow value and market value
  - 1 Historical correlation between discounted cash flow value and market value of firm
    - i. Weak links exist between earnings measures and the market value of the firm
    - ii. Strong links exist between discounted cash flow and the market value of a firm
  - 2 Investors buy companies based on expected cash flows
    - i. The price paid for any asset should reflect the cash flows that the asset is expected to generate
- B. Net Income, Cash Flow and Value
  - 1 Value based on net income and cash flow
  - 2 "Growing bankrupt" - a discussion

III. Creating Value in a Company
- A. Becoming a value manager
- B. Why focus on value creation?
  - 1 Avoid takeover by others who will capture value created by restructuring
  - 2 Maximize value in mergers or joint ventures
  - 3 The potential to increase value is high
  - 4 It improves the strategic planning process
  - 5 It provides a framework to reward company managers
  - 6 Improves resource allocation among business units

C. The value manager framework
   1 Perceived value
   2 Company value as is
   3 Potential value with internal improvements
   4 Potential value with internal and external improvements
   5 Optimal restructured value

D. Overview of the shareholder value network - internal strategies in value creation
   1 Corporate objectives
   2 Valuation components
   3 Value drivers
   4 Management strategies

IV. Implementing an internal value creation strategy

A. Step 1: Analyze your company
   1 Value your company "as is"
      a. ***Exercise - value Bulgarian Cement***
   2 Diagnose historical and current performance
      a. Financial analysis
      b. Benchmarking
      c. ***Exercise - financial analysis and diagnosis of Bulgarian Cement***

B. Step 2: Identify value drivers - recognizing areas to focus on
   1 Operating drivers
      a. Sales growth
         i. Product mix and pricing
         ii. ***Exercise - product mix analysis - Bulgarian Cement***
      b. Operating profit margin
      c. Income tax rate
      d. ***Exercise - operating margin analysis: cost leadership vs. differentiation strategies for Bulgarian Cement***
   2 Investment drivers
      a. Working capital investment
         i. ***Exercise - working capital analysis***
      b. Fixed capital investment
      c. Alternative fixed investment methods of analysis
         i. Payback period
         ii. Net present value
         iii. Profitability index
         iv. ***Exercise - applying capital budgeting techniques***
      d. ***Exercise - capital budgeting decisions for Bulgarian Cement***
   3 Financial drivers
      a. Cost of equity
      b. Capital structure
      c. Risk factors and the cost of equity

C. Step 3: Assess value drivers
   1 Examine feasibility of implementing certain value drivers
      a. Consider external factors
      b. Consider internal factors
      c. Consider impact on value
   2 Summary of Bulgarian Cement - Analysis of value drivers
D. Step 4: Implement a plan
   1 Select final strategies
   2 Measure value added
   3 Implement strategies

V. ***Case Study - Negotiating the sale of a company based on value "as is" and value with internal improvements and value to a specific buyer:***

Participants break up into two groups (the "buying group" and the "selling group") and negotiate the sale based on different strategies formulated by assessing value drivers important to each group. The buyers calculate value of the target company "as is" and the value based on the improvements they will make. The sellers (owners) value their company "as is" and also value the company based on several strategic plans they are considering. The two groups will then negotiate the sale of the company based on their analysis. However, neither group will know the other's internal valuation strategy during negotiations.

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Restructuring for Privatization:
Module II: Managing Cash Flow and Value

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Bratislava, Slovak Republic

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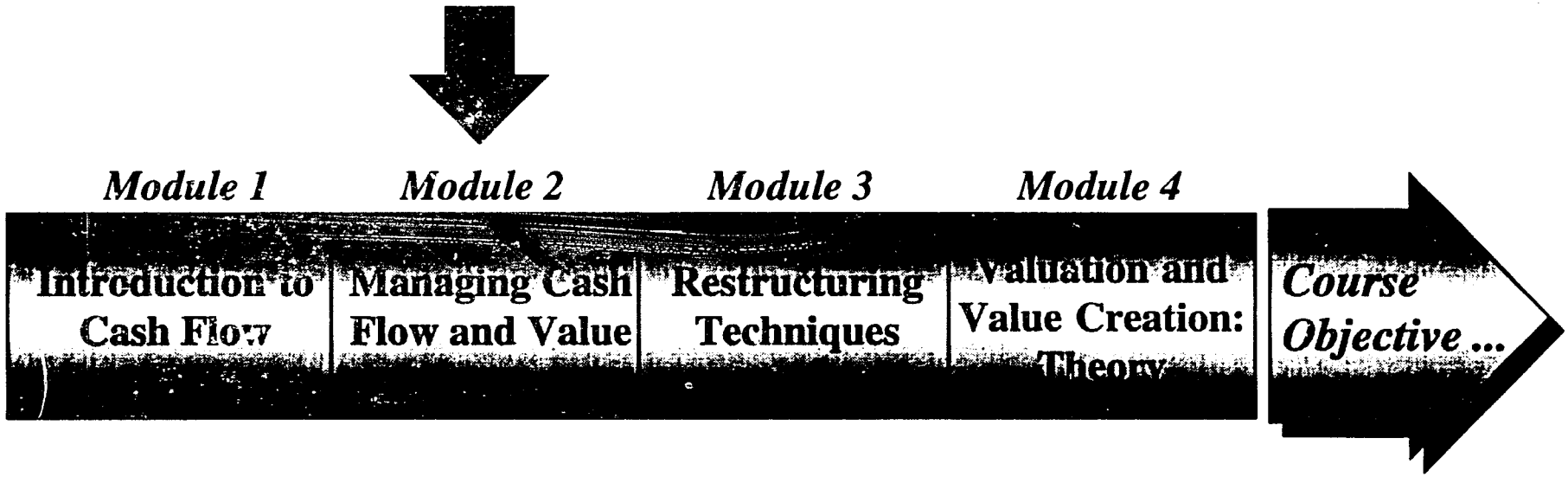
Sept. 25-26, 1995

Restructuring for Privatization - Courses Offered



.... to provide an understanding of the importance of managing cash flow and its impact on value, value creation and restructuring alternatives...

Module 1

Introduction to Cash Flow

Module Objective:

... to provide participants with an understanding of the basic concept of cash flow and the elements that drive cash flow. Specific goals include understanding why managing cash flow is important, learning about cash flow components, learning to use the discounted cash flow (DCF) method, and learning to use a simulation DCF model.

Review of major topics covered in the first course:

- ✔ **Understanding Cash Flow**
- ✔ **Understanding and Utilizing the Discounted Cash Flow (DCF) as a Management Planning Tool**
- ✔ **Applying the DCF Model**
- ✔ **Case Study - Application of the DCF Model to Value a Company**

Module 2

Managing Cash Flow and Value

Module Objective:

... to provide participants with an understanding of how to manage for and maximize cash flow and how management of cash flows impacts the value of a company. Through simulation models and exercises, participants will learn how each of the cash flow components can be impacted and how to weigh alternative financial and operating strategies.

Major Topics Covered

- ✔ **Managing Cash Flow and its Impact on Value**
- ✔ **Becoming a Value Manager**
- ✔ **Creating Value in a Company**
- ✔ **Case Study - Application of the Internal Value Creation Strategy Using the DCF Model**

Module 3

Restructuring Techniques for Companies

Module Objective:

... to provide participants with an understanding of turnaround techniques and how to apply them. The techniques cover financial restructuring, operational restructuring, asset dispositions, mergers/joint ventures as well as developing a turnaround plan, and negotiating with borrowers and creditors.

Major Topics Covered

- ✔ **Motives for Restructuring**
- ✔ **Recognizing and Analyzing Distressed Companies**
- ✔ **Restructuring Techniques**
- ✔ **Other Aspects of Implementing Changes**
- ✔ **Case Studies - Capital Structure, Asset and Business Dispositions, Acquisitions and Joint Ventures**

Module 4

Valuation and Value Creation

Module Objective:

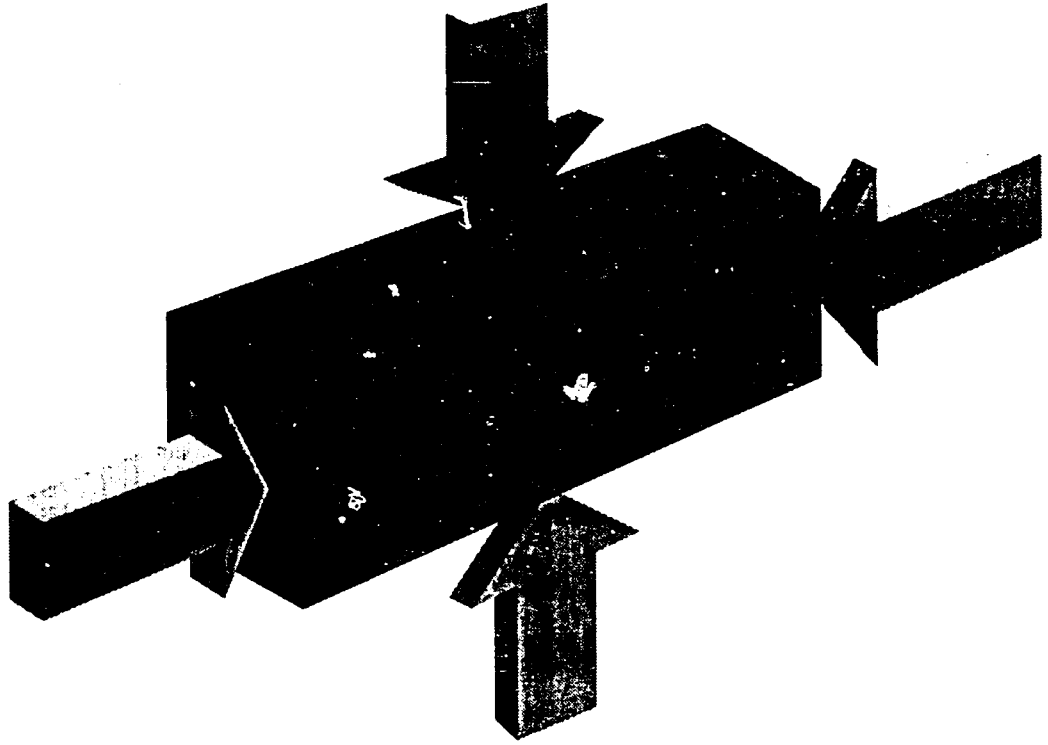
... to provide participants with an understanding of general business valuation theory and concepts as well as how financial and operating decisions can create or destroy value. This module also analyzes and evaluates alternative privatization strategies.

Major Topics Covered

- ✔ **Valuation Theory and Concepts**
- ✔ **Business Enterprise Valuation Theory**
- ✔ **Reaching a Valuation Conclusion**
- ✔ **Analysis and Evaluation of Alternative Privatization Strategies**
- ✔ **Case Study - Using 3 Valuation Approaches to Value a Company for Privatization**

Review of Module I

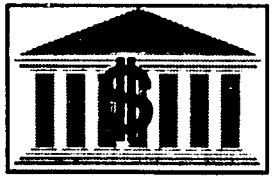
The following slides provide a quick review of the major topics covered in Module I...



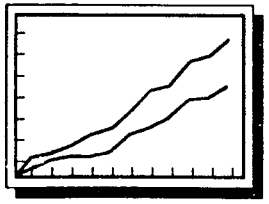
Why is understanding and managing cash flow important?

Importance to company stakeholders

To improve the planning process



To improve financial flexibility

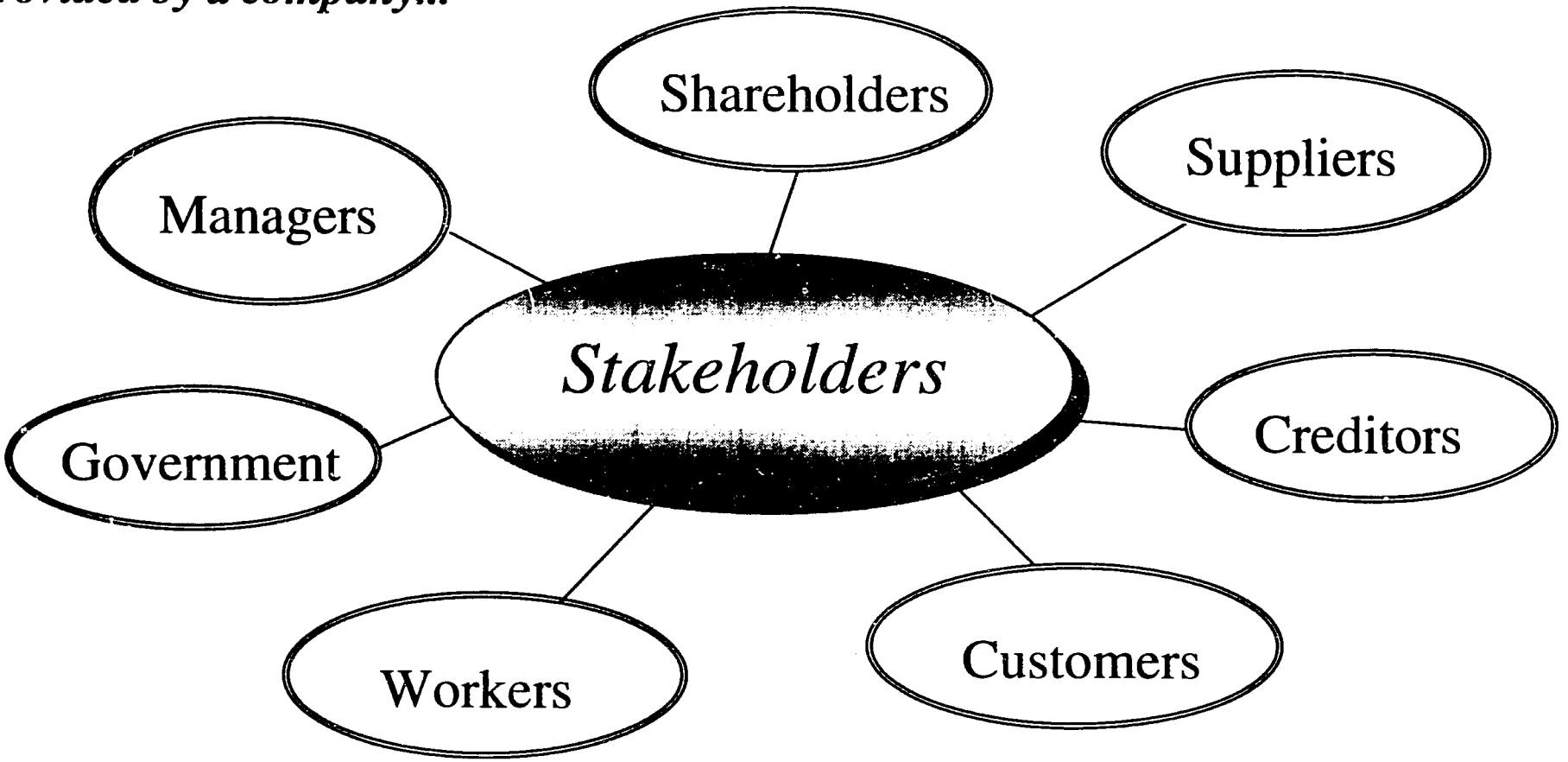


To manage, measure and create value

Review of Module I

Importance of Cash Flow to Company Stakeholders

Each of the following groups have an interest in the amount of cash flows provided by a company...



Importance of Managing Cash Flow to the Planning Process

Managing cash flow is important to the planning process in a company in 5 areas...

- ***Managing working capital***
  - ✓ estimating short-term cash requirements
  - ✓ managing inventory
- ***Timing capital expenditures***
- ***Managing capital needs (bank and equity financing)***
- ***Managing costs***
- ***Managing growth***

Review of Module I

Importance of Managing Cash Flow to Financial Flexibility

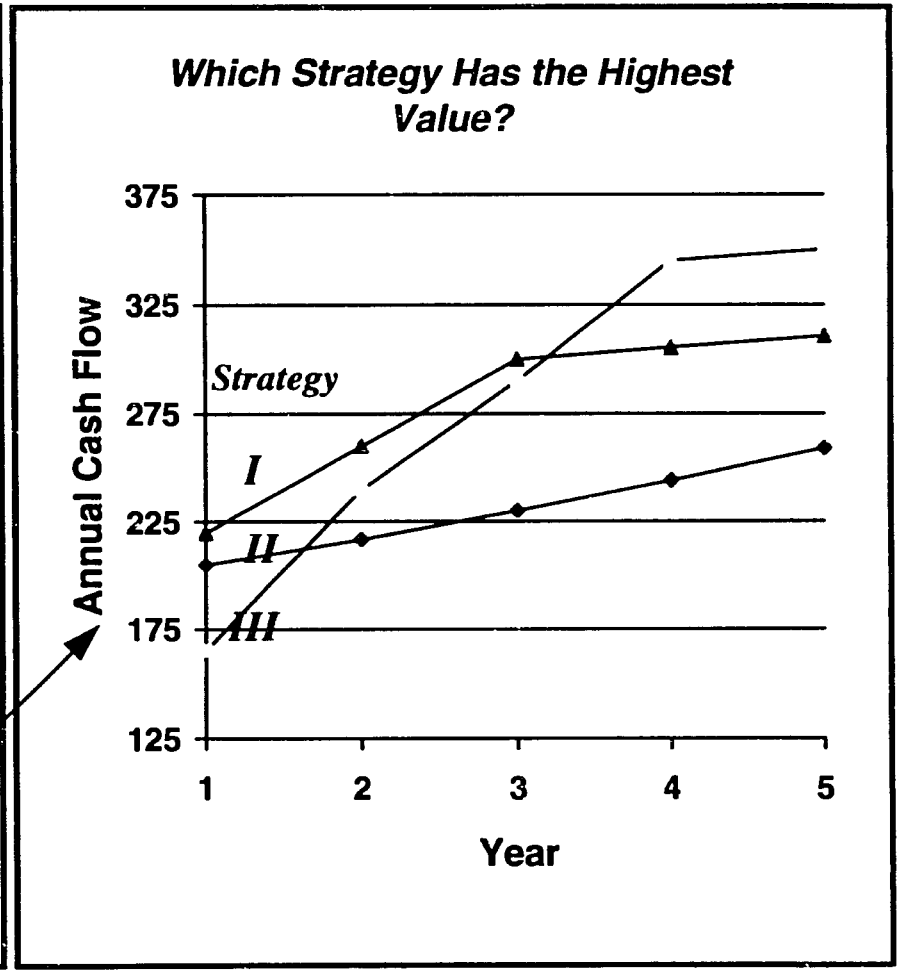
Better management of cash flow can improve financial flexibility in the following areas...

- *Obtaining credit - demonstrating creditworthiness and payback terms*
- *Managing debt levels - scheduling debt inflow/outflow*
- *Reducing interest costs - by managing debt levels*
- *Negotiating terms with lenders*
- *Negotiating terms with suppliers*
- *Analyzing financial restructuring alternatives*

Understanding cash flow's impact on company value is important...

- ☑ Value can be measured through forecasted cash flows.
- ☑ Value can be managed by analyzing the impact on cash flow (and hence value) of management decisions.
- ☑ Value can be created by analyzing different strategies and determining which strategy has the greatest impact on value.

Present value of each strategy:	
I	*1,163*
II	*963*
III	*1,158*



The Importance of Financial Analysis in Forecasting Cash Flows

➔ ***Importance to diagnosing the financial condition of the company.***

- ☞ *identify areas of weakness to focus on in strategic planning.*
- ☞ *analyze trends and identify problem areas for strategic focus.*
- ☞ *provide a basis for assessing the risk of investment in your company.*

➔ ***Importance to forecasting cash flow components.***

- ☞ *growth*
- ☞ *costs & margins*
- ☞ *working capital requirements*
- ☞ *capital investment*
- ☞ *optimum debt levels*
- ☞ *the discount rate*

Financial Analysis - The Process

1. **Transformation of the accounts.**
2. **Financial statement adjustments to normalize operations.**
3. **Ratio analysis: liquidity, leverage and operating ratios and common size balance sheets and income statements.**
4. **Comparable company financial analysis.**
5. **Analysis of trends and unusual items.**

Ratio analysis is a key factor in managing company value...

Ratios can be classified into three categories

Liquidity ratios

Current ratio
Quick ratio
Days' receivables
Days' inventory
Days' payables
Working capital/sales

Leverage ratios

Interest coverage ratio
Long-term debt to total capital
Interest expense/revenue

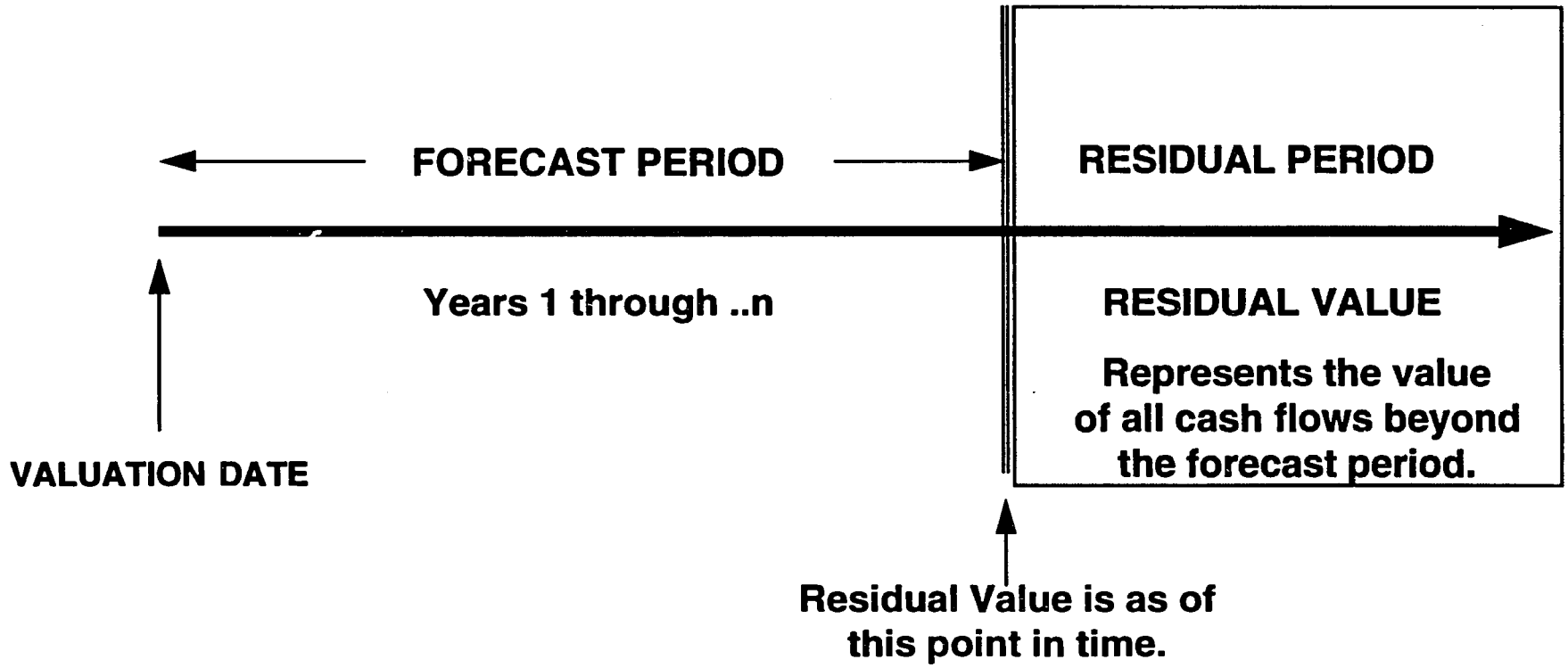
Operating ratios

Return on equity
Return on assets
Sales to assets
Sales to fixed assets
Return on sales

In this module, we will use financial analysis to diagnose the company and help determine which strategies to employ to increase company value.

Framework of the Discounted Cash Flow (DCF) Model

DCF model components...



From net profit to cash flow...

Income Statement	
	Revenues
Less:	Cost of goods sold
Equals:	Gross margin
Less:	Operating expenses
Less:	Depreciation & amortization
Equals:	Profit before interest & taxes
Less:	Interest expense
Equals:	Profit before tax
Less:	Tax
Equals:	Net profit

Equity Cash Flow	
	Net profit
Plus:	Depreciation & amortization
	New debt
Minus:	Working capital requirements
	Capital expenditures
	Payments on debt
Equals:	Equity cash flow

Income Statement - based on accrual accounting:

- *Recognizes revenue in the period it is earned, regardless of when the cash is received.*
- *Recognizes expenses when they are incurred, not when the cash is paid.*
- *Capital expenditures and increases/decreases in debt are ignored.*

Cash flow was defined in Module I as:

EQUITY CASH FLOW

equals

NET INCOME

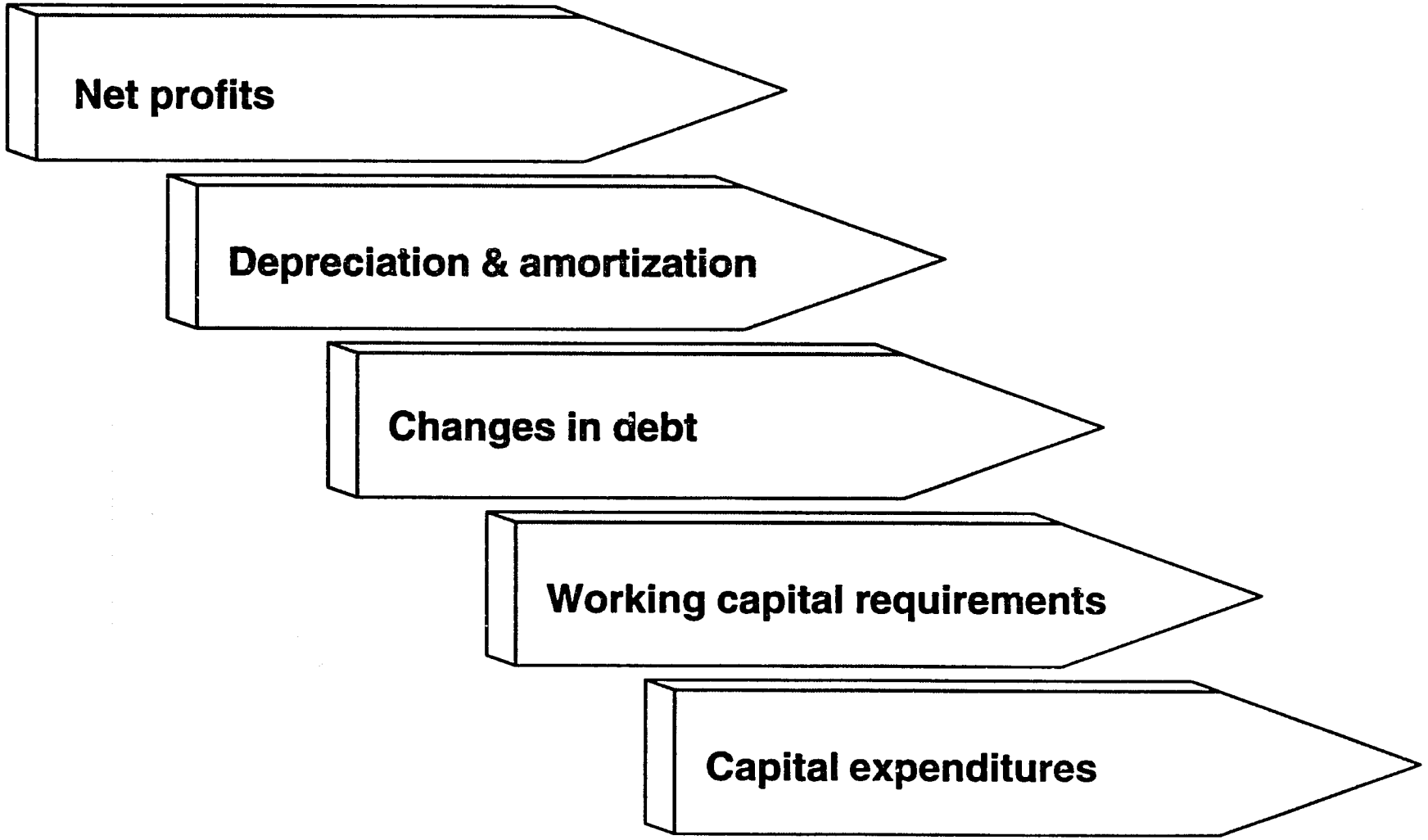
PLUS

NON-CASH ITEMS
(DEPRECIATION, AMORTIZATION)
INCREASES IN LONG-TERM DEBT

MINUS

INCREMENTAL WORKING CAPITAL
CAPITAL INVESTMENT
DECREASES IN LONG-TERM DEBT

Review of Module I
Discussion of the Components of Cash Flow



Steps to prepare the DCF Model...

1. Select the definition of cash flow to be used.
2. Analyze revenues and prepare the revenue forecast.
3. Analyze expenses and prepare an expense forecast.
4. Analyze investments and prepare an investment forecast.
5. Calculate cash flow for each year.
6. Calculate the residual value.
7. Determine the appropriate discount rate.
8. Calculate the present value of the future cash flows and residual value and sum both values.
9. Make any final adjustments.
10. Perform review procedures.

The Importance of Forecasting Cash Flows

In Module II, we will focus on these three areas:

Managing operations

Analyzing strategic plans

Analyzing capital budgeting decisions

Analyzing operational restructuring alternatives

Analyzing financial restructuring alternatives

Managing shareholder value

Forecasting and analyzing cash flows can assist company management in...

The last 3 areas will be discussed in Modules III & IV

Module II
Overview of Contents

In this course over the next two days, we will be covering the following major topics...

The relationship between cash flow and company value

Creating value in a company

Implementing an internal value creation strategy

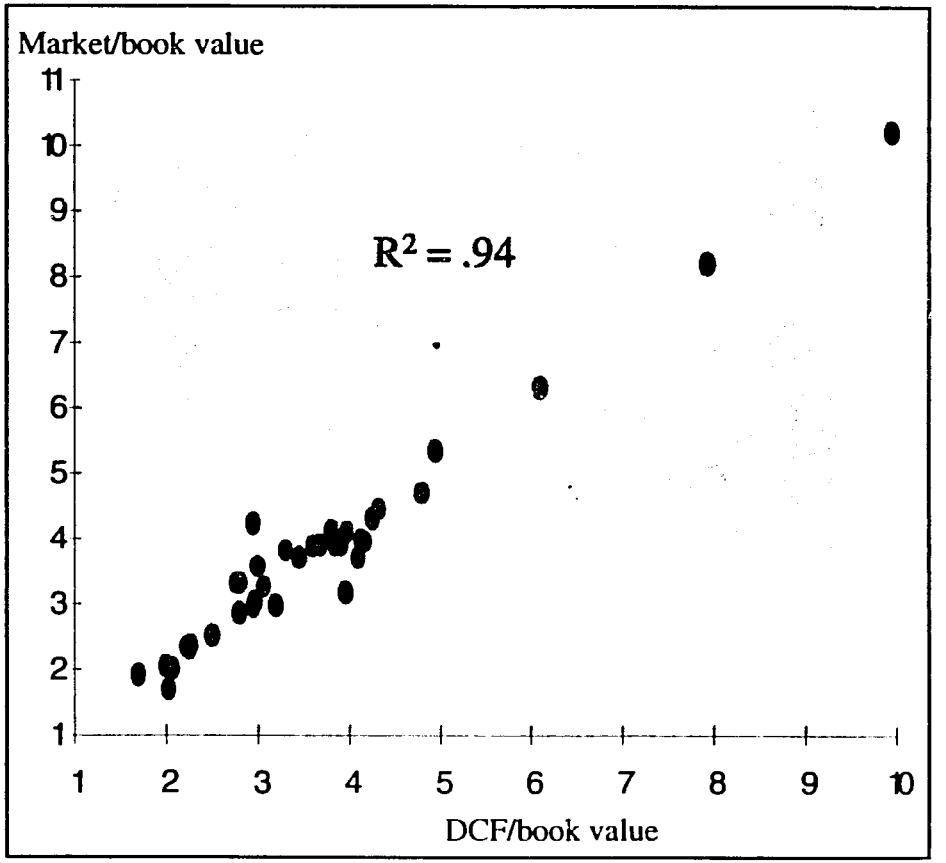
Case studies & exercises

The next few slides will emphasize why the value of a company is related more to its underlying cash flow than its net profits...

The Relationship Between Cash Flow and Company Value

Examination of market data indicates there is a strong link between cash flow and a company's value...

- *Empirical evidence exists that shows a strong correlation between discounted cash flow and the "market value" of the firm, as the chart shows*
- *Empirical evidence shows that accounting earnings are not well correlated with market value. A study correlating price/earnings ratios to growth in earnings per share had an R^2 of only .088*



Source: McKinsey/Value Line

The Relationship Between Cash Flow and Company Value

While the empirical evidence supports cash flow as a better measure of value than the company's "accounting net profit," other reasons exist to support cash flow as the best measure of firm value...

First, investors buy companies based on expected future cash flows to be derived from owning that company, discounted at a rate to reflect the risk of receiving those cash flows.

Second, in our experience in Central and Eastern Europe in valuing and privatizing companies for buyers, the discounted cash flow method was the most common, and often the only method used to value a company.

Third, net profit fails to consider the investments required to generate earnings or the timing of those investments.

The following example will demonstrate the last point...

The Relationship Between Cash Flow and Company Value

Which company is worth more?

Longlife Company	*Net Income*					
	Year 1	2	3	4	5	6
Sales	1,000	1,050	1,100	1,200	1,300	1,450
Cash expenses	(700)	(745)	(790)	(880)	(970)	(1,105)
Depreciation	(200)	(200)	(200)	(200)	(200)	(200)
Net Income	100	105	110	120	130	145

Shortlife Company	*Net Income*					
	Year 1	2	3	4	5	6
Sales	1,000	1,050	1,100	1,200	1,300	1,450
Cash expenses	(700)	(745)	(790)	(880)	(970)	(1,105)
Depreciation	(200)	(200)	(200)	(200)	(200)	(200)
Net Income	100	105	110	120	130	145

The income statement data for these two companies are identical. But what about cash flow?

The Relationship Between Cash Flow and Company Value

Which company is worth more?

Longlife Company	Cash Flow Year 1	2	3	4	5	6	Total
Net income	100	105	110	120	130	145	710
Depreciation	200	200	200	200	200	200	1,200
Capital expenditures	(600)	-	-	(600)	-	-	(1,200)
Working capital	(250)	(13)	(13)	35	45	(23)	(219)
Cash to/from shareholders	(550)	292	297	(245)	375	322	491

Shortlife Company	Cash Flow Year 1	2	3	4	5	6	Total
Net income	100	105	110	120	130	145	710
Depreciation	200	200	200	200	200	200	1,200
Capital expenditures	(200)	(200)	(200)	(200)	(200)	(200)	(1,200)
Working capital	(150)	(8)	(8)	(15)	(15)	(23)	(219)
Cash to/from shareholders	(50)	97	102	105	115	122	491

Longlife Co. uses manufacturing equipment that must be replaced every 3 years, while Shortlife Co.'s equipment must be replaced every year, but costs 1/3 as much. Also, Shortlife Co. does a better job in managing working capital requirements.

The Relationship Between Cash Flow and Company Value

Which company is worth more? ***Shortlife Company.***

- Although total cash flow for both companies is the same over the 6 years. The Shortlife Company's shareholders get their cash earlier.
- The present values of the future cash flows (discounted at 10%), are $323 for the Shortlife Co. and $212 for the Longlife Co.

- *This example illustrates the main weakness of relying on earnings as an indication of value: it does not consider the investment required to generate those earnings, nor the timing of the investment.*

Another example of how focusing on profits can be misleading is a concept we call "Growing Bankrupt".....

"Growing Bankrupt"

Two examples of fast growing, highly profitable companies...

Company A

- This company is a rapidly growing company, but it has lost control of its accounts receivable by allowing customers to take an increasingly longer time to pay.
- Even though the company is selling the products at a profit, its sales may not be generating enough cash soon enough to replenish the cash outflows required for production and investment.

Company B

- This company is also rapidly growing, and managing its receivables and inventory levels carefully; however the rapid sales growth is forcing an ever-larger investment in these assets.
- Despite the fact the company is profitable, it may have too little cash to meet its obligations.

The Relationship Between Cash Flow and Company Value

The following summarizes the relationship between net profit, cash flow and value....

Conclusion: an increase or decrease in profits does not necessarily give rise to a corresponding increase or decrease in shareholder value because net profit does not reflect:

- the company's working capital and fixed investment needed for growth,
- its capital requirements, and
- its business and financial risk.

Furthermore, studies have shown that there is a high correlation of market value and cash flow, but not a high correlation of market value and earnings growth.

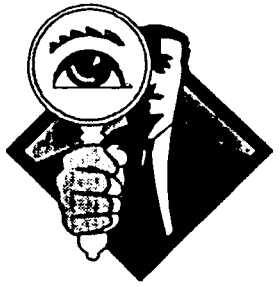
Finally, investors buy companies based on expected future cash flows.

Creating Value in a Company

The first step in creating company value is to become a value manager.

Becoming a value manager requires the following:

- ☑ A focus on long-run cash flow returns, not short-term changes in earnings.
- ☑ The ability to recognize investments in productive capacity that either earn a return above their cost of capital or do not.
- ☑ A willingness to take advantage of opportunities to create incremental value in the company.
- ☑ Recognizing value drivers and developing strategies to enhance the value of the company, and then implementing a plan to put those strategies into action.

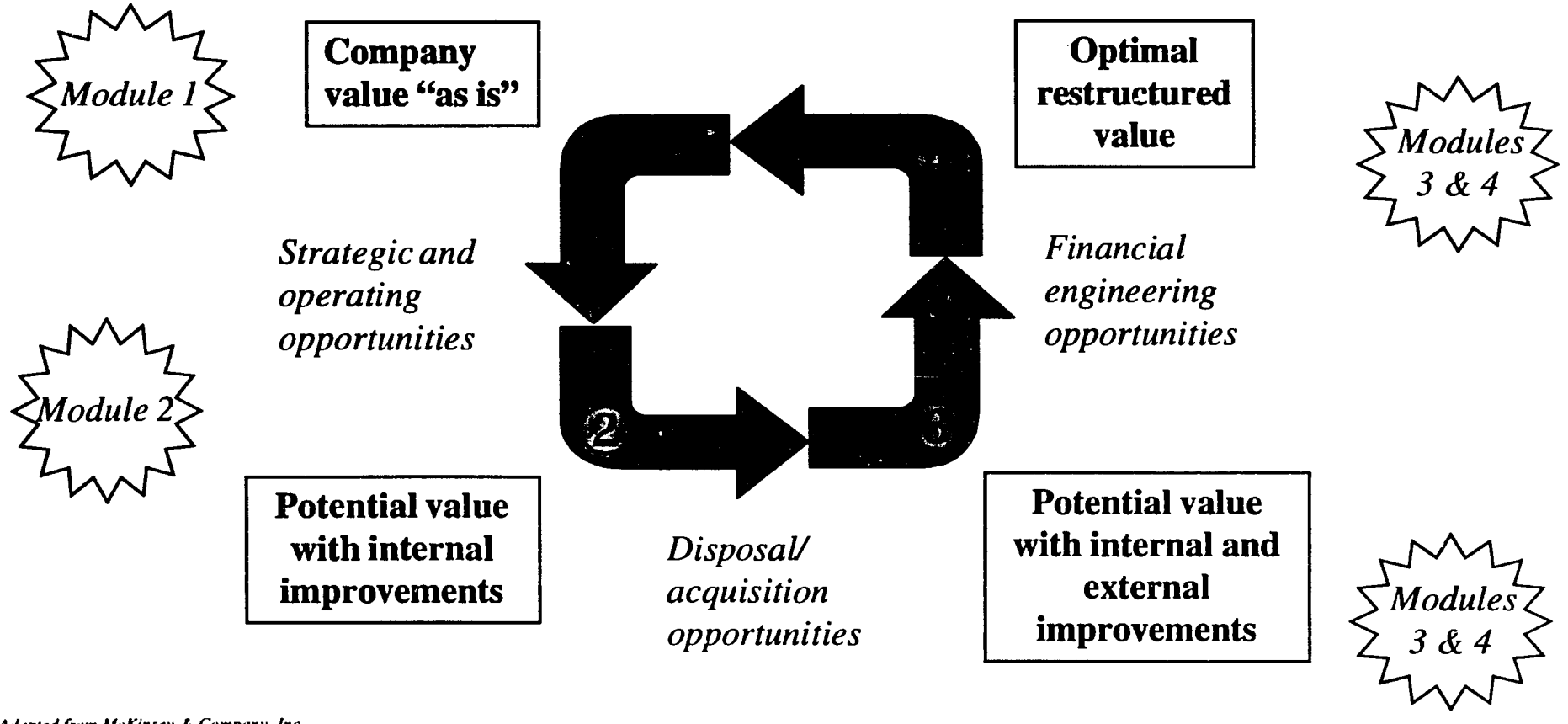


Why focus on value creation?

- Avoid takeovers of your company by those seeking to capture value of undervalued, undermanaged assets, or through opportunities to create value through restructuring the company.
- Improve attractiveness of your company to foreign investors.
- Enhance value for potential buyers.
- Maximize value in mergers or joint ventures.
- The potential to increase value is high.
- It improves the strategic planning process.
- It provides a framework to reward company managers.
- Improves resource allocation among business units.

Creating Value in a Company
The Value Manager Framework

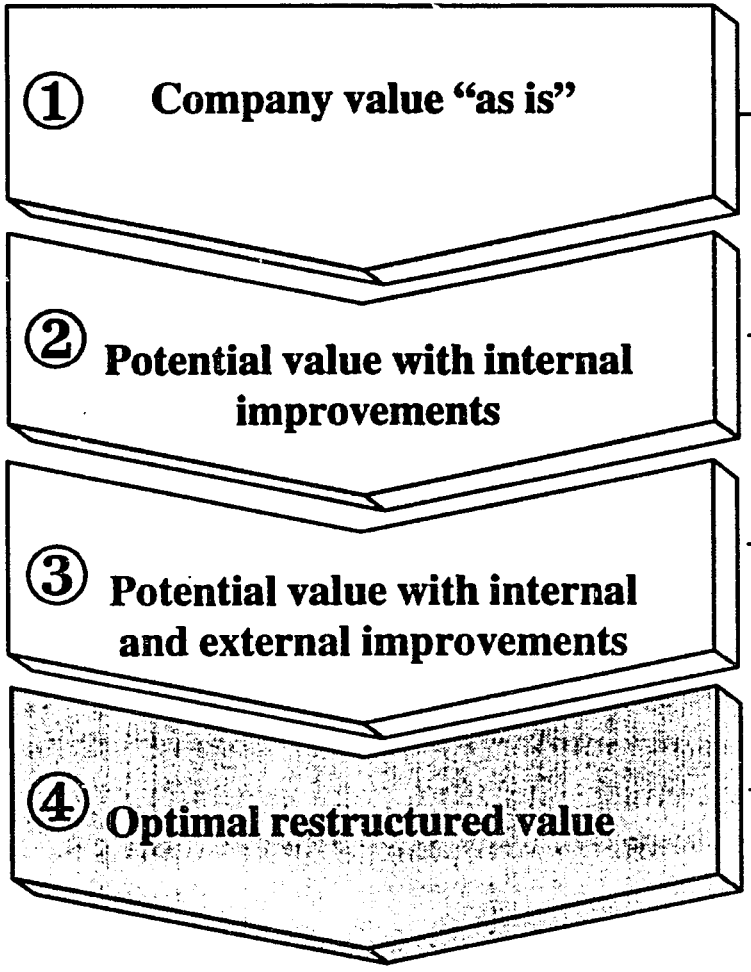
The value manager framework can be thought of as a series of actions to analyze your company and identify areas to improve value through strategic planning and restructuring...



Adapted from McKinsey & Company, Inc.

Creating Value in a Company
The Value Manager Framework

Discussion of the key steps...



The value of the company "as is" should be based on the DCF method using financial and operating data based on the company's current operations.

This step involves financial analysis of your company, identification of "value drivers" and developing and implementing strategic plans to improve value.

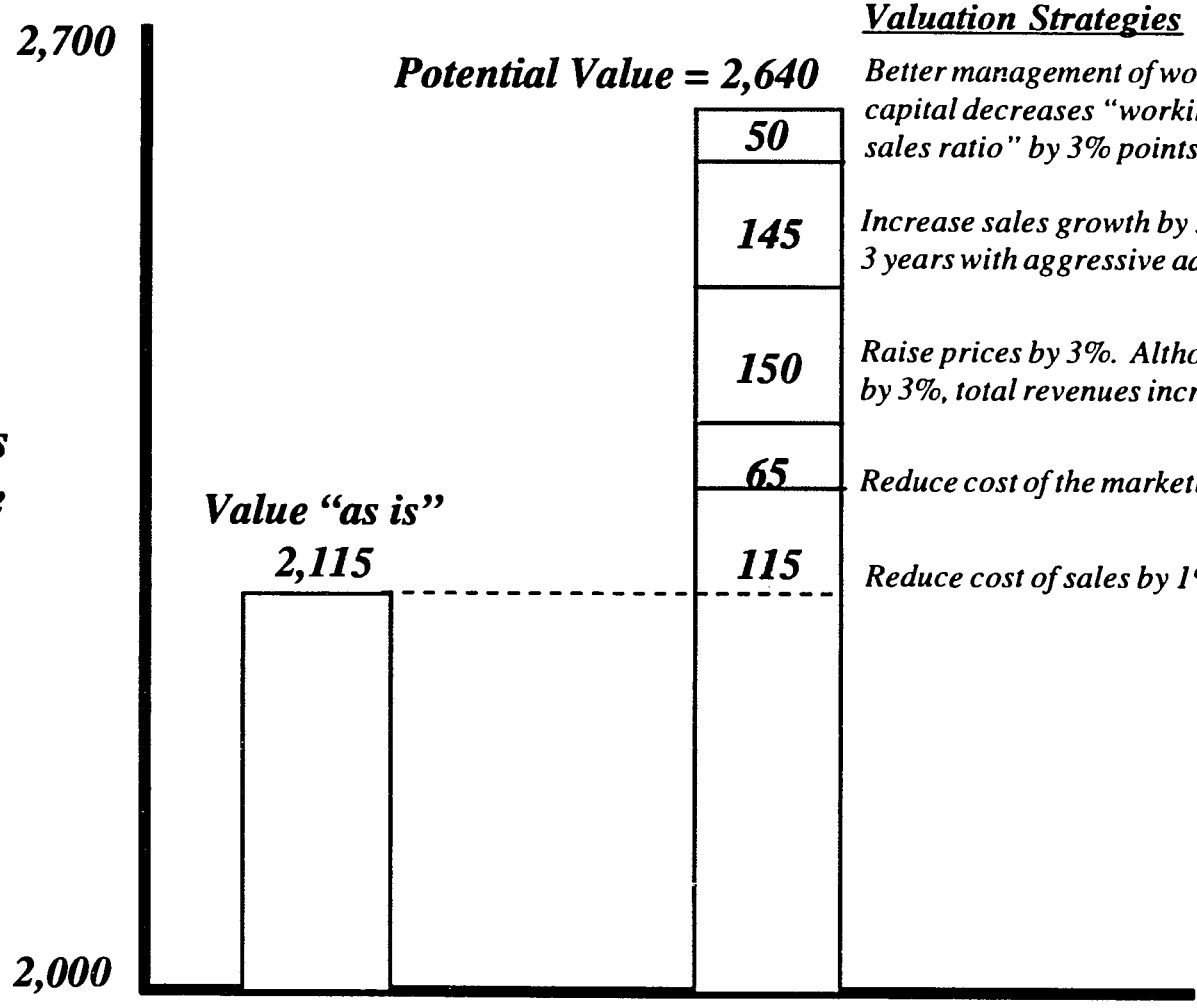
This step involves operational restructuring opportunities such as: sale of a division, acquiring a company, mergers, joint ventures, liquidation of a division, etc.

The final step involves financial restructuring and includes decisions related to debt levels, raising equity capital, converting debt to equity, etc.

This module focuses on step two...

Creating value with internal improvements

This chart shows the impact of various strategies on the total value of a company



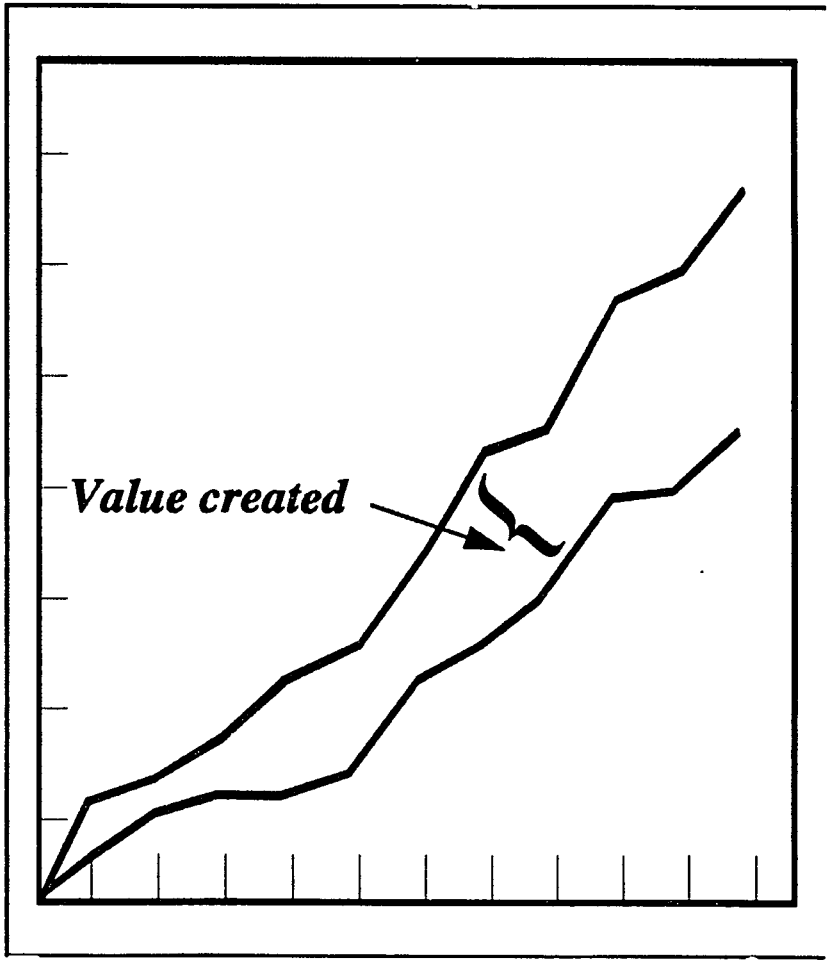
Valuation Strategies

- *Better management of working capital decreases "working capital to sales ratio" by 3% points*
- *Increase sales growth by 5% for 3 years with aggressive advertising spending*
- *Raise prices by 3%. Although volume declines by 3%, total revenues increase.*
- *Reduce cost of the marketing department*
- *Reduce cost of sales by 1% point*

Creating Value in a Company
The Shareholder Value Network

A roadmap for creating value in a company - the "shareholder value network"...

The "shareholder value network" depicts the essential link between the corporate objective of creating shareholder value and the basic valuation parameters or "value drivers."



The shareholder value network is comprised of 4 sections:

- *Management Decisions*
- *Value Drivers*
- *Valuation Components, and*
- *Corporate Objectives*

The following slides will present and discuss the shareholder value network in detail...

Creating Value in a Company
The Shareholder Value Network

Strategies (operating, investment and financing), based on management decisions...

↓

Impact

↓

Value drivers → *What is a value driver? A component or variable in the discounted cash flow model. By changing the variable in the model, cash flow is changed, and thus the value of the company is changed.*

↓

Which impact

↓

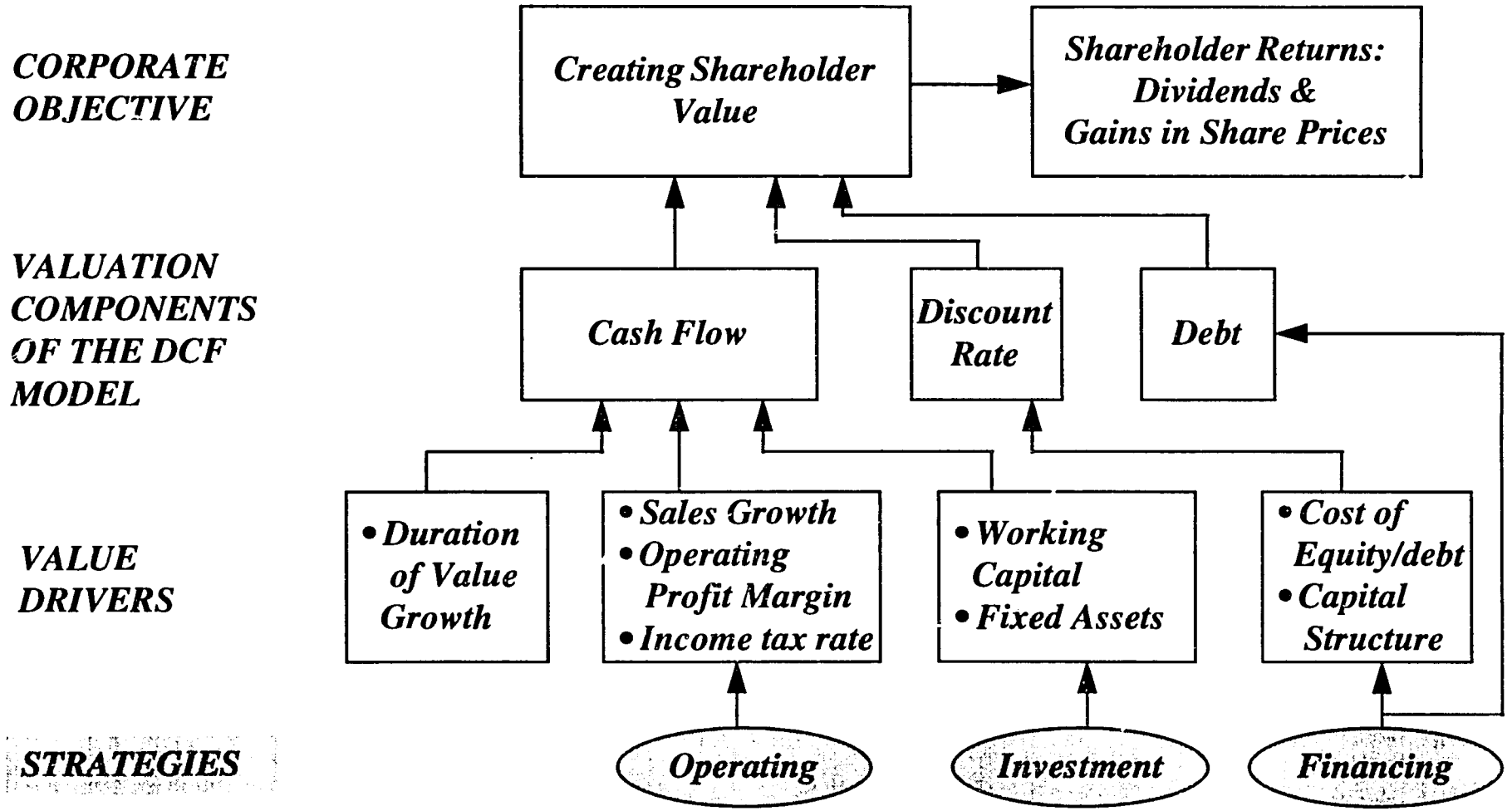
Discounted cash flow

↓

Which determines value

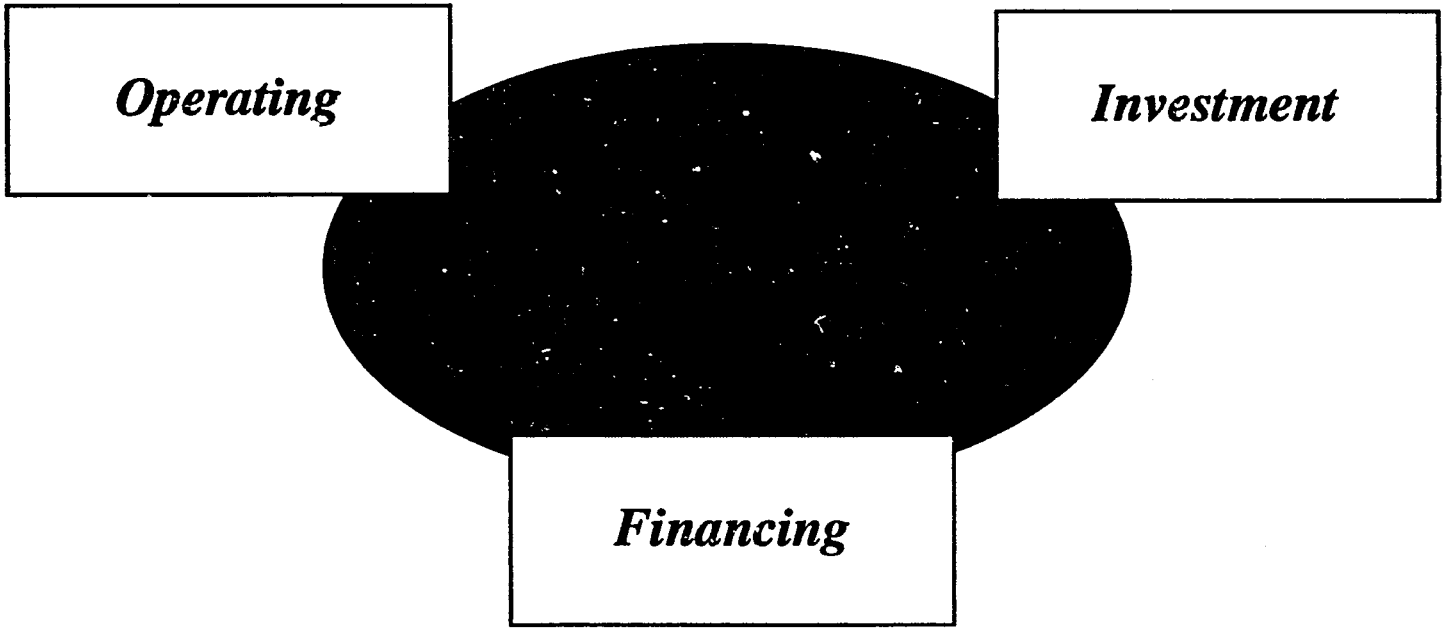
Creating Value in a Company
Shareholder Value Network

Overview...



Adapted from "Creating Shareholder Value" by A. Rappaport

Business strategies can be classified into three areas...



Creating Value in a Company
Shareholder Value Network

Creating shareholder value at any level depends on properly managing the three basic decision areas:

Operating

Investment

- ☒ **Guiding *operations* of the business profitably by making effective use of all resources employed.**
- ☒ **Selecting and executing *investments* based on sound economic analysis and management.**
- ☒ **Prudently *financing* the business by consciously trading off the rewards expected against the risk exposure from using debt.**

Financing

First, we will focus on the operating strategies in the shareholder value network...

STRATEGIES — ***Operating***

Typical operating strategies focus on:

- ***Product mix***
- ***Pricing***
- ***Market selection***
- ***Advertising***
- ***Cost effectiveness***
- ***Distribution***
- ***Customer service***

Key operating strategies and decisions involve the effective utilization of the funds invested in serving selected markets as well as setting appropriate pricing and service policies that are competitive in filling customers' needs.

These choices often amount to economic trade-offs in which management must balance the impact of competitive prices and competitors' actions on sales volume and on the profitability of products.

At the same time all operations of the business must be made cost effective and maintained as such to achieve competitive success.

These strategies can be applied individually based on analysis of the company or they can by applied in the framework of either:

Cost Leadership **OR** **Differentiation**

Discussion of the "cost leadership" approach vs. the "differentiation" approach to analyze and apply strategies...

Cost Leadership Approach -

Strategies are determined by focusing on controlling costs by:

- Improving efficiency through training, or maximizing capacity utilization.
- Developing more efficient ways to design, produce, distribute, or market the product.

Differentiation Approach

- The company seeks to provide something different from it's competitors that is perceived to be valuable to the company's customers.
- The strategies to implement this approach are clearly different than those used to adopt a cost leadership approach.

As we discuss the three strategic management decision areas (operating, investment and financing), we will present the strategies for the cost leadership and differentiation approaches.

Creating Value in a Company
Shareholder Value Network

STRATEGIES → Operating → Differentiation Strategies

Value Driver	Sales growth rate	Operating profit margin
Strategies	• Command a premium price • Pursue growth in market segments in which buyer is willing to pay a premium for differentiation	• Choose a combination of value activities that create the most cost-effective means of differentiating, e.g. lowering buyer's cost and risk and by raising performance • Eliminate costs that do not contribute to buyer needs

STRATEGIES — Operating → *Cost Leadership Strategies*

Value Driver	Sales growth rate	Operating profit margin
Strategies	• Maintain competitive prices • Pursue market share opportunities to gain scale economies in production, distribution, etc.	• Achieve relevant economies of scale for each of the value activities • Introduce mechanisms to improve the rate of employee learning, e.g., standardization, product design modifications, improved scheduling, etc. • Search for cost-reducing linkages with suppliers based on supplier's product design, quality, packaging, order processing, etc. • Eliminate overhead that does not add value to the product

The next set of strategies is based on investment decisions...

STRATEGIES — ***Investment***

Focus of strategies:

- *Inventory levels*
- *Collections*
- *Payables management*
- *Capacity expansion*
- *Capital budgeting*
- *Asset disposal*

Investment is the basic driving force of any business. It supports the competitive strategies developed by management and is based on plans (capital budgets) for committing existing or newly obtained funds to three main areas:

- **Working capital (cash balances, receivables, inventory and trade credit).**
- **Buildings, machinery and equipment.**
- **Major spending programs (research and development, product development and promotional programs.**

Creating Value in a Company
Shareholder Value Network

STRATEGIES — Investment → Differentiating Strategies

Value Driver	Working-capital investment	Fixed capital investment
Strategies	• Minimize cash balance • Link accounts receivable policy to differentiation strategy • Maintain inventory level consistent with differentiating level of service • Obtain best terms with suppliers for accounts payable	• Invest in specialized assets that create differentiation • Purchase assets for optimal utilization • Sell unused fixed assets • Obtain assets at least cost, e.g., lease versus purchase

Creating Value in a Company Shareholder Value Network

STRATEGIES — Investment → Cost Leadership Strategies

Value Driver	Working capital investment	Fixed capital investment
Strategies	• Minimize cash balance • Manage accounts receivable to reduce average number of days outstanding • Minimize inventory without impairing required level of customer service	• Promote policies to increase utilization of fixed assets • Obtain assets that increase productivity • Sell unused fixed assets • Obtain assets at least cost, e.g., lease versus purchase

The last group of strategies are based on financing decisions...

STRATEGIES — ***Financing***

Types of strategies:

- ***Managing business risk***
- ***Maintaining the appropriate capital structure***
- ***Dividend policy***

Financing decisions represent the various choices available to fund the investments and operations of the business over the long term.

Two key areas of strategy and decisions must be identified by management:

- ***The disposition of profits between:***
  - ***(1) owners***
  - ***(2) lenders, and***
  - ***(3) reinvestment***
- ***The shaping of the company's capital structure.***

Value Driver	Cost of capital

Strategies

- Target an optimal capital structure
- Select least-cost debt and equity instruments
- Increase differentiation and thereby make demand less dependent on the general economy

STRATEGIES — *Financing* → *Cost Leadership Strategies*

Value Driver	Cost of capital

Strategies

- Target an optimal capital structure
- Select least-cost debt and equity instruments
- Reduce business risk factors in a manner consistent with strategy

Questions to ask to determine if cost leadership strategies are appropriate...

- ☑ Do the labor savings justify the productivity-motivated capital expenditures?
- ☑ Are the tight controls on inventory levels offset by reduced customer service and consequent loss of revenue?
- ☑ Can a less restrictive accounts receivable policy lead to increased market penetration and greater scale economies?
- ☑ Would increasing the sales growth rate also lead to an increase in financial risk which would result from debt-financing the growth?
- ☑ If increased growth is due principally to lower selling prices, will cost savings improve operating profit margin sufficiently to justify the growth strategy?

Questions to ask to determine if differentiation strategies are appropriate...

- ☑ Does the premium price justify the costs of product features and other costs required to differentiate the product or service?
- ☑ Is the cost of maintaining inventory levels to ensure the highest service level necessary to attract and maintain buyers willing to pay the premium price?
- ☑ Is the cost of granting liberal credit terms necessary to attract and maintain buyers willing to pay the premium price?
- ☑ What would be the impact on sales growth and operating profit margin of a selling price reduction aimed at capturing a larger market share?

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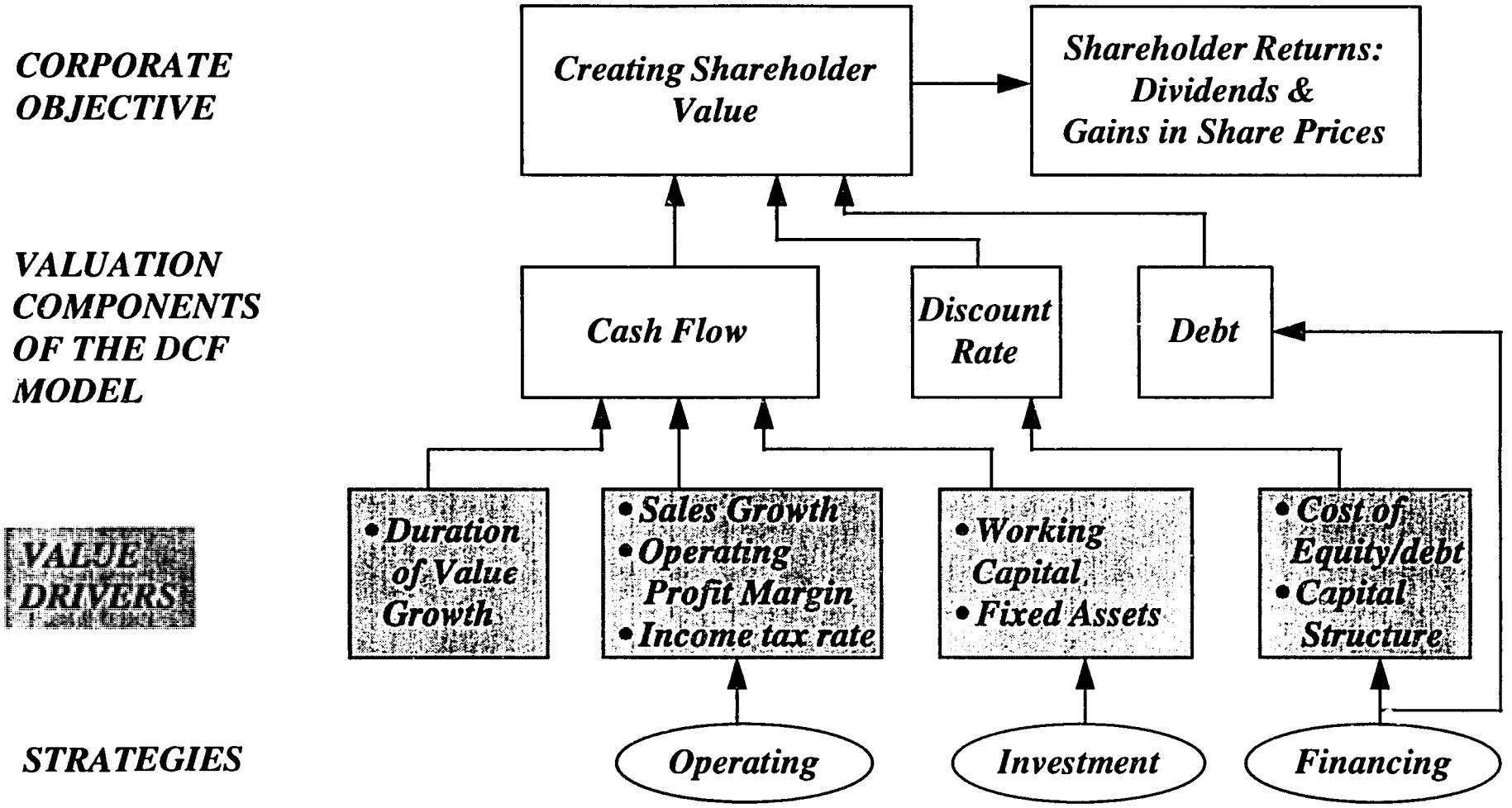
Creating Value in a Company
Shareholder Value Network



Adapted from "Creating Shareholder Value" by A. Rappaport

Summary of the link between value drivers and strategy...

To improve

Operating value drivers

- Sales Growth
- Operating Profit Margin
- Income tax rate

Focus on

Strategies →

- Product mix
- Pricing
- Market selection
- Advertising
- Cost effectiveness
- Distribution
- Customer Service

Summary of the link between value drivers and strategy...

To improve

Investment value drivers

- Working capital investment
- Fixed capital investment

Focus on

Strategies →

- Inventory levels
- Collections
- Payables management
- Capacity expansion
- Capital budgeting
- Asset disposal

Summary of the link between value drivers and strategy...

To improve

Financial value drivers

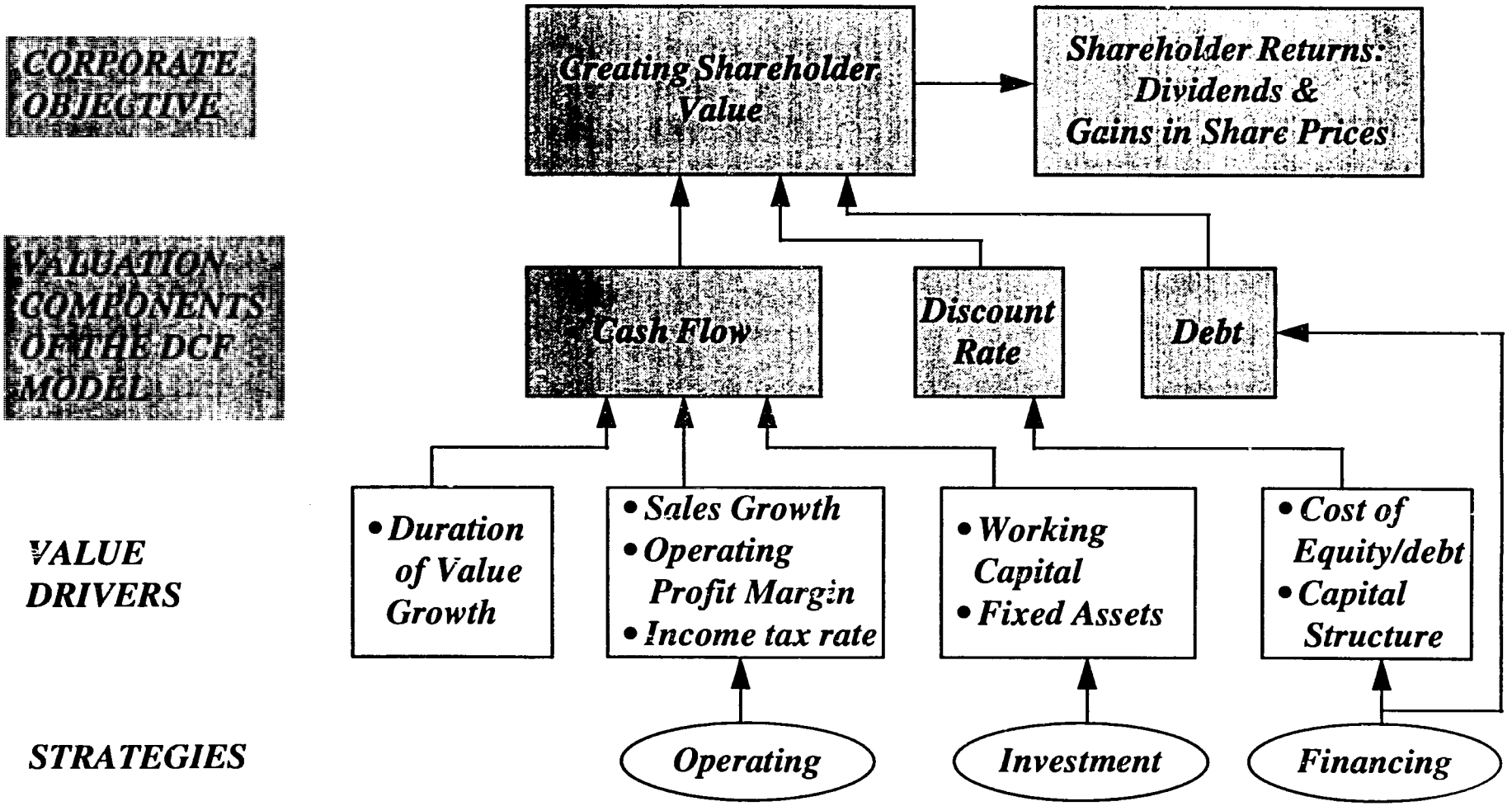
- Cost of capital
- Financial structure

Focus on

Strategies →

- Managing business risk factors that impact your cost of capital
- Proper debt/equity structure
- Dividend policy

Creating Value in a Company
Shareholder Value Network

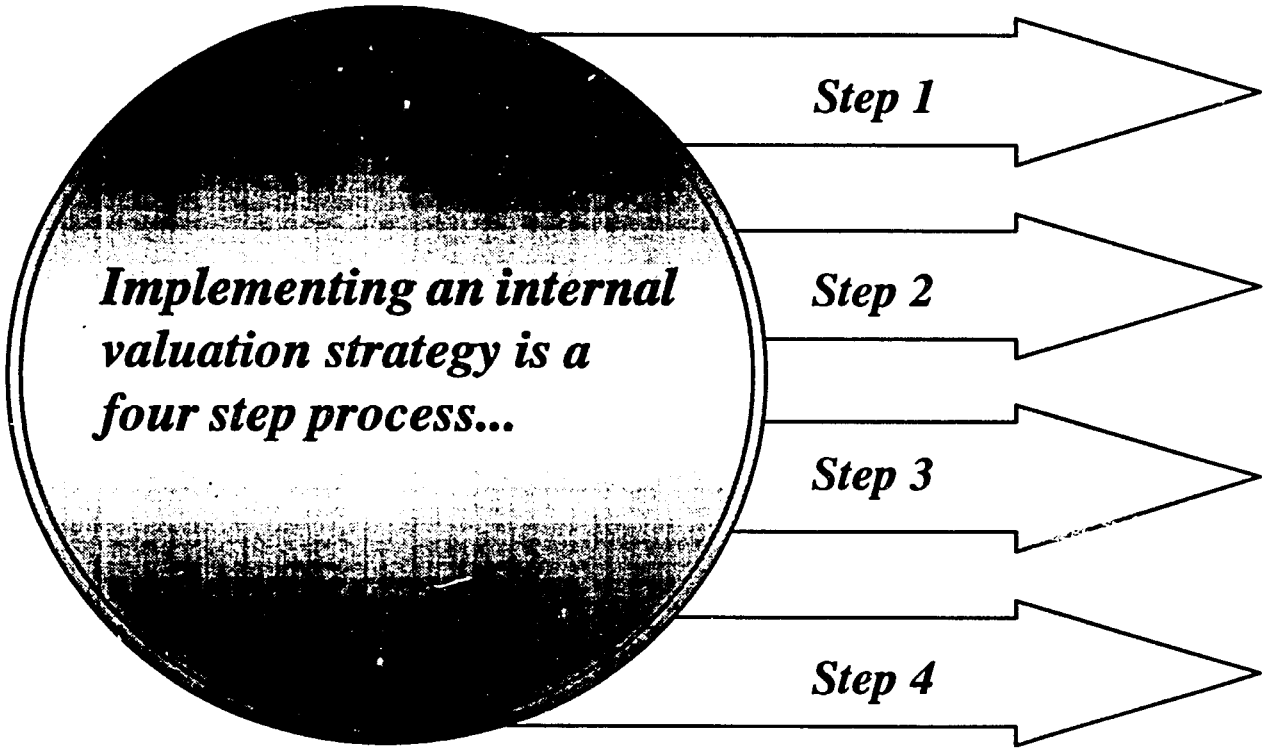


Adapted from "Creating Shareholder Value" by A. Rappaport

At the conclusion of the value creation process, business management should be able to answer such questions as:

- How would alternative strategies affect shareholder value creation?
- Which strategy is likely to create the most value?
- Do any business units have limited value creation potential and thereby should be candidates for divestiture?
- For the selected strategy, how sensitive is value to internal and external business factors?
- Which combination of strategies will generate the most total value?
- To what extent can the corporation fund its proposed strategies from internal sources, and how much additional debt or equity might have to be raised?

Implementing an Internal Value Creation Strategy



Analyze your company

Determine strategies and value drivers to focus on

Assess the value drivers and measure their impact on firm value

Design and implement the value creation plan

Implementing an Internal Value Creation Strategy

Step 1 — Analyze your company

1. Value your company "as is"	Based on the "DCF" model
2. Diagnose historical and current performance: • Financial analysis • Comparative analysis	Utilizing financial ratios, analyze company's historical trends and compare to industry data to identify problem areas or areas that need management focus

EXERCISE

Value Bulgarian Cement Co. "as is"
Comparative Financial Analysis

Analyze your company: Return on equity analysis

In Module I, we defined return on equity as "net income divided by shareholders' equity."

Return on equity can be further analyzed based on these components...

$$\frac{\textit{net income}}{\textit{equity}} = \frac{\textit{income}}{\textit{sales}} \times \frac{\textit{sales}}{\textit{assets}} \times \frac{\textit{assets}}{\textit{equity}}$$

Return on equity		*Net income margin*		*Asset utilization*		*Leverage*

Example:	*Return on equity*		*Net income margin*		*Asset Utilization*		*Leverage*
Company A	24%	=	8%		1.2		2.5
Company B	24%	=	14%	X	.6	X	2.9
Company C	24%	=	6%		.8		4.9

Implementing an Internal Value Creation Strategy

Step 2 — Determine strategies and value drivers to focus on

Based on the assessment of your company, focus on value creating strategies impacting the OPERATING, investment and financial value drivers...

Operating value drivers & strategies:

Value Drivers:

- *Sales Growth*
- *Operating Profit Margin*
- *Income tax rate*

Strategies:

- *Product mix*
- *Pricing*
- *Cost effectiveness*
- *Market selection*
- *Advertising*
- *Distribution*
- *Customer service*

EXERCISE

Choose from 3 scenarios analyzing product mix and pricing policies and select the strategy that enhances value the most.

EXERCISE

Cost leadership vs. differentiation

Step 2 Continued

Determine strategies and value drivers to focus on

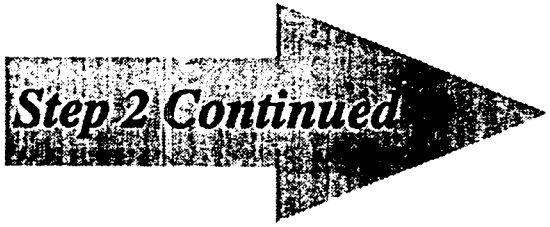
Based on the assessment of your company, focus on value creating strategies impacting the operating, INVESTMENT and financial value drivers...

Investment value drivers & strategies:

Value Drivers:	***Strategies:***
• *Working Capital*	• *Inventory levels*
• *Fixed Assets*	• *Collections*
	• *Payables management*
	• *Capacity expansion*
	• *Capital budgeting*
	• *Asset disposal*

EXERCISE

Managing working capital



Investment value drivers and strategies.

Ranking investment alternatives using CAPITAL BUDGETING techniques.

- Capital budgeting is the process of planning expenditures or investments that will provide returns beyond the current year.
- Capital budgeting is important to the future survival of the firm. Without it, the firm would not make the investments needed to remain competitive or allow it to increase its productive capacity.
- Examples of capital budgeting are determining whether to undertake expenditures for such projects as new buildings and equipment, purchase of land, permanent additions to working capital associated with plant expansion, long-term advertising campaigns, and research and development programs. Most large firms have capital budget programs.
- The **goal** of capital budgeting is to identify and undertake those projects that will ***maximize the present value of the firm.***

Step 2 Continued: *Investment Decisions - Capital Budgeting*

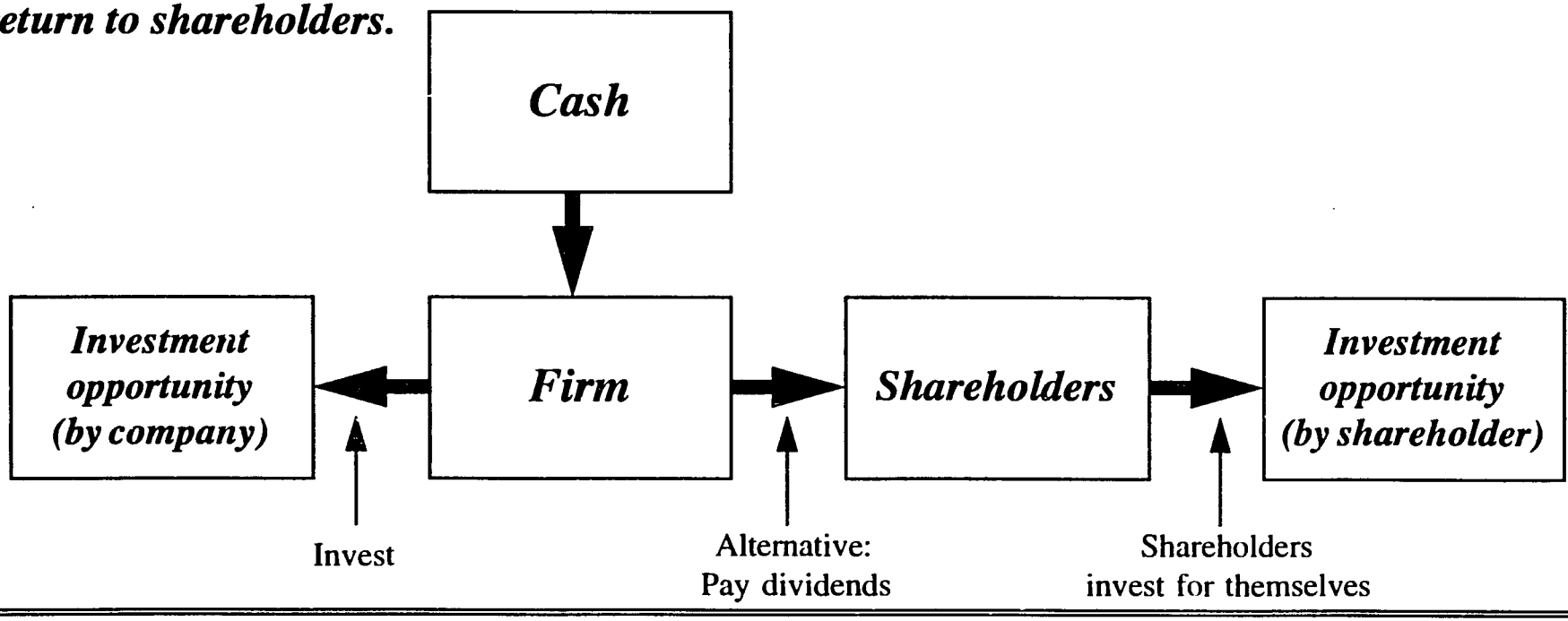
Capital budgeting is a long-term decision, and timing is important...

- Daily business operations are affected by normal business cycles. Capital needs may be "spontaneous," a result of the season for example, and not a result of specific management decisions.
- By contrast, capital investment is long-term in nature. The results of the investment will continue over an extended period of time. This makes such investment decisions irreversible. If the wrong decision is made there will be costs associated with changing the decision.
- Thus, it is important to carefully forecast company needs, analyze investment opportunities and determine the timing of the investments.
- If management does not understand the markets it sells in, they cannot plan for future needs of the company, analyze opportunities to meet those needs, and have investments "on-line" as demand for their product increases. This means competitors will meet those demands and the company will lose market share.

Step 2 Continued — *Investment Decisions - Capital Budgeting*

Capital Investment or Dividends?

Management must decide whether spending on capital investment or paying out increased dividends will provide a better return to shareholders.



Investment Decisions - Capital Budgeting
The Capital Budgeting Process

The five steps to analyzing and making the capital investment decision

1. Determine purpose for investment and identify investment options. For example:
   - Replacement or upgrade of old plant and equipment;
   - Expand capacity of existing product lines;
   - Expand production into new product lines;
   - Other
2. Analyze the costs and benefits associated with each investment opportunity.
   - Net Present Value;
   - Payback period and discounted payback period;
   - Profitability index;
3. Rank each investment opportunity.
4. Implement the chosen investment opportunities.
5. Ongoing monitoring of the investments.

Step 2 Continued

Investment Decisions - Capital Budgeting
The Capital Budgeting Process

1. Determine purpose for investment and identify investment options.

- *Replacement or upgrade of old plant and equipment;*

  The simplest investment decision to make. Old assets wear out or become obsolete and must be replaced.

- *Expand capacity of existing product lines;*

  Increased capacity of current product lines is often incorporated into replacement decisions.

- *Expand production into new product lines;*

  Increased uncertainty. Expanding into new product lines does not allow decisions based on the historical experience of current lines.

- *Other*

  Examples include: New pollution regulations that require capital investment to meet new standards, or new programs to improve employee productivity.

Step 2 Continued

Investment Decisions - Capital Budgeting
The Capital Budgeting Process

2. Analyze the costs and benefits associated with each investment opportunity.

– **Net Present Value.**

» Using the NPV method to evaluate a project is the same concept as using discounted cash flow to evaluate a business.

» All expenses incurred and revenues generated by the investment are forecasted. An opportunity cost of capital is calculated and the cash flows are discounted back to the present.

» *If the NPV is greater than zero, it is a worthwhile investment.*

» Only costs and benefits associated with the project should be considered. Company overhead should be excluded since it is incurred whether or not the project is undertaken.

» Cash flows of projects can also be incorporated into a company's business forecasts to analyze how the investment can enhance the overall value of the firm.

» In the example, project 1 offers the best return, while project 3 offers the worst return.

	Cash Flow per period				
Project	0	1	2	3	NPV @ 10%
1	-2,000	0	2,000	1,000	367
2	-5,000	4,000		2,000	263
3	-5,000	0	500	6,000	(72)

Step 2 Continued

Investment Decisions - Capital Budgeting
The Capital Budgeting Process

2. *Analyze the costs and benefits associated with each investment opportunity.*

- **Payback period:**
  - » This method looks at the number of years required to return the original investment.
  - » Assume a 3 year payback. According to the example below: based on payback only, a company would be indifferent between projects A and B.
  - » *In either case it would not even consider project C.*
  - » Thus, it could make a money losing investment (project A) and would miss out on the most profitable investment (project C)

	Cash Flow per period						
Project	0	1	2	3	4	Payback (Years)	NPV @ 10%
A	-5,000	2,000	2,000	2,000		2.5	-24
B	-5,000	4,000		2,000		2.5	263
C	-5,000	0	0	5,000	25,000	3.0	14,393

Step 2 Continued

Investment Decisions - Capital Budgeting
The Capital Budgeting Process

2. Analyze the costs and benefits associated with each investment opportunity.

– Profitability Index.

» The profitability index is the present value of the forecasted future cash flows divided by the initial investment (PI = PV/I)

» The PI tells us to accept all projects with an index greater than 1,

(i.e.., the PV > I, therefore the project must have a positive NPV)

» However, PI can be misleading. In the example below, if the company can only chose one project, according to the PI it would chose project X since it has a higher PI.

» *Looking at the incremental investment (Y-X) shows that it is greater than 1. Therefore you know that Y is the better investment.*

	Cash Flow per period						
Project	0	1	2	3	PV at 10%	Profitability Index	NPV @ 10%
X	-1,000	1,000	1,000	1,000	2,487	2.487	1,352
Y	-5,000	4,000	4,000	2,000	8,445	1.689	3,132
Y-X	-4,000	3,000	3,000	1,000	5,958	1.489	1,780

Investment Decisions - Capital Budgeting
The Capital Budgeting Process

Remaining steps:

3. Ranking each investment opportunity

- Once the cost benefit analysis has been completed, the investment opportunities can be ranked from those providing the highest NPV, to those providing the lowest.

4. Implementing the chosen investment opportunities

- At this point, management can then decide which projects it has the capital to invest in and proceed with these projects.

5. Ongoing monitoring of the chosen investments

- As the project is implemented, it should be continually monitored to check its performance against forecasts with adjustments made as needed.

Step 2 Continued

Investment Decisions - Capital Budgeting
The Capital Budgeting Process - Conclusion

Payback

- ***The Payback Method should not be used since it does not take into account the time value of money.***

Profitability Index

- ***When applied correctly, the profitability index will provide correct answers when analyzing investment opportunities. However, it is very easy to make mistakes, as the examples point out.***

Net Present Value

- ***The advantage of Net Present Value is that it is conceptually easy to use and understand.***
- ***Projects with a NPV > 0, should be accepted.***
- ***Given capital constraints, projects with NPVs > 0 can be easily ranked and those with the highest NPV accepted.***

The discounted net cash flow approach to analyzing opportunities incorporates the same concepts as the NPV method

Step 2 Continued

Investment Decisions - Capital Budgeting

EXERCISE ***Exercise in using capital budgeting ranking techniques***

EXERCISE ***Exercise in evaluation two alternative capital investment projects using the discounted cash flow method to see which project most enhances the value of the firm***

Step 2 Continued

Determine strategies and value drivers to focus on

Based on the assessment of your company, focus on value creating strategies impacting the operating, investment and FINANCIAL value drivers...

Financial value drivers & strategies:

Value Drivers:	***Strategies:***	
• *Cost of Equity/debt* • *Capital Structure*	• *Managing business risk* • *Maintaining the appropriate capital structure* • *Dividend policy*	***Reducing the business risk in your company decreases the rate of return (discount rate) an investor would require and thus increases the value of the business.***

Implementing an Internal Value Creation Strategy

Step 2 Continued

What internal business factors can management improve to reduce risk of investment in a business?

- ☑ Improve customer diversification
- ☑ Avoid reliance on too few suppliers
- ☑ Increase depth of management team
- ☑ Have audited financials prepared
- ☑ Diversify among product lines and in geographical areas
- ☑ Decrease fixed costs
- ☑ Have a history of planning and budgeting
- ☑ Optimize your debt structure

Reduce the equity discount rate in the model by 1% to determine the impact on company value...

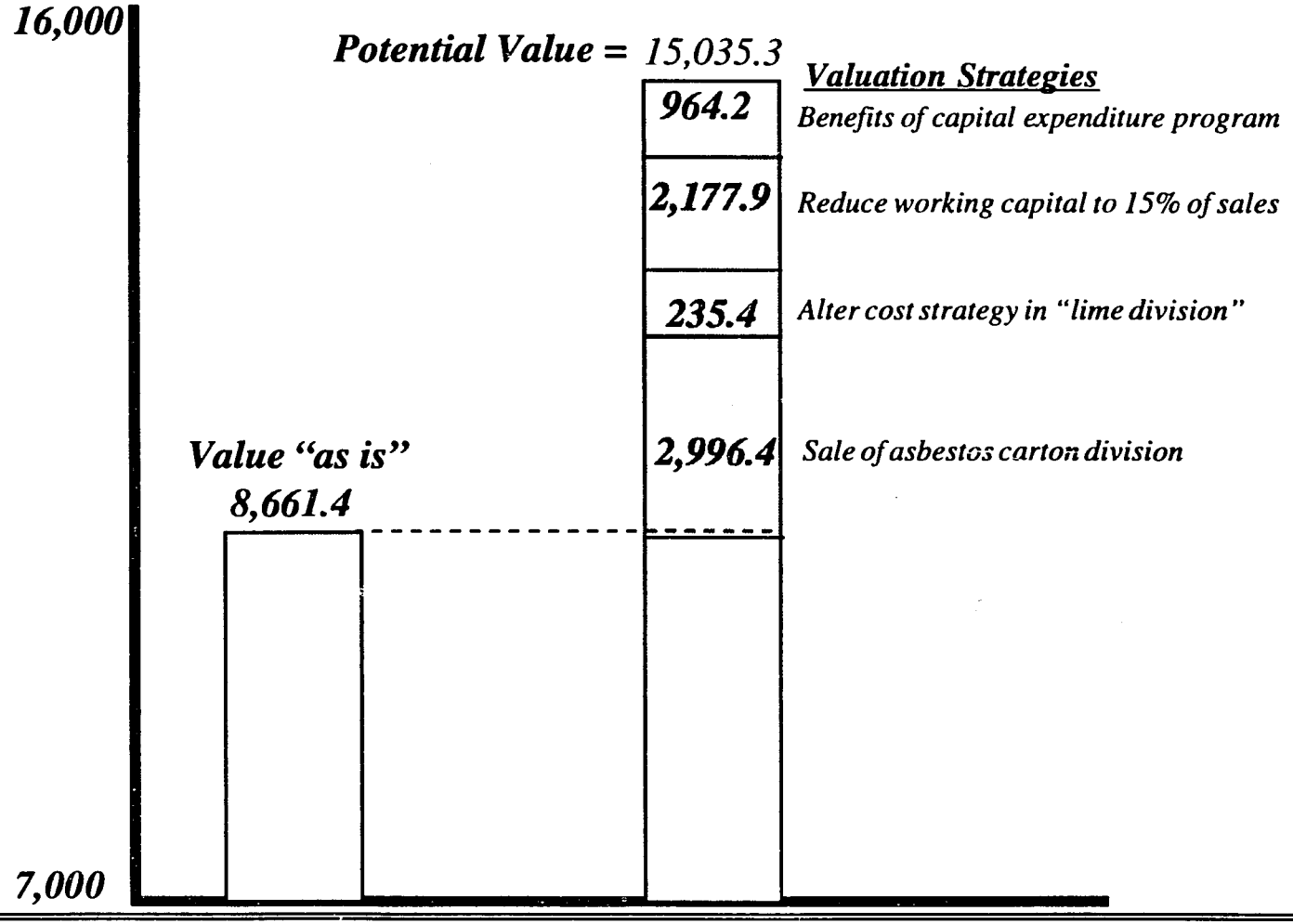
Assess the value drivers and measure their impact on firm value

1. Consider the impact on firm value of each value driver both individually and collectively.
2. Consider the impact of factors which may prevent certain value driver strategies to be applied. These factors can be classified as follows:
   - ☒ External factors
   - ☒ Internal factors

Step 3 continued

Assess the value drivers and measure their impact on firm value

❶ Consider the impact on firm value of each value driver both individually and collectively.



❷ ***External constraints can be classified as either economic, governmental, or industry constraints...***

Economic Constraints

Variable sales demand-seasonal/cyclical

Changes in consumer demand

Unemployment

Inflation

Exchange rate fluctuations

Government Constraints

Tax rates

Pricing

Monetary policy

Industry regulation

Labor issues

Monetary flexibility

Industry Constraints

Competitor prices

Quality of prices

Market capacity

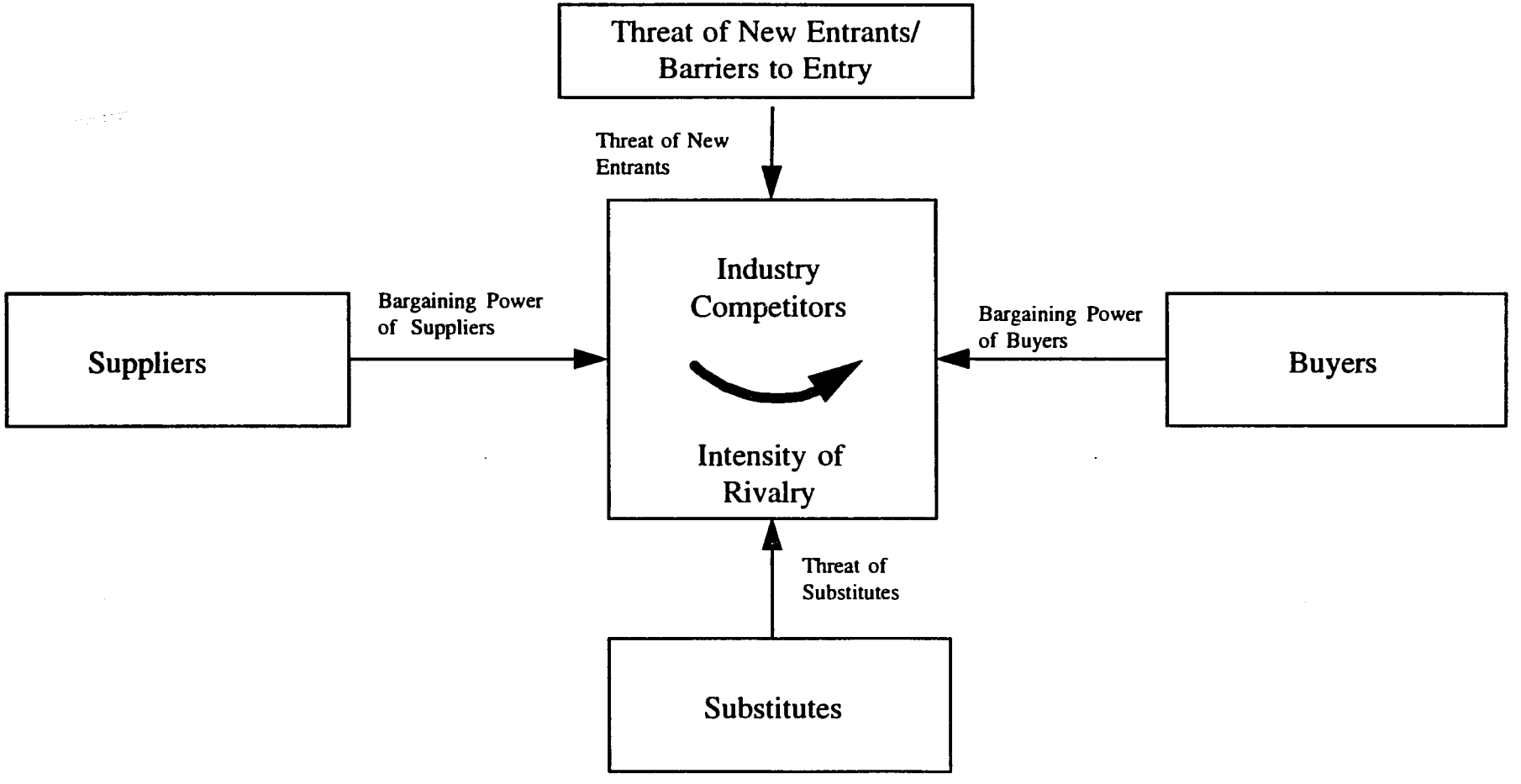
Customer demand

Raw material prices

Quality of service

Substitute products

Elements of Industry Structure



Implementing an Internal Value Creation Strategy

❷ ***Examples of internal constraints include the following:***

- *Capacity*
- *Production efficiency*
- *Labor unavailability/ turnover*
- *Management conflicts*
- *Lack of technological know-how*

After considering the impact on value of each value strategy, along with the internal and external constraints that might prevent certain strategies from being applied, a plan can be implemented...

Step 4 *Design and implement the value creation plan*

- **Select final strategies based on your assessment of the value drivers**
- **Measure the estimated total value added to the company by using the discounted cash flow model**
- **Implement the strategies**
- **Monitor and measure the results**

CASE STUDY

Module 2 Exercises and Handouts

Item	File name
Bulgarian Cement - Value as is	valasis.doc
Bulgarian Cement - Exhibits	bulgcem.wk4
Model answer to Value as is	value1.xls
Comparative analysis exercise	companal.doc
Product mix exercise using the model	prodmix.doc
Model answer to product mix scenario 1	pm-sc1
Model answer to product mix scenario 2	value2.xls
Model answer to product mix scenario 3	pm-sc3
Cost leadership versus differentiation strategy exercise using the model	diff-cos.doc
Model answer to differentiation vs. cost leadership scenario: cost leadership	value3.xls
Model answer to differentiation vs. cost leadership scenario: differentiation	val3-dif.xls
Exercise - Managing net working capital	nwcexer.doc
Exercise - Managing net working capital	nwcexer.xls
Model answer to changing nwc/sales to 15%	value4.xls
Capital budgeting exercise - analyzing two investment opportunities	capbudg.doc
Capital budgeting exercise - analyzing two investment opportunities	capbudg.xls
Capital budgeting exercise using the model	capex.doc
Capital budgeting exercise using the model	capex.xls
Capital budgeting exercise using the model - option B	value5.xls
Capital budgeting exercise using the model - option A	val5-cx2.xls
Case study - Canadian Plastics	plastic.doc
Case study - Canadian Plastics	plastic.wk3
Model answer to Canadian Plastics part A	plastic-a.xls
Model answer to Canadian Plastics part B: seller	plst-sel.xls
Model answer to Canadian Plastics part B: buyer option (lease)	plst-buy.xls
Model answer to Canadian Plastics part B: buyer option (buy)	plst-buy2.xls
Instructions for using the disocunted cash flow model	instruct.doc

IMPLEMENTING AN INTERNAL VALUE CREATION STRATEGY

STEP 1: ANALYZE YOUR COMPANY
VALUE YOUR COMPANY "AS IS"

The first step in implementing an internal value creation strategy is to value your company "as is." In Module I, you performed a valuation analysis of a cement company- Romanian Cement- using the DCF model. In this exercise, you will perform a valuation analysis of a subsidiary company -Bulgarian Cement- using the DCF model. Then, we will implement changes pursuant to our internal value creation strategy.

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS

- The Company has forecasts sales on a unit production basis for Cement, Lime, and Asbestos Cartons (Schedule IV).
- The Company has presented the existing capacity by product line (Schedule IV).
- The Company has forecasted prices for Cement, Lime, and Asbestos Cartons (Schedule IV).
- The Company has forecasted the cost per unit for each of its product lines (Schedule IV).

Step 2. INPUTS for Variable and Fixed Costs and Taxation

- Administrative and marketing costs are forecasted as a percent of sales at 1994 levels (Schedule II).
- Salaries will grow at 3 percent (Schedule II).
- The Company's tax rate is 40 percent.

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

- The Company's Buildings (Schedule I) are depreciated using the straight line method over 30 years.
- The Company's Machinery and Equipment (Schedule I) are depreciated using the straight line method over 15 years.
- The Company plans on making capital expenditures as presented in Schedule V.

Step 4. INPUTS for FORECASTED Long Term Financing

- The Company's revolving line of credit (Bank Loans) (Schedule I) has a weighted average cost of 25.0 percent.
- The Company does not have any current plans to incur any additional financing.

Step 5. INPUTS for Valuation Assumptions

- The required working capital as a percent of sales is forecasted based on the industry average working capital as a percent of sales of 19.6 percent.
- Residual growth rate = 6 percent.
- Cost of Equity = 35 percent.

Schedule 1: Selected Balance Sheet Data

Bulgarian Cement
Fair Market Value of the Owners' Equity
As of December 31, 1994

As of December 31, **Assets**	1992	1993	1994	1992	1993	1994	Romanian Cement	Industry
Current Assets								
Cash	1,875,262	1,970,983	1,835,465	7.0%	6.9%	5.7%	3.6%	6.7%
Accounts Receivable	5,893,680	7,426,893	8,264,561	22.0%	26.0%	25.7%	8.8%	11.2%
Inventories	5,009,628	5,427,345	5,438,080	18.7%	19.0%	16.9%	21.4%	6.6%
Other Receivables	214,316	199,955	120,794	0.8%	0.7%	0.4%	0.5%	
Letters of Credit	0	57,130	86,664	0.0%	0.2%	0.3%	0.3%	
Prepayments	53,579	342,780	334,953	0.2%	1.2%	1.0%	1.3%	
Total Current Assets	13,046,465	15,425,086	16,080,517	48.7%	54.0%	50.0%	36.0%	29.2%
Net Property, Plant, and Equipment								
Buildings	2,143,156	2,885,062	2,343,559	8.0%	10.1%	7.3%	9.2%	
Machinery and Equipment	11,599,834	10,254,826	13,749,561	43.3%	35.9%	42.7%	54.2%	
Net Property, Plant, and Equipment	13,742,991	13,139,888	16,093,120	51.3%	46.0%	50.0%	63.4%	95.8%
Other Assets	0	0	0	0.0%	0.0%	0.0%	0.6%	0.0%
Total Assets	26,789,456	28,564,974	32,173,637	100.0%	100.0%	100.0%	100.0%	100.0%

As of December 31, **Liabilities and Stockholders' Equity**	1992	1993	1994	1992	1993	1994	Romanian Cement	Industry
Current Liabilities								
Accounts Payable	1,098,368	1,428,249	1,325,648	4.1%	5.0%	4.1%	14.8%	6.4%
Bank Loans	1,687,736	1,771,028	1,560,694	6.3%	6.2%	4.9%	6.2%	
Other Creditors	884,052	914,079	835,932	3.3%	3.2%	2.6%	3.3%	
Miscellaneous	0	0	8,994	0.0%	0.0%	0.0%	0.0%	
Total Current Liabilities	3,670,155	4,113,356	3,731,268	13.7%	14.4%	11.6%	24.3%	18.3%
Long-Term Debt	0	0	0	0.0%	0.0%	0.0%	0.0%	13.1%
Other Long-Term Liabilities	562,579	656,994	627,906	2.1%	2.3%	2.0%	2.5%	
Total Liabilities	4,232,734	4,770,351	4,359,174	15.8%	16.7%	13.5%	26.8%	45.2%
Equity	22,556,722	23,794,623	27,814,463	84.2%	83.3%	86.5%	73.2%	47.0%
Total Liabilities and Equity	26,789,456	28,564,974	32,173,637	100.0%	100.0%	100.0%	100.0%	100.0%

Note: The Company has 1,000,000 shares outstanding as of 12/31/94.

Schedule 11. Selected Income Statement Data

Bulgarian Cement
Fair Market Value of the Owners' Equity
As of December 31, 1994

For the Year Ended December 31, Income Statements	1992	1993	1994	CAGR	1992	1993	1994	Romanian Cement	Industry
Sales	28,058,160	35,259,354	40,867,207	20.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	24,801,168	31,520,804	36,531,965	21.4%	88.4%	89.4%	89.4%	80.5%	78.8%
Gross Income	3,256,992	3,738,550	4,335,243	15.4%	11.6%	10.6%	10.6%	19.5%	21.2%
General and Administrative									
Administrative	1,038,152	1,198,818	1,625,644	25.1%	3.7%	3.4%	4.0%	2.0%	
Salaries	392,814	458,372	660,835	29.7%	1.4%	1.3%	1.6%	1.4%	
Marketing	0	0	186,064		0.0%	0.0%	0.5%	0.4%	
Total General and Adminstrative	1,430,966	1,657,190	2,472,543	31.4%	5.1%	4.7%	6.1%	3.8%	
Earnings Before Interest, Taxes and Depreciation	1,826,026	2,081,360	1,862,700	1.0%	6.5%	5.9%	4.6%	15.7%	22.4%
Depreciation	925,919	1,163,559	962,111	1.9%	3.3%	3.3%	2.4%	2.1%	7.5%
Earnings Before Interest and Taxes	900,107	917,802	900,589	0.0%	3.2%	2.6%	2.2%	13.6%	
Interest Expense	589,221	705,187	1,031,143	32.3%	2.1%	2.0%	2.5%	2.2%	3.6%
Earnings Before Taxes	310,885	212,615	(130,554)		1.1%	0.6%	-0.3%	11.4%	11.6%
Taxes (1)	124,354	85,046	(52,222)		0.4%	0.2%	-0.1%	3.3%	
Net Income	186,531	127,569	(78,332)		0.7%	0.4%	-0.2%	8.1%	7.8%

Note (1): The Company's tax rate is 40 percent.
CAGR=Compound Annual Growth Rate

Schedule III: Ratio Analysis

Bulgarian Cement
Fair Market Value of the Owners' Equity
As of December 31, 1994

As of December 31,

Income Statements	1992	1993	1994	Romanian Cement	Industry
LIQUIDITY					
Current ratio	3.55	3.75	4.31	1.48	1.40
Working Capital/Sales	33.4%	32.1%	30.2%	6.4%	19.6%
Receivable Turnover	4.8	4.7	4.9	20.8	7.60
Days Receivable	76.67	76.88	73.81	17.53	48.00
Payables Turnover	22.58	22.07	27.56	9.94	6.08
Days Payable	16.16	16.54	13.24	36.70	60.00
Inventory Turnover	4.95	5.81	6.72	6.89	6.64
Days Inventory	73.73	62.85	54.33	52.99	55.00
LEVERAGE					
Long-term debt/Total Capital	0.0%	0.0%	0.0%	0.0%	39.7%
Interest Coverage	1.53	1.30	0.87	6.13	4.10
RETURNS					
ROA	0.7%	0.4%	-0.2%	14.9%	10.0%
Gross Income	11.6%	10.6%	10.6%	19.5%	20.0%
Profit per unit - Cement	10.0%	10.0%	10.9%	20.8%	
Profit per unit - Lime	20.0%	18.8%	17.6%	27.9%	
Profit per unit - Asbestos Cartons	15.0%	10.8%	6.3%	6.3%	
ROE Breakdown					
Net Income/Sales	0.7%	0.4%	-0.2%	8.1%	7.8%
Sales/Total Assets	1.05	1.23	1.27	1.83	0.56
Total Assets/Equity	1.19	1.20	1.16	1.37	4.74
ROE	0.8%	0.5%	-0.3%	20.3%	20.7%
EFFICIENCY					
Asset Turnover	1.05	1.23	1.27	1.83	0.57
Fixed Asset Turnover	2.04	2.68	2.54	2.89	0.64

Schedule IV: Historical and Forecasted Product Sales

Bulgarian Cement
Fair Market Value of the Owners' Equity
.s of December 31, 1994

	Historical			Forecasted				
	1992	1993	1994	1995E	1996E	1997E	1998E	1999E
PRODUCT SALES								
CEMENT								
Cement Sales (tons)	1,[illegible]00	2,340	2,691	3,000	3,000	3,000	3,000	3,000
Percent change		30.0%	15.0%	11.5%	0.0%	0.0%	0.0%	0.0%
Cement Price per ton (average)	11,588	11,936	12,413	12,910	13,555	14,233	14,944	15,692
Percent change		3.0%	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%
Capacity - Cement (tons)	2,500	2,500	3,000	3,000	3,000	3,000	3,000	3,000
Capacity Utilization	72.0%	93.6%	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
LIME								
Lime Sales (tons)	180	190	200	220	250	300	325	325
Percent change		5.6%	5.3%	10.0%	13.6%	20.0%	8.3%	0.0%
Lime Price per ton	10,132	10,284	10,438	10,438	10,438	10,438	10,438	10,438
Percent change		1.5%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Capacity - Lime (tons)	500	500	500	500	500	500	500	500
Capacity Utilization	36.0%	38.0%	40.0%	44.0%	50.0%	60.0%	65.0%	65.0%
ASBESTOS CARTONS								
Asbestos Cartons (000s Square Meters)	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500
Percent change		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asbestos Cartons (price per 000 Square Meters)	512	512	512	512	512	512	512	512
Percent change		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capacity - Asbestos Cartons (000s Square Meters)	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000
Capacity Utilization	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
PRODUCT COSTS								
Cement (cost per ton)	10,429	10,742	11,064	11,396	11,738	12,090	12,453	12,827
Percent change		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Lime (cost per tons)	8,106	8,349	8,599	8,857	9,123	9,397	9,679	9,969
Percent change		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Asbestos Cartons (cost per Square Meter)	435	457	480	504	529	555	583	612
Percent change		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Schedule V: Capital Expenditure Forecasts

Bulgarian Cement
Fair Market Value of the Owners' Equity
As of December 31, 1994

Forecasted for the year ending	1995	1996	1997	1998	1999
Capital Expenditures					
New Building	0	0	0	0	0
Machinery and Equipment	0	0	0	0	0
Replacement of Machinery and Equipment (1)	100,000	100,000	100,000	100,000	100,000
Total Capital Expenditures	100,000	100,000	100,000	100,000	100,000

Note:
(1) Replacement of the Machinery and Equipment is depreciated on a straight line basis over 15 years.

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	10,500	10,500	10,500	10,500	10,500
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	8,661,372 INPUT Forecasted Unit Price Growth Rates				
Cement	12,413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	0.0%	0.0%	0.0%	0.0%	0.0%
Asbestos Cartons	512	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,599	3.0%	3.0%	3.0%	3.0%	3.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,625,644	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	186,064	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

Discounted Net Cash Flow Model

INPUT SECTION

Bulgarian Cement
Privatization
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Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

		INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
A INPUT Current Year Depreciation Expense	962,111		
B INPUT Current Depreciable Assets			
Short depreciable life (1-5 years)		0	0
Medium depreciable life (6-19 years)		13,749,561	15
Long depreciable life (20+)		2,343,559	30
Total		16,093,120	

C INPUT Capital Expenditures in	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	100,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A INPUTS for Current and Forecasted Long Term Debt Financing
INPUT Current Year Interest Expense (In Currency) 1,031,143

Bank Loans		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694

Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B INPUTS for Forecasted Equity Financing		INPUT Discreet Equity Issues/Repurchases Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	19.6%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	0
Residual Growth Rate	6.0%		

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Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	46,400,920	48,650,488	51,205,637	53,601,499	55,843,157
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	41,428,293	43,050,663	44,923,132	46,629,471	48,150,878
	59.4%	59.8%	55.5%	57.7%	57.0%	56.2%
Gross Margin	4,333,959	4,972,627	5,599,825	6,282,505	6,972,028	7,692,278
	10.6%	10.7%	11.5%	12.3%	13.0%	13.5%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	2,088,041	2,189,272	2,304,254	2,412,067	2,512,942
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,768,701	2,890,352	3,026,366	3,155,843	3,279,031
	6.1%	6.0%	5.9%	5.9%	5.9%	5.9%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,203,925	2,709,474	3,256,139	3,816,185	4,413,247
	4.6%	4.7%	5.6%	6.4%	7.1%	7.9%
Depreciation (PAGE 5)	962,111	1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Earnings Before Interest and Taxes (EBIT)	899,305	1,202,502	1,701,384	2,241,383	2,794,762	3,385,158
Interest Expense (PAGE 4)	1,031,143	390,174	390,174	390,174	390,174	390,174
Profit Before Tax	(131,838)	812,329	1,311,211	1,851,210	2,404,589	2,994,985
	-0.3%	1.5%	2.7%	3.6%	4.5%	5.4%
Tax Provision	(52,735)	324,932	524,484	740,484	961,835	1,197,994
Profit After Tax	(79,103)	487,397	786,726	1,110,726	1,442,753	1,796,991
	-0.2%	1.1%	1.6%	2.2%	2.7%	3.2%
Free Cash Flow						
Profit After Tax		487,397	786,726	1,110,726	1,442,753	1,796,991
Depreciation		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Additional working capital requirements		(1,084,652)	(440,915)	(500,809)	(469,589)	(439,365)
Capital investment		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		304,168	1,253,900	1,524,672	1,894,587	2,285,715
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		261,786	799,397	720,016	662,745	592,271
				Residual Value		4,962,357
Sum of Present Value of Cash Flows	3,036,215					
Present Value of Residual	1,285,837					
Preliminary Value	4,322,052					
Working capital (deficiency) surplus	4,339,320					
Non-operating assets	0					
Equity value indication	8,661,372					
Total shares outstanding	1,000,000					
Equity value per share	8.66					

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	10,500	10,500	10,500	10,500	10,500
Unit Capacity						
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	44.0%	50.0%	60.0%	65.0%	65.0%
Asbestos Cartons	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,438	10,438	10,438	10,438	10,438
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	40,664,988	42,698,237	44,833,149	47,074,807
Lime	2,087,600	2,296,360	2,609,500	3,131,400	3,392,350	3,392,350
Asbestos Cartons	5,376,000	5,376,000	5,376,000	5,376,000	5,376,000	5,376,000
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,857	9,123	9,396	9,678	9,969
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	35,213,393	36,269,795	37,357,888	38,478,625
Lime	1,719,800	1,948,533	2,280,670	2,818,908	3,145,431	3,239,794
Asbestos Cartons	5,040,000	5,292,000	5,556,600	5,834,430	6,126,152	6,432,459
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.6%	10.0%	7.3%	4.5%
Asbestos Cartons	6.3%	1.6%	-3.4%	-8.5%	-14.0%	-19.7%
TOTAL SALES	40,866,983	46,400,920	48,650,488	51,205,637	53,601,499	55,843,157
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	41,428,293	43,050,663	44,923,132	46,629,471	48,150,878

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,856,037	1,946,020	2,048,225	2,144,060	2,233,726
Marketing	186,064	232,005	243,252	256,028	268,007	279,216
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	2,088,041	2,189,272	2,304,254	2,412,067	2,512,942
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	2,088,041	2,189,272	2,304,254	2,412,067	2,512,942
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	390,174	390,174	390,174	390,174	390,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	3.08	4.36	5.74	7.16	8.68

Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		6,667	6,667	6,667	6,667	6,667
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089

IMPLEMENTING AN INTERNAL VALUE CREATION STRATEGY

STEP 1: ANALYZE YOUR COMPANY
COMPARATIVE ANALYSIS EXERCISE

In this exercise, you will analyze the historical and current financial performance of Bulgarian Cement and identify the company's strengths and weaknesses relative to Romanian Cement as well as to the industry. The goal of this benchmarking exercise is identify possible areas of improvement in order to manage the company's financial condition toward maximum value.

You are provided with three years of historical balance sheets, income statements, and ratio analysis of Bulgarian Cement. In addition, you are given benchmarking data from Romanian Cement and from the cement industry.

First, calculate the missing historical ratios in Schedule III marked ROE Breakdown. Next, using the provided information identify the areas of strength and weakness with respect to the following categories: *Liquidity, Leverage, Profitability, and Efficiency.*

IMPLEMENTING AN INTERNAL VALUE CREATION STRATEGY

STEP 2: IDENTIFY VALUE DRIVERS- OPERATING DRIVERS
PRODUCT MIX ANALYSIS EXERCISE

In this exercise, you have been given three scenarios for adding value to Bulgarian Cement by varying the company's pricing and product mix as it relates to the Asbestos Carton division. Using the DCF model, determine the most appropriate strategy for adding value. Given the nature of the Asbestos carton industry in Bulgaria as a price competitive environment, which one(s) is (are) the most feasible?

Scenario I:

- Increase the growth in Asbestos Carton prices to 5 percent growth in each year of the forecast.
- Because prices increase, the demand for Asbestos Cartons decreases and Asbestos Carton unit sales decrease by 5 percent in each year of the forecast.

Scenario II:

- Divest the Asbestos Cartons product line in 1994.
- Receive 500,000 Lei in cash (record as a non-operating asset).

Scenario III:

- Expand production of the Asbestos Cartons to 75 percent of capacity in each year of the forecast.
- Because of economies of scale, reduce cost per unit growth to 1.0 percent growth in each year of the forecast.

Discounted Net Cash Flow Model

Bulgarian Cement
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INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,091	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	9,975	9,476	9,002	8,552	8,125
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Cement	12,413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	0.0%	0.0%	0.0%	0.0%	0.0%
Asbestos Cartons	512	5.0%	5.0%	5.0%	5.0%	5.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,599	3.0%	3.0%	3.0%	3.0%	3.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,025,044	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	180,064	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A INPUT Current Year Depreciation Expense: 962,111

B INPUT Current Depreciable Assets	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	13,748,561	15
Long depreciable life (20+)	2,311,559	30
Total	16,093,120	

C INPUT Capital Expenditures in

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	100,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 1,031,147

Bank Loans

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694

Debt Instrument #2

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #3

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #4

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #5

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B INPUTS for Forecasted Equity Financing

		INPUT Discrete Equity Issues Repurchases Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	19.6%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	0
Residual Growth Rate	6.0%		

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	46,387,480	48,623,642	51,165,418	53,547,941	55,776,292
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	41,163,693	42,508,894	44,090,997	45,493,108	46,695,734
	89.4%	88.7%	87.4%	86.2%	85.0%	83.7%
Gross Margin	4,333,959	5,223,787	6,114,748	7,074,421	8,054,832	9,080,558
	10.6%	11.3%	12.6%	13.8%	15.0%	16.3%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	2,087,437	2,188,064	2,302,444	2,409,657	2,509,933
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,768,097	2,889,144	3,024,556	3,153,433	3,276,022
	6.1%	6.0%	5.9%	5.9%	5.9%	5.9%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,455,690	3,225,604	4,049,865	4,901,399	5,804,536
	4.6%	5.3%	6.6%	7.9%	9.2%	10.4%
Depreciation (PAGE 5)	962,111	1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Earnings Before Interest and Taxes (EBIT)	899,305	1,454,267	2,217,514	3,035,109	3,879,976	4,776,447
Interest Expense (PAGE 4)	1,031,143	390,174	390,174	390,174	390,174	390,174
Profit Before Tax	(131,838)	1,064,094	1,827,341	2,644,936	3,489,803	4,386,273
	-0.3%	2.3%	3.8%	5.2%	6.5%	7.9%
Tax Provision	(52,735)	425,638	730,936	1,057,974	1,395,921	1,754,509
Profit After Tax	(79,103)	638,456	1,096,405	1,586,961	2,093,882	2,631,764
	-0.2%	1.4%	2.3%	3.1%	3.9%	4.7%
Free Cash Flow						
Profit After Tax		638,456	1,096,405	1,586,961	2,093,882	2,631,764
Depreciation		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Additional working capital requirements		(1,082,017)	(438,288)	(498,188)	(466,974)	(436,757)
Capital investment		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		457,862	1,566,206	2,003,529	2,548,330	3,123,097
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		394,064	998,501	946,153	891,431	809,251
				Residual Value		8,023,130
Sum of Present Value of Cash Flows	4,039,400					
Present Value of Residual	2,078,940					
Preliminary Value	6,118,339					
Working capital (deficiency) surplus	4,339,320					
Non-operating assets	0					
Equity value indication	10,457,660					
Total shares outstanding	1,000,000					
Equity value per share	10.46					

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	9,975	9,476	9,002	8,552	8,125
Unit Capacity						
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	44.0%	50.0%	60.0%	65.0%	65.0%
Asbestos Cartons	50.0%	47.5%	45.1%	42.9%	40.7%	38.7%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,438	10,438	10,438	10,438	10,438
Asbestos Cartons	512	538	564	593	622	653
Total Sales by Product						
Cement	33,403,383	38,728,560	40,664,988	42,698,237	44,833,149	47,074,807
Lime	2,087,600	2,296,360	2,609,500	3,131,400	3,392,350	3,392,350
Asbestos Cartons	5,376,000	5,362,560	5,349,154	5,335,781	5,322,441	5,309,135
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,857	9,123	9,396	9,678	9,969
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	35,213,393	36,269,795	37,357,888	38,478,625
Lime	1,719,800	1,948,533	2,280,670	2,818,908	3,145,431	3,239,794
Asbestos Cartons	5,040,000	5,027,400	5,014,832	5,002,294	4,989,789	4,977,314
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.6%	10.0%	7.3%	4.5%
Asbestos Cartons	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
TOTAL SALES	40,866,983	46,387,480	48,623,642	51,165,418	53,547,941	55,776,292
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	41,163,693	42,508,894	44,090,997	45,493,108	46,695,734

Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,855,499	1,944,946	2,046,617	2,141,918	2,231,052
Marketing	186,064	231,937	243,118	255,827	267,740	278,881
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	2,087,437	2,188,064	2,302,444	2,409,657	2,509,933
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	2,087,437	2,188,064	2,302,444	2,409,657	2,509,933
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	390,174	390,174	390,174	390,174	390,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	3.73	5.68	7.78	9.94	12.24

Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		6,667	6,667	6,667	6,667	6,667
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089

Discounted Net Cash Flow Model

Bulgarian Cement
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INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	11,657,777 INPUT Forecasted Unit Price Growth Rates				
Cement	12,413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	0.0%	0.0%	0.0%	0.0%	0.0%
Asbestos Cartons	512	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,599	3.0%	3.0%	3.0%	3.0%	3.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,625,644	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	186,064	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

Discounted Net Cash Flow Model

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INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A. INPUT Current Year Depreciation Expense: 962,111

B. INPUT Current Depreciable Assets

	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	13,749,561	15
Long depreciable life (20+)	2,343,559	30
Total	16,093,120	

C. INPUT Capital Expenditures in

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	100,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A. INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 1,031,143

Bank Loans

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 25.0%

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Forecasted Variable Interest Rates					
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694

Debt Instrument #2

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 0.0%

INPUT Forecasted Variable Interest Rates					
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0	0	0	0	0
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	0	0	0	0	0

Debt Instrument #3

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 0.0%

INPUT Forecasted Variable Interest Rates					
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0	0	0	0	0
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	0	0	0	0	0

Debt Instrument #4

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 0.0%

INPUT Forecasted Variable Interest Rates					
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0	0	0	0	0
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	0	0	0	0	0

Debt Instrument #5

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 0.0%

INPUT Forecasted Variable Interest Rates					
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0	0	0	0	0
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	0	0	0	0	0

B. INPUTS for Forecasted Equity Financing

	INPUT Discreet Equity Issues Repurchases Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT New Equity Issues (In Currency)	0	0	0	0	0
INPUT Equity Repurchases (In Currency)	0	0	0	0	0
INPUT Total Shares Issued (Repurchased)	0	0	0	0	0

INPUT Current Shares Outstanding: 1,000,000

Step 5. INPUT Valuation Assumptions

Working capital/sales	19.6%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	500,000
Residual Growth Rate	6.0%		

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	41,024,920	43,274,488	45,829,637	48,225,499	50,467,157
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	36,136,293	37,494,063	39,088,702	40,503,320	41,718,419
	89.4%	88.1%	86.6%	85.3%	84.0%	82.7%
Gross Margin	4,333,959	4,888,627	5,780,425	6,740,935	7,722,180	8,748,737
	10.6%	11.9%	13.4%	14.7%	16.0%	17.3%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	1,846,121	1,947,352	2,062,334	2,170,147	2,271,022
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,526,781	2,648,432	2,784,446	2,913,923	3,037,111
	6.1%	6.2%	6.1%	6.1%	6.0%	6.0%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,361,845	3,131,994	3,956,489	4,808,256	5,711,626
	4.6%	5.8%	7.2%	8.6%	10.0%	11.3%
Depreciation (PAGE 5)	962,111	1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Earnings Before Interest and Taxes (EBIT)	899,305	1,360,422	2,123,904	2,941,733	3,786,834	4,683,537
Interest Expense (PAGE 4)	1,031,143	390,174	390,174	390,174	390,174	390,174
Profit Before Tax	(131,838)	970,249	1,733,731	2,551,560	3,396,660	4,293,364
	-0.3%	2.4%	4.0%	5.6%	7.0%	8.5%
Tax Provision	(52,735)	388,100	693,492	1,020,624	1,358,664	1,717,345
Profit After Tax	(79,103)	582,149	1,040,238	1,530,936	2,037,996	2,576,018
	-0.2%	1.4%	2.4%	3.3%	4.2%	5.1%
Free Cash Flow						
Profit After Tax		582,149	1,040,238	1,530,936	2,037,996	2,576,018
Depreciation		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Additional working capital requirements		(30,956)	(440,915)	(500,809)	(469,589)	(439,365)
Capital investment		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		1,452,616	1,507,412	1,944,882	2,489,830	3,064,743
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		1,250,213	961,018	918,457	870,967	794,131
				Residual Value		7,809,836
Sum of Present Value of Cash Flows	4,794,786					
Present Value of Residual	2,023,671					
Preliminary Value	6,818,457					
Working capital (deficiency) surplus	4,339,320					
Non-operating assets	500,000					
Equity value indication	11,657,777					
Total shares outstanding	1,000,000					
Equity value per share	11.66					

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Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	0	0	0	0	0
Unit Capacity						
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	44.0%	50.0%	60.0%	65.0%	65.0%
Asbestos Cartons	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,438	10,438	10,438	10,438	10,438
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	40,664,988	42,698,237	44,833,149	47,074,807
Lime	2,087,600	2,296,360	2,609,500	3,131,400	3,392,350	3,392,350
Asbestos Cartons	5,376,000	0	0	0	0	0
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,857	9,123	9,396	9,678	9,969
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	35,213,393	36,269,795	37,357,888	38,478,625
Lime	1,719,800	1,948,533	2,280,670	2,818,908	3,145,431	3,239,794
Asbestos Cartons	5,040,000	0	0	0	0	0
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.6%	10.0%	7.3%	4.5%
Asbestos Cartons	6.3%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SALES	40,866,983	41,024,920	43,274,488	45,829,637	48,225,499	50,467,157
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	36,136,293	37,494,063	39,088,702	40,503,320	41,718,419

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,640,997	1,730,980	1,833,185	1,929,020	2,018,686
Marketing	186,064	205,125	216,372	229,148	241,127	252,336
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	1,846,121	1,947,352	2,062,334	2,170,147	2,271,022
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	1,846,121	1,947,352	2,062,334	2,170,147	2,271,022
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	390,174	390,174	390,174	390,174	390,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	3.49	5.44	7.54	9.71	12.00

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		6,667	6,667	6,667	6,667	6,667
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
INPUT Product Names and Forecasted Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	15,750	15,750	15,750	15,750	15,750
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	0.960453 INPUT Forecasted Unit Price Growth Rates				
Cement	12.413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10.438	0.0%	0.0%	0.0%	0.0%	0.0%
Asbestos Cartons	5.2	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11.064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	5.556	3.0%	3.0%	3.0%	3.0%	3.0%
Asbestos Cartons	4.60	1.0%	1.0%	1.0%	1.0%	1.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,625,044	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	150,064	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

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Discounted Net Cash Flow Model

Bulgarian Cement
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As of December 31, 1994

INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

		INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
A. INPUT Current Year Depreciation Expense	962,111		
B. INPUT Current Depreciable Assets			
Short depreciable life (1-5 years)		0	0
Medium depreciable life (6-19 years)		13,749,561	15
Long depreciable life (20+)		2,343,559	30
Total		16,093,120	

C. INPUT Capital Expenditures in	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	100,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A. INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency) 1,031,143

		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Bank Loans						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B. INPUTS for Forecasted Equity Financing

		INPUT Discreet Equity Issues Repurchases				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	19.6%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	0
Residual Growth Rate	6.0%		

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Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	49,088,920	51,338,488	53,893,637	56,289,499	58,531,157
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	43,771,893	45,206,019	46,877,778	48,370,286	49,664,055
	89.4%	89.2%	88.1%	87.0%	85.9%	84.9%
Gross Margin	4,333,959	5,317,027	6,132,469	7,015,859	7,919,213	8,867,101
	10.6%	10.8%	11.9%	13.0%	14.1%	15.1%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	2,209,001	2,310,232	2,425,214	2,533,027	2,633,902
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,889,661	3,011,312	3,147,326	3,276,803	3,399,991
	6.1%	5.9%	5.9%	5.8%	5.8%	5.8%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,427,365	3,121,158	3,868,533	4,642,410	5,467,110
	4.6%	4.9%	6.1%	7.2%	8.2%	9.3%
Depreciation (PAGE 5)	962,111	1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Earnings Before Interest and Taxes (EBIT)	899,305	1,425,942	2,113,068	2,853,777	3,620,987	4,439,021
Interest Expense (PAGE 4)	1,031,143	390,174	390,174	390,174	390,174	390,174
Profit Before Tax	(131,838)	1,035,769	1,722,895	2,463,604	3,230,814	4,048,848
	-0.3%	2.1%	3.4%	4.6%	5.7%	6.9%
Tax Provision	(52,735)	414,308	689,158	985,442	1,292,326	1,619,539
Profit After Tax	(79,103)	621,461	1,033,737	1,478,162	1,938,488	2,429,309
	-0.2%	1.3%	2.0%	2.7%	3.4%	4.2%
Free Cash Flow						
Profit After Tax		621,461	1,033,737	1,478,162	1,938,488	2,429,309
Depreciation		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Additional working capital requirements		(1,611,500)	(440,915)	(500,809)	(469,589)	(439,365)
Capital investment		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		(88,616)	1,500,911	1,892,109	2,390,322	2,918,033
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		(76,268)	956,873	893,535	836,158	756,116
				Residual Value		7,273,587

Sum of Present Value of Cash Flows	3,366,414
Present Value of Residual	1,884,719
Preliminary Value	5,251,133
Working capital (deficiency) surplus	4,339,320
Non-operating assets	0
Equity value indication	9,590,453
Total shares outstanding	1,000,000
Equity value per share	9.59

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	15,750	15,750	15,750	15,750	15,750
Unit Capacity						
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	44.0%	50.0%	60.0%	65.0%	65.0%
Asbestos Cartons	50.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,438	10,438	10,438	10,438	10,438
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	40,664,988	42,698,237	44,833,149	47,074,807
Lime	2,087,600	2,296,360	2,609,500	3,131,400	3,392,350	3,392,350
Asbestos Cartons	5,376,000	8,064,000	8,064,000	8,064,000	8,064,000	8,064,000
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,857	9,123	9,396	9,678	9,969
Asbestos Cartons	480	485	490	495	499	504
Total Costs by Product						
Cement	29,773,224	34,187,760	35,213,393	36,269,795	37,357,888	38,478,625
Lime	1,719,800	1,948,533	2,280,670	2,818,908	3,145,431	3,239,794
Asbestos Cartons	5,040,000	7,635,600	7,711,956	7,789,076	7,866,966	7,945,636
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.6%	10.0%	7.3%	4.5%
Asbestos Cartons	6.3%	5.3%	4.4%	3.4%	2.4%	1.5%
TOTAL SALES	40,866,983	49,088,920	51,338,488	53,893,637	56,289,499	58,531,157
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	43,771,893	45,206,019	46,877,778	48,370,286	49,664,055

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,963,557	2,053,540	2,155,745	2,251,580	2,341,246
Marketing	186,064	245,445	256,692	269,468	281,447	292,656
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	2,209,001	2,310,232	2,425,214	2,533,027	2,633,902
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	2,209,001	2,310,232	2,425,214	2,533,027	2,633,902
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	390,174	390,174	390,174	390,174	390,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	3.65	5.42	7.31	9.28	11.38

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		6,667	6,667	6,667	6,667	6,667
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089

IMPLEMENTING AN INTERNAL VALUE CREATION STRATEGY

STEP 2: IDENTIFY VALUE DRIVERS- OPERATING DRIVERS
COST LEADERSHIP VS. DIFFERENTIATION STRATEGY EXERCISE

In this exercise, you are to decide whether or not to pursue a cost leadership strategy or a differentiation strategy for Bulgarian Cement's lime division. Quantify the value difference of the strategies using the DCF model. Which is more realistic for the lime/cement industy?

Differentiation:

- Pursue growth in market segments in which buyer is willing to pay premium for differentiation. Command a premium price: increase lime price growth to 3.0 percent in each year of the forecast.
- The company incurs advertising costs with this new strategy: increase forecasted marketing expenses to 2.0 percent of sales for 1995 and 1996

Cost Leadership:

- Maintain competitive prices: reduce lime prices -1.0 percent for the first three years of the forecast (1995-1997).
- Decreasing price increases volume demanded: increase units sold to 250 units/year over 1995-1996 and 350 units/year over 1997-1999.
- Search for cost-reducing linkages with suppliers based on supplier's product design, quality, packaging, order processing, etc: reduce cost per unit growth to 2.0 percent.
- Eliminate overhead that does nor add value to the lime product: decrease Administrative Costs to 3.8 percent from 4.0 percent.

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(IF T is selected, proceed to #1C. IF U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	250	250	350	350	350
Asbestos Cartons	10,500	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	11,893,212 INPUT Forecasted Unit Price Growth Rates				
Cement	12,413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	-1.0%	-1.0%	-1.0%	0.0%	0.0%
Asbestos Cartons	512	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,599	2.0%	2.0%	2.0%	2.0%	2.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,625,644	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	186,064	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

Discounted Net Cash Flow Model

Bulgarian Cement
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INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A INPUT Current Year Depreciation Expense: 962,111

B INPUT Current Depreciable Assets	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	13,749,561	15
Long depreciable life (20+)	2,343,559	30
Total	16,093,120	

C INPUT Capital Expenditures in

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	100,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 1,031,143

Bank Loans

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694

Debt Instrument #2

INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #3

INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #4

INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #5

INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B INPUTS for Forecasted Equity Financing

		INPUT Discreet Equity Issues Repurchases Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	19.6%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	500,000
Residual Growth Rate	6.0%		

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	41,311,965	43,222,559	46,243,031	48,377,943	50,619,600
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	36,380,505	37,449,993	39,463,659	40,615,630	41,801,522
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross Margin	4,333,959	4,931,460	5,772,566	6,779,371	7,762,312	8,818,078
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	1,776,414	1,858,570	1,988,450	2,080,252	2,176,643
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,457,075	2,559,650	2,710,563	2,824,027	2,942,732
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,474,385	3,212,916	4,068,809	4,938,285	5,875,347
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Depreciation (PAGE 5)	962,111	1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Earnings Before Interest and Taxes (EBIT)	899,305	1,472,963	2,204,827	3,054,053	3,916,862	4,847,257
Interest Expense (PAGE 4)	1,031,143	390,174	390,174	390,174	390,174	390,174
Profit Before Tax	(131,838)	1,082,789	1,814,653	2,663,879	3,526,689	4,457,084
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tax Provision	(52,735)	433,116	725,861	1,065,552	1,410,676	1,782,833
Profit After Tax	(79,103)	649,674	1,088,792	1,598,328	2,116,013	2,674,250
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Free Cash Flow						
Profit After Tax		649,674	1,088,792	1,598,328	2,116,013	2,674,250
Depreciation		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Additional working capital requirements		(87,216)	(374,476)	(592,012)	(418,443)	(439,365)
Capital investment		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		1,463,880	1,622,405	1,921,071	2,618,993	3,162,975
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		1,259,907	1,034,329	907,213	916,149	819,585
				Residual Value		8,168,891

Sum of Present Value of Cash Flows	4,937,182
Present Value of Residual	2,116,709
Preliminary Value	7,053,891
Working capital (deficiency) surplus	4,339,320
Non-operating assets	500,000
Equity value indication	11,893,212
Total shares outstanding	1,000,000
Equity value per share	11.89

Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	250	250	350	350	350
Asbestos Cartons	10,500	0	0	0	0	0
Unit Capacity						
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	50.0%	50.0%	70.0%	70.0%	70.0%
Asbestos Cartons	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,334	10,230	10,128	10,128	10,128
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	40,664,988	42,698,237	44,833,149	47,074,807
Lime	2,087,600	2,583,405	2,557,571	3,544,793	3,544,793	3,544,793
Asbestos Cartons	5,376,000	0	0	0	0	0
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,771	8,946	9,125	9,308	9,494
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	35,213,393	36,269,795	37,357,888	38,478,625
Lime	1,719,800	2,192,745	2,236,600	3,193,865	3,257,742	3,322,897
Asbestos Cartons	5,040,000	0	0	0	0	0
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.5%	9.9%	8.1%	6.3%
Asbestos Cartons	6.3%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SALES	40,866,983	41,311,965	43,222,559	46,243,031	48,377,943	50,619,600
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	36,380,505	37,449,993	39,463,659	40,615,630	41,801,522

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,569,855	1,642,457	1,757,235	1,838,362	1,923,545
Marketing	186,064	206,560	216,113	231,215	241,890	253,098
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	1,776,414	1,858,570	1,988,450	2,080,252	2,176,643
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	1,776,414	1,858,570	1,988,450	2,080,252	2,176,643
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	390,174	390,174	390,174	390,174	390,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	3.78	5.65	7.83	10.04	12.42

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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		6,667	6,667	6,667	6,667	6,667
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089

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INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	11,648,246 INPUT Forecasted Unit Price Growth Rates				
Cement	12,413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	3.0%	3.0%	3.0%	3.0%	3.0%
Asbestos Cartons	512	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,599	3.0%	3.0%	3.0%	3.0%	3.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,625,044	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	180,004	2.0%	2.0%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A. INPUT Current Year Depreciation Expense: 962,111

B. INPUT Current Depreciable Assets	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	13,749,561	15
Long depreciable life (20+)	2,313,559	30
Total	16,063,120	

C. INPUT Capital Expenditures in

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	100,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A. INPUTS for Current and Forecasted Long Term Debt Financing
INPUT Current Year Interest Expense (In Currency): 1,031,143

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Bank Loans						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%					
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B. INPUTS for Forecasted Equity Financing

		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	19.6%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	500,000
Residual Growth Rate	6.0%		

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	41,093,811	43,433,407	46,120,003	48,651,269	51,007,470
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	36,136,293	37,494,063	39,088,702	40,503,320	41,718,419
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross Margin	4,333,959	4,957,517	5,939,344	7,031,300	8,147,949	9,289,051
	10.6%	12.1%	13.7%	15.2%	16.7%	18.2%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	2,465,629	2,606,004	2,075,400	2,189,307	2,295,336
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	3,146,289	3,307,084	2,797,512	2,933,083	3,061,425
	6.1%	[illegible]	[illegible]	6.1%	6.0%	6.0%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	1,811,229	2,632,260	4,233,788	5,214,867	6,227,626
	4.6%	4.4%	6.1%	9.2%	10.7%	12.2%
Depreciation (PAGE 5)	962,111	1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Earnings Before Interest and Taxes (EBIT)	899,305	809,806	1,624,170	3,219,032	4,193,444	5,199,536
Interest Expense (PAGE 4)	1,031,143	390,174	390,174	390,174	390,174	390,174
Profit Before Tax	(131,838)	419,633	1,233,997	2,828,858	3,803,270	4,809,363
	-0.3%	1.0%	[illegible]	6.1%	[illegible]	9.4%
Tax Provision	(52,735)	167,853	493,599	1,131,543	1,521,308	1,923,745
Profit After Tax	(79,103)	251,780	740,398	1,697,315	2,281,962	2,885,618
	-0.2%	0.6%	[illegible]	[illegible]	[illegible]	[illegible]
Free Cash Flow						
Profit After Tax		251,780	740,398	1,697,315	2,281,962	2,885,618
Depreciation		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Additional working capital requirements		(44,458)	(458,561)	(526,573)	(496,128)	(461,815)
Capital investment		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		1,108,744	1,189,927	2,085,498	2,707,257	3,351,892
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		954,255	758,612	984,862	947,025	868,536
				Residual Value		8,859,415
Sum of Present Value of Cash Flows	4,513,290					
Present Value of Residual	2,295,636					
Preliminary Value	6,808,926					
Working capital (deficiency) surplus	4,339,320					
Non-operating assets	500,000					
Equity value indication	11,648,246					
Total shares outstanding	1,000,000					
Equity value per share	11.65					

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	220	250	300	325	325
Asbestos Cartons	10,500	0	0	0	0	0
Unit Capacity						
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	44.0%	50.0%	60.0%	65.0%	65.0%
Asbestos Cartons	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,751	11,074	11,406	11,748	12,101
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	40,664,988	42,698,237	44,833,149	47,074,807
Lime	2,087,600	2,365,251	2,768,419	3,421,765	3,818,120	3,932,663
Asbestos Cartons	5,376,000	0	0	0	0	0
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,857	9,123	9,396	9,678	9,969
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	35,213,393	36,269,795	37,357,888	38,478,625
Lime	1,719,800	1,948,533	2,280,670	2,818,908	3,145,431	3,239,794
Asbestos Cartons	5,040,000	0	0	0	0	0
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%
Asbestos Cartons	6.3%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SALES	40,866,983	41,093,811	43,433,407	46,120,003	48,651,269	51,007,470
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	36,136,293	37,494,063	39,088,702	40,503,320	41,718,419

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,643,752	1,737,336	1,844,800	1,946,051	2,040,299
Marketing	186,064	821,876	868,668	230,600	243,256	255,037
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	2,465,629	2,606,004	2,075,400	2,189,307	2,295,336
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Marketing	0.5%	2.0%	2.0%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	6.0%	6.0%	4.5%	4.5%	4.5%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	2,465,629	2,606,004	2,075,400	2,189,307	2,295,336
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing	Year 1	Year 2	Year 3	Year 4	Year 5
	1995	1996	1997	1998	1999
TOTAL INTEREST PAYMENTS					
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	390,174	390,174	390,174	390,174	390,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	2.08	4.16	8.25	10.75	13.33

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		6,667	6,667	6,667	6,667	6,667
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089

EXERCISE

MANAGING NET WORKING CAPITAL

In Module I, you forecasted working capital for two years (1995 and 1996) by analyzing historical working capital ratios of XYZ. In this exercise, you will examine how working capital management improves value. The goal is to manage working capital requirements by improving receivables, inventory, and accounts payable management. By assuming improved receivables, inventory, and accounts payable turnover ratios, a new working capital to sales ratio can be forecast and utilized in the DCF model to examine the impact on value.

ASSUMPTIONS

Cash is assumed to stay constant at 10,000 in 1995 and 1996.

Prepaid expenses are assumed to remain constant in the future (1995-1996) at 2,900.

Forecast receivables turnover by using the industry average of 7.0

Forecast inventory turnover by using the industry average of 5.0

Forecast payables turnover by using the industry average of 6.0

Forecast accrued expenses at the 3 year historical average of 13.1 percent

XYZ Company

Net Working Capital Analysis

For the periods ended December 31,	Historical 1992	1993	1994	3 Year Avg	Forecasted 1995	1996
Sales	130,853	166,897	138,767		150,000	160,000
	100.0%	100.0%	100.0%		100.0%	100.0%
Cost of goods sold	68,812	86,830	70,979		80,000	90,000
	52.6%	52.0%	51.1%	51.9%	53.3%	56.3%
Current Assets						
Cash	7,559	8,197	8,595			
Accounts receivable	17,465	34,724	24,553			
Inventory	21,757	20,477	23,896			
Prepaid expenses	2,273	2,085	2,853			
Total Current Assets	49,054	65,483	59,897			
Current Liabilities						
Accounts payable	11,151	7,705	16,900			
Accrued expenses	16,109	18,927	21,665			
Total Current Liabilities	27,260	26,632	38,565			
Net Working Capital	21,794	38,851	21,332			
Net Working Capital/Sales	16.7%	23.3%	15.4%	18.4%		

Ratios	Historical 1992	1993	1994		Goal
Cash					10,000
Receivable turnover	7.49	6.40	4.68	6.19	7.00
Avg Collection Period	48.05	56.29	76.89	60.41	
Inventory turnover	3.16	4.11	3.20	3.49	5.00
Prepaid expenses/Total sales	1.7%	1.2%	2.1%	1.7%	
Payables turnover	6.17	9.21	5.77	7.05	6.00
Payables period	58.34	39.09	62.40	53.27	
Accrued expenses/Total sales	12.3%	11.3%	15.6%	13.1%	13.1%

NET WORKING CAPITAL - CONCLUSION

METHOD	1995	1996
RATIOS		
% OF SALES		

XYZ Company

Net Working Capital Analysis

For the periods ended December 31,	Historical 1992	1993	1994	3 Year Avg	Forecasted 1995	1996
Sales	130,853	166,897	138,767		150,000	160,000
	100.0%	100.0%	100.0%		100.0%	100.0%
Cost of goods sold	68,812	86,830	70,979		80,000	90,000
	52.6%	52.0%	51.1%	51.9%	53.3%	56.3%
Current Assets						
Cash	7,559	8,197	8,595		10,000	10,000
Accounts receivable	17,465	34,724	24,553		21,429	22,857
Inventory	21,757	20,477	23,896		16,000	18,000
Prepaid expenses	2,273	2,085	2,853		2,900	2,900
Total Current Assets	49,054	65,483	59,897		50,329	53,757
Current Liabilities						
Accounts payable	11,151	7,705	16,900		13,333	15,000
Accrued expenses	16,109	18,927	21,665		19,650	20,960
Total Current Liabilities	27,260	26,632	38,565		32,983	35,960
Net Working Capital	21,794	38,851	21,332		17,345	17,797
Net Working Capital/Sales	16.7%	23.3%	15.4%	18.4%		

Ratios	Historical 1992	1993	1994		Goal
Cash					10,000
Receivable turnover	7.49	6.40	4.68	6.19	7.00
Avg Collection Period	48.05	56.29	76.89	60.41	
Inventory turnover	3.16	4.11	3.20	3.49	5.00
Prepaid expenses/Total sales	1.7%	1.2%	2.1%	1.7%	
Payables turnover	6.17	9.21	5.77	7.05	6.00
Payables period	58.34	39.69	62.40	53.27	
Accrued expenses/Total sales	12.3%	11.3%	15.6%	13.1%	13.1%

NET WORKING CAPITAL - CONCLUSION

METHOD	1995	1996
RATIOS	17,345	17,797
% OF SALES	11.6%	11.1%

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)*	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	250	250	350	350	350
Asbestos Cartons	16,500	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	14.07.1993 INPUT Forecasted Unit Price Growth Rates				
Cement	12,415	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	-1.0%	-1.0%	-1.0%	0.0%	0.0%
Asbestos Cartons	512	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,000	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,500	2.0%	2.0%	2.0%	2.0%	2.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,025,044	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	150,064	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	000,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

Discounted Net Cash Flow Model

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INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

		INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
A INPUT Current Year Depreciation Expense	962,111		
B INPUT Current Depreciable Assets			
Short depreciable life (1-5 years)		0	0
Medium depreciable life (6-19 years)		13,749,561	15
Long depreciable life (20+)		2,343,559	30
Total		16,093,120	

C INPUT Capital Expenditures in	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	100,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency) 1,031,143

		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Bank Loans						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B INPUTS for Forecasted Equity Financing

		INPUT Discrete Equity Issues Repurchases				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	15.0%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	500,000
Residual Growth Rate	6.0%		

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Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	41,311,965	43,222,559	46,243,031	48,377,943	50,619,600
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	36,380,505	37,449,993	39,463,659	40,615,630	41,801,522
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross Margin	4,333,959	4,931,460	5,772,566	6,779,371	7,762,312	8,818,078
	10.6%	11.9%	13.4%	14.7%	16.0%	17.4%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	1,776,414	1,858,570	1,988,450	2,080,252	2,176,643
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,457,075	2,559,650	2,710,563	2,824,027	2,942,732
	6.1%	5.9%	5.9%	5.9%	5.8%	5.8%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,474,385	3,212,916	4,068,809	4,938,285	5,875,347
	4.6%	6.0%	7.4%	8.8%	10.2%	11.6%
Depreciation (PAGE 5)	962,111	1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Earnings Before Interest and Taxes (EBIT)	899,305	1,472,963	2,204,827	3,054,053	3,916,862	4,847,257
Interest Expense (PAGE 4)	1,031,143	390,174	390,174	390,174	390,174	390,174
Profit Before Tax	(131,838)	1,082,789	1,814,653	2,663,879	3,526,689	4,457,084
	-0.3%	2.6%	4.2%	5.8%	7.3%	8.8%
Tax Provision	(52,735)	433,116	725,861	1,065,552	1,410,676	1,782,833
Profit After Tax	(79,103)	649,674	1,088,792	1,598,328	2,116,013	2,674,250
	-0.2%	1.6%	2.5%	3.5%	4.4%	5.3%
Free Cash Flow						
Profit After Tax		649,674	1,088,792	1,598,328	2,116,013	2,674,250
Depreciation		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089
Additional working capital requirements		(66,747)	(286,589)	(453,071)	(320,237)	(336,249)
Capital investment		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		1,484,349	1,710,292	2,060,013	2,717,199	3,266,091
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		1,277,524	1,090,359	972,827	950,503	846,304
				Residual Value		8,545,799
Sum of Present Value of Cash Flows	5,137,517					
Present Value of Residual	2,214,373					
Preliminary Value	7,351,890					
Working capital (deficiency) surplus	6,219,202					
Non-operating assets	500,000					
Equity value indication	14,071,091					
Total shares outstanding	1,000,000					
Equity value per share	14.07					

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	3,000	3,000	3,000	3,000
Lime	200	250	250	350	350	350
Asbestos Cartons	10,500	0	0	0	0	0
Unit Capacity						
Cement	3,000	3,000	3,000	3,000	3,000	3,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	50.0%	50.0%	70.0%	70.0%	70.0%
Asbestos Cartons	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,334	10,230	10,128	10,128	10,128
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	40,664,988	42,698,237	44,833,149	47,074,807
Lime	2,087,600	2,583,405	2,557,571	3,544,793	3,544,793	3,544,793
Asbestos Cartons	5,376,000	0	0	0	0	0
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,771	8,946	9,125	9,308	9,494
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	35,213,393	36,269,795	37,357,888	38,478,625
Lime	1,719,800	2,192,745	2,236,600	3,193,865	3,257,742	3,322,897
Asbestos Cartons	5,040,000	0	0	0	0	0
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.5%	9.9%	8.1%	6.3%
Asbestos Cartons	6.3%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SALES	40,866,983	41,311,965	43,222,559	46,243,031	48,377,943	50,619,600
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	36,380,505	37,449,993	39,463,659	40,615,630	41,801,522

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,569,855	1,642,457	1,757,235	1,838,362	1,923,545
Marketing	186,064	206,560	216,113	231,215	241,890	253,098
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	1,776,414	1,858,570	1,988,450	2,080,252	2,176,643
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	1,776,414	1,858,570	1,988,450	2,080,252	2,176,643
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	390,174	390,174	390,174	390,174	390,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	3.78	5.65	7.83	10.04	12.42

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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		6,667	6,667	6,667	6,667	6,667
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,001,423	1,008,089	1,014,756	1,021,423	1,028,089

IMPLEMENTING AN INTERNAL VALUE CREATION STRATEGY

THE CAPITAL BUDGETING PROCESS ANALYZING TWO INVESTMENT OPPORTUNITIES

Your company has an old machine that must be scrapped at the end of the year. You have an offer for $100,000 from the scrap dealer and have decided to accept it. You must now decide on a replacement machine.

Your assistant, has reviewed some new machines and has prepared an analysis of the two that fit your company's needs. He has completed his analysis of Machine A, but unfortunately, is leaving on vacation before he can finish his analysis of Machine B.

His analysis is presented on the following pages.

Machine A: Before leaving your assistant will explain to you his analysis of Machine A.

Machine B: Unfortunately, your assistant left before getting to his partial analysis of Machine B. However, he left you the following notes:

Machine B will cost $2,850,000 versus $1,600,00 for Machine A. Both have five year lives. However, B will take longer to set up than Machine A. While we could have A operating at an average 50% capacity in the first year, B will only operate at an average 15%. Since it produces more units, that should not be a problem. Production costs are also lower for B, at $0.35 per unit versus $0.50 per unit for A. We expect Machine B to have a salvage value of $700,000 in five years.

I have prepared estimated revenues produced by Machine B based on start-up time, selling price and capacity. I have also estimated production costs. Unfortunately, I had to leave to catch my train to Oktoberfest before I could complete this analysis. Sorry.

You will need to

1. calculate the after-tax cash flows generated by Machine B, the taxes associated with the operating revenue, salvage value, and the after tax cash flow.
2. calculate the present value of the cash flows (the present value factors have been provided) and the net present Value.
3. calculate the Profitability Index (the nominal and present value cash flows are provided).
4. calculate the payback period .
5. Which machine would you select based on payback period, profitability index, and net present value?
6. Discuss the advantages or weaknesses of each method.

MACHINE A, FACTS		1995	1996	1997	1998	1999	2000
Machine A capital expenditures		(1,600,000)		-	-	-	-
Depreciation (years)	5		(320,000)	(320,000)	(320,000)	(320,000)	(320,000)
Percent of capacity			50%	100%	100%	100%	90%
Units produced (Capacity = 2,000,000)			1,000,000	2,000,000	2,000,000	2,000,000	1,800,000
Production costs per unit	0.50		(500,000)	(1,000,000)	(1,000,000)	(1,000,000)	(900,000)
Salvage value:							
Old equipment		100,000					
New equipment							125,000
Price / unit & revenues generated	1		1,000,000	2,000,000	2,000,000	2,000,000	1,800,000
Less Taxes at	40%						
Cost of capital	10%						

Net Present Value Analysis, Machine A	1995	1996	1997	1998	1999	2000
Revenues generated by Machine A		1,000,000	2,000,000	2,000,000	2,000,000	1,800,000
Equipment & spare parts	(1,600,000)					
Add sale of old machine	100,000					
Tax effect of sale	(40,000)					
Total cap ex outflows, Machine A	(1,540,000)					
Unit production costs		(500,000)	(1,000,000)	(1,000,000)	(1,000,000)	(900,000)
Depreciation		(320,000)	(320,000)	(320,000)	(320,000)	(320,000)
Machine A operating expenses		(820,000)	(1,320,000)	(1,320,000)	(1,320,000)	(1,220,000)
Pre-tax income generated by Machine A		180,000	680,000	680,000	680,000	580,000
Less: Taxes		(72,000)	(272,000)	(272,000)	(272,000)	(232,000)
After tax income generated by Machine A		108,000	408,000	408,000	408,000	348,000
Add: Depreciation		320,000	320,000	320,000	320,000	320,000
Add salavage value at end of year 5						125,000
After tax cash flow generated by Machine A		428,000	728,000	728,000	728,000	793,000
Present value factor	1.0000	0.9091	0.8264	0.7513	0.6830	0.6209
Present value of cash flows	(1,540,000)	389,091	601,653	546,957	497,234	492,391
Net Present Value of Machine A	987,325					

Profitability Index	1995	1996	1997	1998	1999	2000
Initial Investment	(1,540,000)					
Nominal forecasted cash flows		389,091	728,000	728,000	728,000	793,000
Present value of cash flows		353,719	601,653	546,957	497,234	492,391
Profitability Index		1.6				
Payback Period		2.5	1,117,091	2 year sum	0.6	

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MACHINE B. FACTS		1995	1996	1997	1998	1999	2000
Machine B capital expenditures		(2,850,000)		-	-	-	-
Depreciation (years)	5		(570,000)	(570,000)	(570,000)	(570,000)	(570,000)
Percent of capacity			15%	100%	100%	100%	100%
Units produced (Capcity = 2,500,000)			375,000	2,500,000	2,500,000	2,500,000	2,500,000
Production costs per unit	0.35		(131,250)	(875,000)	(875,000)	(875,000)	(875,000)
Salvage value:							
Old equipment		100,000					
New equipment							700,000
Price / unit & revenues generated	1		375,000	2,500,000	2,500,000	2,500,000	2,500,000
Less Taxes at	40%						
Cost of capital	10%						

Net Present Value Analysis, Machine B	1995	1996	1997	1998	1999	2000
Revenues generated by Machine B		375,000	2,500,000	2,500,000	2,500,000	2,500,000
Equipment & spare parts	(2,850,000)		-	-	-	-
Add sale of old machine	100,000					
Tax effect of sale	(40,000)					
Total cap ex outflows, Machine B	(2,790,000)		-	-	-	-
Unit production costs		(131,250)	(875,000)	(875,000)	(875,000)	(875,000)
Depreciation		(570,000)	(570,000)	(570,000)	(570,000)	(570,000)
Machine B operating expenses		(701,250)	(1,445,000)	(1,445,000)	(1,445,000)	(1,445,000)
Pre-tax income generated by Machine B						
Less: Taxes						
After tax income generated by Machine B						
Add: Depreciation						
Add salavage value at end of year 5						
After tax cash flow generated by Machine B						
Present value factor	1.0000	0.9091	0.8264	0.7513	0.6830	0.6209
Present value of cash flows						
Net Present Value of Machine B						

Profitability Index	years	1995	1996	1997	1998	1999	2000
Initial Investment							
Nominal forecasted cash flows							
Present value of cash flows							
Profitability Index							
Payback Period							

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MACHINE B. FACTS		1995	1996	1997	1998	1999	2000
Machine B capital expenditures		(2,850,000)		-	-	-	-
Depreciation (years)	5		(570,000)	(570,000)	(570,000)	(570,000)	(570,000)
Percent of capacity			15%	100%	100%	100%	100%
Units produced (Capcity = 2,500,000)	.		375,000	2,500,000	2,500,000	2,500,000	2,500,000
Production costs per unit	0.35		(131,250)	(875,000)	(875,000)	(875,000)	(875,000)
Salvage value:							
Old equipment		100,000					
New equipment							700,000
Price / unit & revenues generated	1		375,000	2,500,000	2,500,000	2,500,000	2,500,000
Less Taxes at	40%						
Cost of capital	10%						

Net Present Value Analysis, Machine B		1995	1996	1997	1998	1999	2000
Revenues generated by Machine B			375,000	2,500,000	2,500,000	2,500,000	2,500,000
Equipment & spare parts		(2,850,000)		-	-	-	-
Add sale of old machine		100,000					
Tax effect of sale		(40,000)					
Total cap ex outflows, Machine B		(2,790,000)		-	-	-	-
Unit production costs			(131,250)	(875,000)	(875,000)	(875,000)	(875,000)
Depreciation			(570,000)	(570,000)	(570,000)	(570,000)	(570,000)
Machine B operating expenses			(701,250)	(1,445,000)	(1,445,000)	(1,445,000)	(1,445,000)
Pre-tax income generated by Machine B			-326,250	1,055,000	1,055,000	1,055,000	1,055,000
Less: Taxes			130,500	-422,000	-422,000	-422,000	-422,000
After tax income generated by Machine B			-195,750	633,000	633,000	633,000	633,000
Add: Depreciation			570,000	570,000	570,000	570,000	570,000
Add salavage value at end of year 5							700,000
After tax cash flow generated by Machine B		-2,790,000	374,250	1,203,000	1,203,000	1,203,000	1,903,000
Present value factor		1.0000	0.9091	0.8264	0.7513	0.6830	0.6209
Present value of cash flows		-2,790,000	340,227	994,215	903,832	821,665	1,181,613
Net Present Value of Machine B		1,451,552					
Profitability Index	years	1995	1996	1997	1998	1999	2000
Initial Investment		-2,790,000					
Nominal forecasted cash flows			374,250	1,203,000	1,203,000	1,203,000	1,903,000
Present value of cash flows			340,227	994,215	903,832	821,665	1,181,613
Profitability Index			1.5				
Payback Period			3.0	2,780,250 3 year sum			

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IMPLEMENTING AN INTERNAL VALUE CREATION STRATEGY

ANALYZING TWO CAPITAL EXPENDITURE OPTIONS

You have just been informed by the contractors of the Sofia multi-story parking garage and office building that they have chosen Bulgarian Cement to provide all their cement needs for this concrete structure. After deciding how to spend the bonus you will be get from winning this 4 year contract, you realize that the Company does not have the capacity to meet the order and the orders of your other customers. Since the contract does not begin until 1996, you still have sufficient time to add capacity before the additional cement is needed. Since you don't want to lose your bonus, you decide to review two capacity expansion programs that have been sitting on your desk.

Currently Bulgarian Cement is producing at its capacity of 3,000 tons per year. The new cement order will be for 500 tons per year for 4 years. In addition, you expect that there will be increased demand in the market beginning next year for an additional 500 tons. After the garage and office building are complete, you expect other demand to replace that of the order. Thus, you believe that the Company will have demand for its products of about 4,000 tons per year beginning in 1996 and continuing indefinitely.

You have two capital expenditure programs available: Both options involve buying two 500 ton capacity machines, each costing 400,000 Lei. Under each option, the Company would borrow money to purchase the machines at the Company's borrowing rate of 25% Regardless of the option chosen, the capital expenditure program must begin in 1995 in order to give sufficient time to get the machines installed and operating.

Option A involves purchasing one machine in 1995 and the second in 1996. You believe a significant advantage of Option A is that it will be easier to install one machine and get it working properly rather than two machines at once. You also believe it might be better to borrow 800,000 Lei over two years (1995 and 1996) than all at once given the 25% interest rate. However, a significant disadvantage to buying only one machine in 1995 is that the Company will be able to produce only 3,500 tons of cement in 1996. While this means that it can meet the demand for the parking garage, the Company risks losing other business that you expect will amount to about 500 tons of cement.

Option B involves purchasing and installing both machines in 1995. Unfortunately, the company that manufactures these machines is not willing to give you a discount for buying both at the same time. Thus, your price for both machines will be $800,000, which you would also have to borrow in 1995. Borrowing this amount will add additional interest expense that you are unsure is in the best interest of the Company. However, if both machines are purchased, you believe the Company will be able to sell the full 4,000 tons of cement you project will be demanded beginning in 1996 and beyond.

Capital Expenditure Forecasts

Demand is expected to increase as follows:	1995	1996	1997	1998	1999
Old Demand	3,000	3,000	3,000	3,000	3,000
New Demand	3,000	4,000	4,000	4,000	4,000

Bulgarian Cement
Capital Expenditure Options

Option A

Forecasted for the year ending	1995	1996	1997	1998	1999
Capital Expenditures					
Machinery and Equipment	400,000	400,000	0	0	0
Spare Parts	100,000	100,000	100,000	100,000	100,000
Total Capital Expenditures	500,000	500,000	100,000	100,000	100,000
Additional Debt	400,000	400,000			

Capacity projections are as follows:	1995	1996	1997	1998	1999
Old Capacity	3,000	3,000	3,000	3,000	3,000
New Capacity	3,000	3,500	4,000	4,000	4,000

Option B

Forecasted for the year ending	1995	1996	1997	1998	1999
Capital Expenditures					
Machinery and Equipment	800,000		0	0	0
Spare Parts	100,000	100,000	100,000	100,000	100,000
Total Capital Expenditures	900,000	100,000	100,000	100,000	100,000
Additional Debt	800,000				

Capacity projections are as follows:	1995	1996	1997	1998	1999
Old Capacity	3,000	3,000	3,000	3,000	3,000
New Capacity	3,000	4,000	4,000	4,000	4,000

NOTE:

Under both Options A and B, Machinery and Equipment is assumed to have a depreciable life of 15 years.

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Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C, If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,691	3,000	4,000	4,000	4,000	4,000
Lime	200	250	250	350	350	350
Asbestos Cartons	10,500	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	4,000	4,000	4,000	4,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	15,035,313 INPUT Forecasted Unit Price Growth Rates				
Cement	12,413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	-1.0%	-1.0%	-1.0%	0.0%	0.0%
Asbestos Cartons	512	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,599	2.0%	2.0%	2.0%	2.0%	2.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,025,044	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	180,004	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

		INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
A. INPUT Current Year Depreciation Expense	962,111		
B. INPUT Current Depreciable Assets			
Short depreciable life (1-5 years)		0	0
Medium depreciable life (6-19 years)		[illegible]	15
Long depreciable life (20+)		2,371,554	30
Total		[illegible]	

C. INPUT Capital Expenditures in	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	900,000	100,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A. INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 1,031,143

		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Bank Loans						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	2,360,694	2,360,694	2,360,694	2,360,694
INPUT Additional Debt		800,000	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		2,360,694	2,360,694	2,360,694	2,360,694	2,360,694
Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B. INPUTS for Forecasted Equity Financing

		INPUT Discreet Equity Issues Repurchases				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	15.0%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Nonoperating assets	500,000
Residual Growth Rate	6.0%		

Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	41,311,965	56,777,555	60,475,777	63,322,326	66,311,202
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	36,380,505	49,187,790	51,553,591	53,068,260	54,627,730
	89.4%	88.1%	86.6%	85.2%	83.8%	82.4%
Gross Margin	4,333,959	4,931,460	7,589,765	8,922,186	10,254,066	11,683,472
	10.6%	11.9%	13.4%	14.8%	16.2%	17.6%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	1,776,414	2,441,435	2,600,458	2,722,860	2,851,382
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,457,075	3,142,515	3,322,571	3,466,636	3,617,471
	6.1%	5.9%	5.5%	5.5%	5.5%	5.5%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,474,385	4,447,250	5,599,615	6,787,430	8,066,002
	4.6%	6.0%	7.8%	9.3%	10.7%	12.2%
Depreciation (PAGE 5)	962,111	1,054,756	1,061,423	1,068,089	1,074,756	1,081,423
Earnings Before Interest and Taxes (EBIT)	899,305	1,419,629	3,385,827	4,531,526	5,712,674	6,984,579
Interest Expense (PAGE 4)	1,031,143	590,174	590,174	590,174	590,174	590,174
Profit Before Tax	(131,838)	829,456	2,795,654	3,941,352	5,122,501	6,394,405
	-0.3%	2.0%	4.9%	6.5%	8.1%	9.6%
Tax Provision	(52,735)	331,782	1,118,261	1,576,541	2,049,000	2,557,762
Profit After Tax	(79,103)	497,674	1,677,392	2,364,811	3,073,500	3,836,643
	-0.2%	1.2%	2.9%	3.9%	4.9%	5.8%
Free Cash Flow						
Profit After Tax		497,674	1,677,392	2,364,811	3,073,500	3,836,643
Depreciation		1,054,756	1,061,423	1,068,089	1,074,756	1,081,423
Additional working capital requirements		(66,747)	(2,319,838)	(554,733)	(426,982)	(448,331)
Capital investment		(900,000)	(100,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		800,000	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		1,385,682	318,976	2,778,167	3,621,274	4,369,734
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		1,192,605	203,356	1,311,970	1,266,757	1,132,278
				Residual Value		12,384,863
Sum of Present Value of Cash Flows	5,106,967					
Present Value of Residual	3,209,144					
Preliminary Value	8,316,111					
Working capital (deficiency) surplus	6,219,202					
Non-operating assets	500,000					
Equity value indication	15,035,313					
Total shares outstanding	1,000,000					
Equity value per share	15.04					

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	4,000	4,000	4,000	4,000
Lime	200	250	250	350	350	350
Asbestos Cartons	10,500	0	0	0	0	0
Unit Capacity						
Cement	3,000	3,000	4,000	4,000	4,000	4,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	100.0%	100.0%	100.0%	100.0%
Lime	40.0%	50.0%	50.0%	70.0%	70.0%	70.0%
Asbestos Cartons	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,334	10,230	10,128	10,128	10,128
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	54,219,984	56,930,983	59,777,532	62,766,409
Lime	2,087,600	2,583,405	2,557,571	3,544,793	3,544,793	3,544,793
Asbestos Cartons	5,376,000	0	0	0	0	0
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,771	8,946	9,125	9,308	9,494
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	46,951,190	48,359,726	49,810,518	51,304,833
Lime	1,719,800	2,192,745	2,236,600	3,193,865	3,257,742	3,322,897
Asbestos Cartons	5,040,000	0	0	0	0	0
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.5%	9.9%	8.1%	6.3%
Asbestos Cartons	6.3%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SALES	40,866,983	41,311,965	56,777,555	60,475,777	63,322,326	66,311,202
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	36,380,505	49,187,790	51,553,591	53,068,260	54,627,730

Discounted Net Cash Flow Model

Bulgarian Cement
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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,569,855	2,157,547	2,298,080	2,406,248	2,519,826
Marketing	186,064	206,560	283,888	302,379	316,612	331,556
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	1,776,414	2,441,435	2,600,458	2,722,860	2,851,382
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	1,776,414	2,441,435	2,600,458	2,722,860	2,851,382
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	590,174	590,174	590,174	590,174	590,174
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	590,174	590,174	590,174	590,174	590,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	800,000	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	800,000	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	2,360,694	2,360,694	2,360,694	2,360,694	2,360,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	2.41	5.74	7.68	9.68	11.83

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FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		60,000	60,000	60,000	60,000	60,000
			6,667	6,667	6,667	6,667
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,054,756	1,061,423	1,068,089	1,074,756	1,081,423

Discounted Net Cash Flow Model

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INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	U	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	0					
INPUT Current year cost of goods sold (or cost of service)	0					
INPUT Sales growth rates for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		0.0%	0.0%	0.0%	0.0%	0.0%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Cement	2,691	3,000	4,000	4,000	4,000	4,000
Lime	200	250	250	350	350	350
Asbestos Cartons	10,500	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Cement	3,000	3,000	3,500	4,000	4,000	4,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
INPUT Unit Sales Prices	INPUT Current year Unit Prices	15,009,728 INPUT Forecasted Unit Price Growth Rates				
Cement	12,413	4.0%	5.0%	5.0%	5.0%	5.0%
Lime	10,438	-1.0%	-1.0%	-1.0%	0.0%	0.0%
Asbestos Cartons	512	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Cement	11,064	3.0%	3.0%	3.0%	3.0%	3.0%
Lime	8,599	2.0%	2.0%	2.0%	2.0%	2.0%
Asbestos Cartons	480	5.0%	5.0%	5.0%	5.0%	5.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	1,025,044	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	150,064	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	660,835	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%

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INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A. INPUT Current Year Depreciation Expense: 962,111

B. INPUT Current Depreciable Assets

	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	13,749,561	15
Long depreciable life (20+)	2,344,556	30
Total	16,094,120	

C. INPUT Capital Expenditures in

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	15	500,000	500,000	100,000	100,000	100,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A. INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 1,031,143

		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Bank Loans						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,560,694	1,560,694	1,560,694	1,560,694	1,560,694
Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	25.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	400,000	800,000	800,000	800,000
INPUT Additional Debt		400,000	400,000	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		400,000	800,000	800,000	800,000	800,000
Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B. INPUTS for Forecasted Equity Financing

		INPUT Discreet Equity Issues Repurchases				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	15.0%	Cost of Equity	35.0%
Current year working capital	12,349,249	Fair Market Value of Non-operating assets	560,000
Residual Growth Rate	6.0%		

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Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	40,866,983	41,311,965	50,000,057	60,475,777	63,322,326	66,311,202
Cost of Goods Sold (Cost of Service) (PAGE 2)	36,533,024	36,380,505	43,318,892	51,553,591	53,068,260	54,627,730
	89.4%	88.1%	86.6%	85.2%	83.8%	82.4%
Gross Margin	4,333,959	4,931,460	6,681,165	8,922,186	10,254,066	11,683,472
	10.6%	11.9%	13.4%	14.8%	16.2%	17.6%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	1,811,708	1,776,414	2,150,002	2,600,458	2,722,860	2,851,382
Total fixed costs	660,835	680,660	701,080	722,112	743,776	766,089
Total variable and fixed costs	2,472,543	2,457,075	2,851,082	3,322,571	3,466,636	3,617,471
	6.1%	5.9%	5.7%	5.5%	5.5%	5.5%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	1,861,416	2,474,385	3,830,083	5,599,615	6,787,430	8,066,002
	4.6%	6.0%	7.7%	9.3%	10.7%	12.2%
Depreciation (PAGE 5)	962,111	1,028,089	1,061,423	1,068,089	1,074,756	1,081,423
Earnings Before Interest and Taxes (EBIT)	899,305	1,446,296	2,768,660	4,531,526	5,712,674	6,984,579
Interest Expense (PAGE 4)	1,031,143	490,174	590,174	590,174	590,174	590,174
Profit Before Tax	(131,838)	956,123	2,178,487	3,941,352	5,122,501	6,394,405
	-0.3%	2.3%	4.4%	6.5%	8.1%	9.6%
Tax Provision	(52,735)	382,449	871,395	1,576,541	2,049,000	2,557,762
Profit After Tax	(79,103)	573,674	1,307,092	2,364,811	3,073,500	3,836,643
	-0.2%	1.4%	2.6%	3.9%	4.9%	5.8%
Free Cash Flow						
Profit After Tax		573,674	1,307,092	2,364,811	3,073,500	3,836,643
Depreciation		1,028,089	1,061,423	1,068,089	1,074,756	1,081,423
Additional working capital requirements		(66,747)	(1,303,214)	(1,571,358)	(426,982)	(448,331)
Capital investment		(500,000)	(500,000)	(100,000)	(100,000)	(100,000)
Additional Debt Financing		400,000	400,000	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		1,435,016	965,301	1,761,543	3,621,274	4,369,734
Present Value Factor		0.8607	0.6375	0.4722	0.3498	0.2591
Present Value of Cash Flow		1,235,065	615,407	831,876	1,266,757	1,132,278
				Residual Value		12,384,863
Sum of Present Value of Cash Flows	5,081,382					
Present Value of Residual	3,209,144					
Preliminary Value	8,290,527					
Working capital (deficiency) surplus	6,219,202					
Non-operating assets	500,000					
Equity value indication	15,009,728					
Total shares outstanding	1,000,000					
Equity value per share	15.01					

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Cement	2,691	3,000	4,000	4,000	4,000	4,000
Lime	200	250	250	350	350	350
Asbestos Cartons	10,500	0	0	0	0	0
Unit Capacity						
Cement	3,000	3,000	3,500	4,000	4,000	4,000
Lime	500	500	500	500	500	500
Asbestos Cartons	21,000	21,000	21,000	21,000	21,000	21,000
Percent of Capacity						
Cement	89.7%	100.0%	114.3%	100.0%	100.0%	100.0%
Lime	40.0%	50.0%	50.0%	70.0%	70.0%	70.0%
Asbestos Cartons	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price per Unit						
Cement	12,413	12,910	13,555	14,233	14,944	15,692
Lime	10,438	10,334	10,230	10,128	10,128	10,128
Asbestos Cartons	512	512	512	512	512	512
Total Sales by Product						
Cement	33,403,383	38,728,560	47,442,486	56,930,983	59,777,532	62,766,409
Lime	2,087,600	2,583,405	2,557,571	3,544,793	3,544,793	3,544,793
Asbestos Cartons	5,376,000	0	0	0	0	0
Cost per Unit						
Cement	11,064	11,396	11,738	12,090	12,453	12,826
Lime	8,599	8,771	8,946	9,125	9,308	9,494
Asbestos Cartons	480	504	529	556	583	613
Total Costs by Product						
Cement	29,773,224	34,187,760	41,082,292	48,359,726	49,810,518	51,304,833
Lime	1,719,800	2,192,745	2,236,600	3,193,865	3,257,742	3,322,897
Asbestos Cartons	5,040,000	0	0	0	0	0
Profit per Unit						
Cement	10.9%	11.7%	13.4%	15.1%	16.7%	18.3%
Lime	17.6%	15.1%	12.5%	9.9%	8.1%	6.3%
Asbestos Cartons	6.3%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SALES	40,866,983	41,311,965	50,000,057	60,475,777	63,322,326	66,311,202
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	36,533,024	36,380,505	43,318,892	51,553,591	53,068,260	54,627,730

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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	1,625,644	1,569,855	1,900,002	2,298,080	2,406,248	2,519,826
Marketing	186,064	206,560	250,000	302,379	316,612	331,556
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	1,811,708	1,776,414	2,150,002	2,600,458	2,722,860	2,851,382
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	660,835	680,660	701,080	722,112	743,776	766,089
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	660,835	680,660	701,080	722,112	743,776	766,089
Variable Costs (as a percent of sales)						
Administrative	4.0%	3.8%	3.8%	3.8%	3.8%	3.8%
Marketing	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	1,811,708	1,776,414	2,150,002	2,600,458	2,722,860	2,851,382
TOTAL FIXED COSTS	660,835	680,660	701,080	722,112	743,776	766,089

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Bank Loans	390,174	390,174	390,174	390,174	390,174
Debt Instrument #2	100,000	200,000	200,000	200,000	200,000
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	490,174	590,174	590,174	590,174	590,174
TOTAL ADDITIONAL DEBT FINANCING					
Bank Loans	0	0	0	0	0
Debt Instrument #2	400,000	400,000	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	400,000	400,000	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Bank Loans	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,960,694	2,360,694	2,360,694	2,360,694	2,360,694
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	2.95	4.69	7.68	9.68	11.83

Discounted Net Cash Flow Model

Bulgarian Cement
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	13,749,561	916,637	916,637	916,637	916,637	916,637
Depreciation for long term depreciable assets	2,343,559	78,119	78,119	78,119	78,119	78,119
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		33,333	33,333	33,333	33,333	33,333
			33,333	33,333	33,333	33,333
				6,667	6,667	6,667
					6,667	6,667
						6,667
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		1,028,089	1,061,423	1,068,089	1,074,756	1,081,423

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CASE STUDY: Negotiating the sale of a company based on value "as is" and value with internal improvements or value to a specific buyer
Canadian Plastics Ltd.("CP")

Purpose of the Case Study:

The purpose of the case study is to perform company financial analysis to identify problems, assess value drivers, examine the impact on value of strategies, select appropriate strategies, and determine final measurement of value creation. Participants will break up into two groups (the "buying group" and the "selling group") and negotiate the sale based on different strategies formulated by assessing value drivers that are important to each group. The buyers (LSK Plastics, Inc) will calculate value of the target company "as is" and the value will be based upon the improvements they will make. The sellers (owners) (Canadian Plastics Ltd.) value their company "as is" and also value the company based on several strategic plans they are considering. The two groups will then negotiate the sale of the company based on their analysis. Neither group will know the other's internal valuation strategy during negotiations.

Seller Company Profile: Canadian Plastics Ltd. ("CP")

CP operates in a specialized segment of the plastic containers industry, with its primary target markets including the pharmaceutical, household chemical, food, and automotive industries in eastern Canada and the midwestern and northeastern United States. While the Company has established itself as a quality producer over a long period of time, CP is still dependent on Big Foods for a significant portion of its sales. Furthermore, the Company has been subject to increased material costs related to the high demand for and low supply of plastic raw materials.

Buyer Company Profile: LSK Plastics, Inc. ("LSK")

LSK operates in diversified segments of the plastic container industry with customers including soft drink bottlers, outdoor recreation and sporting equipment manufacturers, pharmaceutical companies, as well as household chemical, food, and automotive companies. LSK operates in Canada, the United States, Mexico and Europe. The company is based in the United States and is well regarded as a quality manufacturer of plastic containers in all of its target markets.

STEP 1: ANALYZE YOUR COMPANY

PART A

The first step in implementing an internal value creation strategy is to value the company "as is." With the following assumptions and the accompanying financial statements, use the DCF model to value CP:

- Sales will grow at 5 percent over 1995-1999 due solely to price increases.

- Cost of goods sold will remain the same as a percent of sales as in 1994.
- Selling and Administrative expenses will remain the same as a percent of sales as in 1994.
- CP's tax rate is 30 percent.
- The company's net property, plant, and equipment is depreciated over 7 years.
- The company plans on spending C$1,000,000 per year in capital expenditures for replacement and refurbishment of existing equipment (7 year life).
- The company's bank loans have an interest expense of 6.2 percent.
- CP currently projects a working capital/sales requirement of 30 percent (based on the three year average of the historical working capital/sales).
- The cost of equity is 18.0 percent (includes a cost of equity premium of 3.0 percent for the lack of customer diversification and small size).
- The company's residual growth is based on long-term inflation forecasts equal to 2.5 percent.
- The company has 1,000,000 shares outstanding.

PART B

Analyze the financial condition of CP and identify the areas of strength and weakness. Assess the company with respect to the following categories: *Liquidity, Leverage, Profitability, and Efficiency.*

CASE STUDY: Negotiating the sale of a company based on value "as is" and value with internal improvements or value to a specific buyer
Canadian Plastics Ltd.("CP")

PART C

BUYERS (LSK PLASTICS, INC.) STRATEGY

With the following information, develop a strategy for value creation of CP once you have acquired the company. The new value of CP represents the value to you, as the buyer, assuming the synergies and benefits you can bring to the operations of CP.

- Due to the nature of LSK's strong and diversified customer base, acquiring the company would eliminate the risk associated with CP's customer dependence and small size.
- The production synergies assumed by CP after the acquisition would allow the company to operate at the industry levels (equivalent to that of the guideline companies-GLC) with respect to the cost of goods sold as a percent of sales.
- LSK would incur C$3 million in debt at an interest rate of 6.2 percent at the beginning of 1995 to help finance the acquisition. The debt and associated interest expense would be incurred by CP after the acquisition. The debt would be paid off in 10 equal installments of principal.
- LSK's strong brand name for plastic containers would allow for increases in price and volume. As a result, LSK forecasts that by adding the LSK brand name and expanding CP's distribution network, annual sales growth will increase to 20.0 percent in 1995, 10.0 percent in 1996; 8.0 percent in 1997-1998; and 5.0 percent in 1999.
- As an initial step to improving the quality of the CP's plastic products, you decide to replace a molding machine which has a salvage value of C$75,000. You have two options for its replacement:

1. Lease a new molding machine for C$100,000 at the end of 1994 (assume an inflationary growth in rent of 3.0 percent.
2. Buy a new molding machine for C$800,000 (5 year depreciable life) to be financed with debt with an interest rate of 6.2 percent (all principal repaid in one balloon payment in 1999).

- LSK believes that much of the overhead expenses of the company can be reduced as the parent company would eliminate double counting of overhead expenses (such as tax and audit fees, legal fees, and internal accounting personnel). LSK believes that CP's Selling and Administrative Expenses can be reduced to 12.0 percent of sales.
- The Canadian government views the foreign investment by LSK positively because the increased company revenues and profits will increase tax revenues and jobs over the long term. Therefore, the Canadian government grants CP a tax holiday for three years in which CP will pay no taxes.

CASE STUDY: Negotiating the sale of a company based on value "as is" and value with internal improvements or value to a specific buyer
Canadian Plastics Ltd.("CP")

PART C

SELLER (CANADIAN PLASTICS, LTD.) STRATEGY

As the owner and part of the management team of CP, you believe that you can make the following improvements in the operations of the company in order to maximize value. The value, as a result of the improvements, represents the value to you, as the owner and manager of the company after employing an internal value creation strategy.

- By pursuing a *cost leadership strategy*, you believe that CP can best maintain market share in the low end plastic container pharmaceutical market by reducing forecasted price growth. As a result, you plan to reduce price growth (sales growth) to 3.0 percent growth in each year 1995-1999.
- After analyzing the balance sheets of the company, you believe that you can reduce the working capital of the company in the future in two ways:

1. Manage the cash balance of the company to 4 percent of total assets.
2. Manage accounts receivable turnover to the industry standard (RMA) of 8.0.

(Hint: recalculate the company's 1994 working capital as a percent of sales after making adjustments to 1994 working capital and use that percentage as a proxy for working capital/sales as an input into the model).

- CP believes it can reduce cost of goods sold down to 73.3 percent of sales (industry average) as the company searches for cost-reducing linkages with suppliers based on supplier's product design, quality, packaging, order processing, etc.
- CP believes it can eliminate unnecessary overhead, reducing Selling and Administrative Expenses to 11.0 percent of sales.
- CP believes that it can sell company automobiles (provided to company employees as perquisites) for C$100,000 without impairing operations.

Schedule I

Canadian Plastics Ltd.
Fair market value of the Common stock
As of December 31, 1994

Historical Balance Sheets

Assets

($ Canadian)
For the year ended December 31,

	1992	1993	1994	1992	1993	1994	GLC	RMA
Current Assets:								
Cash and equivalents	3,891,000	3,349,000	3,367,000	16 1%	11 2%	9 7%	7.4%	4.4%
Accounts receivable	2,558,000	2,725,000	5,984,000	10.6%	9 1%	17 2%	20.0%	22.9%
Inventory	4,061,000	6,170,000	8,115,000	16 8%	20 6%	23 3%	15.2%	19.3%
Prepaid expenses				0 0%	0 0%	0 0%		
Other current assets	604,000	479,000	451,000	2 5%	1 6%	1 3%		
Total current assets	11,114,000	12,723,000	17,917,000	45 9%	42 5%	51 5%	43.8%	48.3%
Net Property and Equipment	13,115,000	17,188,000	16,873,000	54 1%	57.5%	48 5%	48.7%	42.1%
Total Assets	24,229,000	29,911,000	34,790,000	100 0%	100 0%	100 0%	100 0%	100.0%

Liabilities

($ Canadian)
For the year ended December 31,

	1992	1993	1994	1992	1993	1994	GLC	RMA
Current Liabilities:								
Bank indebtedness	0	0	1,000,000	0 0%	0.0%	2 9%		
Accounts payable	2,372,000	6,070,000	4,205,000	9 8%	20 3%	12.1%	15.6%	11.9%
Income taxes payable	0	0	0	0 0%	0 0%	0 0%	1.4%	0.7%
Current maturities of long-term debt	0	0	0	0 0%	0 0%	0 0%	4.5%	
Total Current Liabilities	2,372,000	6,070,000	5,205,000	9 8%	20 3%	15 0%	28.3%	32.7%
Deferred Income Taxes	2,519,000	2,564,000	2,677,000	10.4%	8 6%	7 7%		
Total Liabilities	4,891,000	8,634,000	7,882,000	20.2%	28 9%	22.7%	48.8%	
Share capital	796,000	796,000	796,000	3 3%	2 7%	2 3%		
Retained earnings	18,542,000	20,481,000	26,112,000	76.5%	68.5%	75.1%	16.2%	
Total Stockholders' Equity	19,338,000	21,277,000	26,908,000	79.8%	71.1%	77 3%	50.5%	39.8%
Total Liabilities and Stockholders' Equity	24,229,000	29,911,000	34,790,000	100.0%	100.0%	100 0%	100.0%	100.0%

Notes:
RMA data from 1994 RMA in SIC# 3089, "Manufacturers- Miscellaneous Plastic Products"
GLC data represents the average of the selected guideline company data

Schedule II

Canadian Plastics Ltd.
Fair market value of the Common stock
As of December 31, 1994

Historical Income Statement Data

	($ Canadian) For the year ended December 31, 1992	1993	1994	1992	1993	1994	GLC	RMA
Sales	29,478,667	30,405,000	32,819,000	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	20,515,000	23,306,000	25,197,000	69.6%	76.7%	76.8%	73.3%	
Gross profit	8,963,667	7,099,000	7,622,000	30.4%	23.3%	23.2%	26.7%	24.6%
Selling and Administrative Expenses	2,946,667	3,159,000	4,255,000	10.0%	10.4%	13.0%	11.6%	
Earnings Before Interest, Taxes, and Depreciation and Amortization (EBITDA)	6,017,000	3,940,000	3,367,000	20.4%	13.0%	10.3%	15.3%	
Depreciation and Amortization	2,232,000	2,335,000	2,576,000	7.6%	7.7%	7.8%	7.2%	
Earnings Before Interest and Tax (EBIT)	3,785,000	1,605,000	791,000	12.8%	5.3%	2.4%	8.2%	
Provision for Income Taxes	1,612,000	481,500	237,300	5.5%	1.6%	0.7%	2.2%	
Net Income	2,173,000	1,123,500	553,700	7.4%	3.7%	1.7%	4.6%	

Notes:
RMA data from 1994 RMA in SIC# 3089, "Manufacturers- Miscellaneous Plastic Products"
GLC data represents the average of the selected guideline company data

Schedule III

Canadian Plastics Ltd.
Fair market value of the Common stock
As of December 31, 1994

Historical Ratio Analysis

	1992	1993	1994	GLC	RMA
LIQUIDITY:					
Working capital	$8,742,000	$6,653,000	$12,712,000		
Sales/working capital	3.37	4.57	2.58	7.1	11.9
Working capital/sales	29.66%	21.88%	38.73%	14.10%	8.40%
Current ratio	4.69	2.10	3.44	1.6	1.4
Receivables turnover	11.52	11.16	5.48		8.0
Days' receivables	32	33	67	45.0	46.0
Inventory turnover	5.05	3.78	3.10		
ASSET UTILIZATION					
Total asset turnover	1.22	1.02	0.94	1.2	1.8
Sales/net fixed assets	2.25	1.77	1.95	2.0	4.3
LEVERAGE:					
Interest coverage	0.00	0.00	0.00	37.2	
LTD/(LTD+capital)(1)	0.00%	0.00%	3.58%		
PROFITABILITY					
Gross margin	30.41%	23.35%	23.22%	20.8%	
EBIT	12.84%	5.28%	2.41%		
ROE BREAKDOWN					
Net income/sales	7.4%	3.7%	1.7%	4.6%	
Sales/total assets	1.2	1.0	0.9	1.2	
Total assets/total stockholders' equity	1.3	1.4	1.3		
ROE	11.2%	5.3%	2.1%	9.3%	

Notes:
(1) Capital is equal to stockholders' equity
RMA data from 1994 RMA in SIC# 3089, "Manufacturers- Miscellaneous Plastic Products"
GLC data represents the average of the selected guideline company data

Discounted Net Cash Flow Model

Canadian Plastics Ltd.
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)*	T	(If T is selected, proceed to #1C, If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	32,819,000					
INPUT Current year cost of goods sold (or cost of service)	25,197,000					
INPUT Sales growth rates for years 1-5		5.0%	5.0%	5.0%	5.0%	5.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		76.8%	76.8%	76.8%	76.8%	76.8%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS

	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	4,255,000	13.0%	13.0%	13.0%	13.0%	13.0%
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

Discounted Net Cash Flow Model

Canadian Plastics Ltd.
Privatization
As of December 31, 1994

INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A INPUT Current Year Depreciation Expense: 2,576,000

B INPUT Current Depreciable Assets	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	16,873,000	7
Long depreciable life (20+)	0	0
Total	16,873,000	

C INPUT Capital Expenditures in	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	7	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 0

		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Debt Instrument #1						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	6.2%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Debt Instrument #2		9,916,015				
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0
Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B INPUTS for Forecasted Equity Financing

		INPUT Discrete Equity Issues/Repurchases				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	30.0%	Cost of Equity	18.0%
Current year working capital	12,712,000	Fair Market Value of Non-operating assets	0
Residual Growth Rate	2.5%		

Discounted Net Cash Flow Model

Canadian Plastics Ltd.
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	32,819,000	34,459,950	36,182,948	37,992,095	39,891,700	41,886,285
Cost of Goods Sold (Cost of Service) (PAGE 2)	25,197,000	26,465,242	27,788,504	29,177,929	30,636,825	32,168,667
	76.8%	76.8%	76.8%	76.8%	76.8%	76.8%
Gross Margin	7,622,000	7,994,708	8,394,444	8,814,166	9,254,874	9,717,618
	23.2%	23.2%	23.2%	23.2%	23.2%	23.2%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	4,255,000	4,479,794	4,703,783	4,938,972	5,185,921	5,445,217
Total fixed costs	0	0	0	0	0	0
Total variable and fixed costs	4,255,000	4,479,794	4,703,783	4,938,972	5,185,921	5,445,217
	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	3,367,000	3,514,915	3,690,661	3,875,194	4,068,953	4,272,401
	10.3%	10.2%	10.2%	10.2%	10.2%	10.2%
Depreciation (PAGE 5)	2,576,000	2,553,286	2,696,143	2,839,000	2,981,857	3,124,714
Earnings Before Interest and Taxes (EBIT)	791,000	961,629	994,518	1,036,194	1,087,096	1,147,687
Interest Expense (PAGE 4)	0	62,000	62,000	62,000	62,000	62,000
Profit Before Tax	791,000	899,629	932,518	974,194	1,025,096	1,085,687
	2.4%	2.6%	2.6%	2.6%	2.6%	2.6%
Tax Provision	237,300	269,889	279,755	292,258	307,529	325,706
Profit After Tax	553,700	629,740	652,762	681,936	717,567	759,981
	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%
Free Cash Flow						
Profit After Tax		629,740	652,762	681,936	717,567	759,981
Depreciation		2,553,286	2,696,143	2,839,000	2,981,857	3,124,714
Additional working capital requirements		(492,285)	(516,899)	(542,744)	(569,881)	(598,375)
Capital investment		(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		1,690,741	1,832,006	1,978,191	2,129,543	2,286,320
Present Value Factor		0.9206	0.7801	0.6611	0.5603	0.4748
Present Value of Cash Flow		1,556,453	1,429,236	1,307,866	1,193,162	1,085,595
				Residual Value		1,068,680
Sum of Present Value of Cash Flows	6,572,312					
Present Value of Residual	507,433					
Preliminary Value	7,079,745					
Working capital (deficiency) surplus	2,866,300					
Non-operating assets	0					
Equity value indication	9,946,045					
Total shares outstanding	1,000,000					
Equity value per share	9.95					

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Discounted Net Cash Flow Model

Canadian Plastics Ltd.
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Unit Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Percent of Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Price per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Sales by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Cost per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Costs by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Profit per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
TOTAL SALES	32,819,000	34,459,950	36,182,948	37,992,095	39,891,700	41,886,285
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	25,197,000	26,465,242	27,788,504	29,177,929	30,636,825	32,168,667

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Discounted Net Cash Flow Model

Canadian Plastics Ltd.
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	4,255,000	4,479,794	4,703,783	4,938,972	5,185,921	5,445,217
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	4,255,000	4,479,794	4,703,783	4,938,972	5,185,921	5,445,217
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	0	0	0	0	0	0
Variable Costs (as a percent of sales)						
Administrative	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	4,255,000	4,479,794	4,703,783	4,938,972	5,185,921	5,445,217
TOTAL FIXED COSTS	0	0	0	0	0	0

Discounted Net Cash Flow Model

Canadian Plastics Ltd.
Privatization
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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Debt Instrument #1	62,000	62,000	62,000	62,000	62,000
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	62,000	62,000	62,000	62,000	62,000
TOTAL ADDITIONAL DEBT FINANCING					
Debt Instrument #1	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Debt Instrument #1	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	15.51	16.04	16.71	17.53	18.51

Discounted Net Cash Flow Model

Canadian Plastics Ltd.
Privatization
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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	16,873,000	2,410,429	2,410,429	2,410,429	2,410,429	2,410,429
Depreciation for long term depreciable assets	0	0	0	0	0	0
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		142,857	142,857	142,857	142,857	142,857
			142,857	142,857	142,857	142,857
				142,857	142,857	142,857
					142,857	142,857
						142,857
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		2,553,286	2,696,143	2,839,000	2,981,857	3,124,714

Discounted Net Cash Flow Model

Canadin Plastics Ltd
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	T	(If T is selected, proceed to #C. If U is selected, proceed to #D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	32,819,000					
INPUT Current year cost of goods sold (or cost of service)	25,197,000					
INPUT Sales growth rates for years 1-5		3.0%	3.0%	3.0%	3.0%	3.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		73.3%	73.3%	73.3%	73.3%	73.3%
D INPUTS for UNIT SALES (U) forecast	INPUT Current year Units Sold	20,758,431				
INPUT Product Names and Forecasted Unit Production		INPUT Forecasted Units Sold				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	4,255,000	11.0%	11.0%	11.0%	11.0%	11.0%
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

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Discounted Net Cash Flow Model

Canadin Plastics Ltd.
Privatization
As of December 31, 1994

INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A INPUT Current Year Depreciation Expense: 2,576,000

B INPUT Current Depreciable Assets	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	16,873,000	7
Long depreciable life (20+)	0	0
Total	16,873,000	

C INPUT Capital Expenditures in

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	7	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 0

Debt Instrument #1		Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	6.2%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000

Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B INPUTS for Forecasted Equity Financing

		INPUT Forecast Equity Issues Repurchases Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	27.0%	Cost of Equity	18.0%
Current year working capital	12,712,000	Fair Market Value of Non-operating assets	100,000
Residual Growth Rate	2.5%		

Discounted Net Cash Flow Model

Canadin Plastics Ltd.
Privatization
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	32,819,000	33,803,570	34,817,677	35,862,207	36,938,074	38,046,216
Cost of Goods Sold (Cost of Service) (PAGE 2)	25,197,000	24,778,017	25,521,357	26,286,998	27,075,608	27,887,876
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross Margin	7,622,000	9,025,553	9,296,320	9,575,209	9,862,466	10,158,340
	23.2%	26.7%	26.7%	26.7%	26.7%	26.7%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	4,255,000	3,718,393	3,829,944	3,944,843	4,063,188	4,185,084
Total fixed costs	0	0	0	0	0	0
Total variable and fixed costs	4,255,000	3,718,393	3,829,944	3,944,843	4,063,188	4,185,084
	13.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	3,367,000	5,307,160	5,466,375	5,630,367	5,799,278	5,973,256
	10.3%	15.7%	15.7%	15.7%	15.7%	15.7%
Depreciation (PAGE 5)	2,576,000	2,553,286	2,696,143	2,839,000	2,981,857	3,124,714
Earnings Before Interest and Taxes (EBIT)	791,000	2,753,875	2,770,232	2,791,367	2,817,420	2,848,542
Interest Expense (PAGE 4)	0	62,000	62,000	62,000	62,000	62,000
Profit Before Tax	791,000	2,691,875	2,708,232	2,729,367	2,755,420	2,786,542
	2.4%	8.0%	7.8%	7.6%	7.5%	7.3%
Tax Provision	237,300	807,562	812,470	818,810	826,626	835,962
Profit After Tax	553,700	1,884,312	1,895,763	1,910,557	1,928,794	1,950,579
	1.7%	5.6%	5.4%	5.3%	5.2%	5.1%
Free Cash Flow						
Profit After Tax		1,884,312	1,895,763	1,910,557	1,928,794	1,950,579
Depreciation		2,553,286	2,696,143	2,839,000	2,981,857	3,124,714
Additional working capital requirements		(265,834)	(273,809)	(282,023)	(290,484)	(299,198)
Capital investment		(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		0	0	0	0	0
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		3,171,764	3,318,097	3,467,533	3,620,168	3,776,095
Present Value Factor		0.9206	0.7801	0.6611	0.5603	0.4748
Present Value of Cash Flow		2,919,846	2,588,606	2,292,533	2,028,344	1,792,974
				Residual Value		10,920,421

Sum of Present Value of Cash Flows	11,622,303
Present Value of Residual	5,185,258
Preliminary Value	16,807,561
Working capital (deficiency) surplus	3,850,870
Non-operating assets	100,000
Equity value indication	20,758,431
Total shares outstanding	1,000,000
Equity value per share	20.76

Discounted Net Cash Flow Model

Canadin Plastics Ltd.
Privatization
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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Unit Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Percent of Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Price per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Sales by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Cost per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Costs by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Profit per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
TOTAL SALES	32,819,000	33,803,570	34,817,677	35,862,207	36,938,074	38,046,216
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	25,197,000	24,778,017	25,521,357	26,286,998	27,075,608	27,887,876

Discounted Net Cash Flow Model

Canadin Plastics Ltd.
Privatization
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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	4,255,000	3,718,393	3,829,944	3,944,843	4,063,188	4,185,084
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	4,255,000	3,718,393	3,829,944	3,944,843	4,063,188	4,185,084
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	0	0	0	0	0	0
Variable Costs (as a percent of sales)						
Administrative	13.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	13.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	4,255,000	3,718,393	3,829,944	3,944,843	4,063,188	4,185,084
TOTAL FIXED COSTS	0	0	0	0	0	0

Discounted Net Cash Flow Model

Canadin Plastics Ltd.
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Debt Instrument #1	62,000	62,000	62,000	62,000	62,000
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	62,000	62,000	62,000	62,000	62,000
TOTAL ADDITIONAL DEBT FINANCING					
Debt Instrument #1	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Debt Instrument #1	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	0	0	0	0	0
TOTAL ENDING DEBT	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	44.42	44.68	45.02	45.44	45.94

Discounted Net Cash Flow Model

Canadin Plastics Ltd.
Privatization
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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	16,873,000	2,410,429	2,410,429	2,410,429	2,410,429	2,410,429
Depreciation for long term depreciable assets	0	0	0	0	0	0
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		142,857	142,857	142,857	142,857	142,857
			142,857	142,857	142,857	142,857
				142,857	142,857	142,857
					142,857	142,857
						142,857
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		2,553,286	2,696,143	2,839,000	2,981,857	3,124,714

Discounted Net Cash Flow Model

XYZ Company
Privatization
As of December 31, 1994

INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	T	(If T is selected, proceed to #1C. If U is selected, proceed to #1D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	32,819,000	25,307,842				
INPUT Current year cost of goods sold (or cost of service)	25,197,000					
INPUT Sales growth rates for years 1-5		20.0%	10.0%	8.0%	8.0%	5.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		73.3%	73.3%	73.3%	73.3%	73.3%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	4,255,000	12.0%	12.0%	12.0%	12.0%	12.0%
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	100,000	3.0%	3.0%	3.0%	3.0%	3.0%
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	30.0%	0.0%	0.0%	0.0%	30.0%	30.0%

Discounted Net Cash Flow Model

XYZ Company
Privatization
As of December 31, 1994

INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

A. INPUT Current Year Depreciation Expense: 2,576,000

	INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
B. INPUT Current Depreciable Assets		
Short depreciable life (1-5 years)	0	0
Medium depreciable life (6-19 years)	16,873,000	7
Long depreciable life (20+)	0	0
Total	16,873,000	

C. INPUT Capital Expenditures in: 25,307,812

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Short depreciable life (1-5 years)	0	0	0	0	0	0
Medium depreciable life (6-19 years)	7	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A. INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency): 0

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999

Debt incurred for acquisition

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 6.2%

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000

Debt Instrument #2

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 6.2%

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	3,000,000	2,700,000	2,400,000	2,100,000	1,800,000
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	300,000	300,000	300,000	300,000	300,000
Ending Debt Balance	2,700,000	2,400,000	2,100,000	1,800,000	1,500,000

Debt Instrument #3

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 0.0%

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0	0	0	0	0
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	0	0	0	0	0

Debt Instrument #4

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 0.0%

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0	0	0	0	0
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	0	0	0	0	0

Debt Instrument #5

INPUT Fixed or Variable Interest Rate (F or V): F

INPUT Fixed Interest Rate (F): 0.0%

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT Forecasted Variable Interest Rates (V)	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)	0	0	0	0	0
INPUT Additional Debt	0	0	0	0	0
INPUT Principal Payments	0	0	0	0	0
Ending Debt Balance	0	0	0	0	0

B. INPUTS for Forecasted Equity Financing

	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
INPUT New Equity Issues (In Currency)	0	0	0	0	0
INPUT Equity Repurchases (In Currency)	0	0	0	0	0
INPUT Total Shares Issued (Repurchased)	0	0	0	0	0

INPUT Current Shares Outstanding: 1,000,000

Step 5. INPUT Valuation Assumptions

Working capital/sales	30.0%	Cost of Equity	15.0%
Current year working capital	12,712,000	Fair Market Value of Non-operating assets	75,000
Residual Growth Rate	2.5%		

Discounted Net Cash Flow Model

XYZ Company
Privatization
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	32,819,000	39,382,800	43,321,080	46,786,766	50,529,708	53,056,193
Cost of Goods Sold (Cost of Service) (PAGE 2)	25,197,000	28,867,592	31,754,352	34,294,700	37,038,276	38,890,190
	76.8%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross Margin	7,622,000	10,515,208	11,566,728	12,492,067	13,491,432	14,166,004
	23.2%	26.7%	26.7%	26.7%	26.7%	26.7%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
Total fixed costs	100,000	103,000	106,090	109,273	112,551	115,927
Total variable and fixed costs	4,355,000	4,828,936	5,304,620	5,723,685	6,176,116	6,482,671
	13.3%	12.3%	12.2%	12.2%	12.2%	12.2%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	3,267,000	5,686,272	6,262,109	6,768,382	7,315,316	7,683,333
	10.0%	14.4%	14.5%	14.5%	14.5%	14.5%
Depreciation (PAGE 5)	2,576,000	2,553,286	2,696,143	2,839,000	2,981,857	3,124,714
Earnings Before Interest and Taxes (EBIT)	691,000	3,132,986	3,565,966	3,929,382	4,333,459	4,558,619
Interest Expense (PAGE 4)	0	238,700	220,100	201,500	182,900	164,300
Profit Before Tax	691,000	2,894,286	3,345,866	3,727,882	4,150,559	4,394,319
	2.1%	[illegible]	[illegible]	8.0%	8.2%	8.3%
Tax Provision	207,300	0	0	0	1,245,168	1,318,296
Profit After Tax	483,700	2,894,286	3,345,866	3,727,882	2,905,391	3,076,023
	1.5%	[illegible]	[illegible]	8.0%	[illegible]	[illegible]
Free Cash Flow						
Profit After Tax		2,894,286	3,345,866	3,727,882	2,905,391	3,076,023
Depreciation		2,553,286	2,696,143	2,839,000	2,981,857	3,124,714
Additional working capital requirements		(1,969,140)	(1,181,484)	(1,039,706)	(1,122,882)	(757,946)
Capital investment		(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Additional Debt Financing		0	0	0	0	0
Principal Payments		(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		2,178,432	3,560,525	4,227,176	3,464,366	4,142,792
Present Value Factor		0.9325	0.8109	0.7051	0.6131	0.5332
Present Value of Cash Flow		2,031,398	2,887,136	2,980,614	2,124,131	2,208,782
				Residual Value		19,008,235
Sum of Present Value of Cash Flows	12,232,061					
Present Value of Residual	10,134,481					
Preliminary Value	22,366,542					
Working capital (deficiency) surplus	2,866,300					
Non-operating assets	75,000					
Equity value indication	25,307,842					
Total shares outstanding	1,000,000					
Equity value per share	25.31					

Discounted Net Cash Flow Model

XYZ Company
Privatization
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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Unit Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Percent of Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Price per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Sales by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Cost per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Costs by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Profit per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
TOTAL SALES	32,819,000	39,382,800	43,321,080	46,786,766	50,529,708	53,056,193
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	25,197,000	28,867,592	31,754,352	34,294,700	37,038,276	38,890,190

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Discounted Net Cash Flow Model

XYZ Company
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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
Fixed Costs						
Rent	100,000	103,000	106,090	109,273	112,551	115,927
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	100,000	103,000	106,090	109,273	112,551	115,927
Variable Costs (as a percent of sales)						
Administrative	13.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	13.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Fixed Costs (percent growth)						
Rent		3.0%	3.0%	3.0%	3.0%	3.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		3.0%	3.0%	3.0%	3.0%	3.0%
TOTAL VARIABLE COSTS	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
TOTAL FIXED COSTS	100,000	103,000	106,090	109,273	112,551	115,927

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Debt incurred for acquisition	62,000	62,000	62,000	62,000	62,000
Debt Instrument #2	176,700	158,100	139,500	120,900	102,300
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	238,700	220,100	201,500	182,900	164,300
TOTAL ADDITIONAL DEBT FINANCING					
Debt incurred for acquisition	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Debt incurred for acquisition	0	0	0	0	0
Debt Instrument #2	300,000	300,000	300,000	300,000	300,000
Debt Instrument #3	0	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	300,000	300,000	300,000	300,000	300,000
TOTAL ENDING DEBT	3,700,000	3,400,000	3,100,000	2,800,000	2,500,000
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	13.13	16.20	19.50	23.69	27.75

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	16,873,000	2,410,429	2,410,429	2,410,429	2,410,429	2,410,429
Depreciation for long term depreciable assets	0	0	0	0	0	0
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		142,857	142,857	142,857	142,857	142,857
			142,857	142,857	142,857	142,857
				142,857	142,857	142,857
					142,857	142,857
						142,857
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		2,553,286	2,696,143	2,839,000	2,981,857	3,124,714

Discounted Net Cash Flow Model

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INPUT SECTION

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Current year	1994					
B Forecast TOTAL SALES or UNIT SALES (T or U)?	T	(If T is selected, proceed to #C. If U is selected, proceed to #D)				
C INPUTS for TOTAL SALES (T) forecast						
INPUT Current year sales	32,819,000	24,924,260				
INPUT Current year cost of goods sold (or cost of service)	25,197,000					
INPUT Sales growth rates for years 1-5		20.0%	10.0%	8.0%	8.0%	5.0%
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5		73.3%	73.3%	73.3%	73.3%	73.3%
D INPUTS for UNIT SALES (U) forecast						
INPUT Product Names and Forecasted Unit Production	INPUT Current year Units Sold	INPUT Forecasted Units Sold				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Product Groups-Unit Capacity	INPUT Current year Unit Capacity	INPUT Forecasted Unit Capacity				
Product #1	0	0	0	0	0	0
Product #2	0	0	0	0	0	0
Product #3	0	0	0	0	0	0
INPUT Unit Sales Prices	INPUT Current year Unit Prices	INPUT Forecasted Unit Price Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Product Cost per Unit	INPUT Current year Cost per Unit	INPUT Forecasted Unit Cost Growth Rates				
Product #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
Product #3	0	0.0%	0.0%	0.0%	0.0%	0.0%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
A INPUT Variable Cost forecasts	INPUT Current year Variable Costs	INPUT Variable Costs as a Percent of Sales				
Administrative	4,255,000	12.0%	12.0%	12.0%	12.0%	12.0%
Marketing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL VARIABLE COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
B INPUT for Fixed Cost forecasts	INPUT Current year Fixed Costs	INPUT Forecasted Fixed Cost Growth Rates				
Rent	0	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries	0	0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0	0.0%	0.0%	0.0%	0.0%	0.0%
OPTIONAL: INPUT TOTAL FIXED COSTS	0	0.0%	0.0%	0.0%	0.0%	0.0%
C INPUT Current Year Taxes and Forecasted Tax Rates	INPUT Current year Tax Rate	INPUT Forecasted Tax Rates				
	30.0%	0.0%	0.0%	0.0%	30.0%	30.0%

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Discounted Net Cash Flow Model

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INPUT SECTION

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures

		INPUT Current Year Existing Net Fixed Assets	INPUT Depreciable Years
A. INPUT Current Year Depreciation Expense	2,576,000		
B. INPUT Current Depreciable Assets			
Short depreciable life (1-5 years)		0	0
Medium depreciable life (6-19 years)		16,873,000	7
Long depreciable life (20+)		0	0
Total		16,873,000	
C. INPUT Capital Expenditures in		24,924,266	

	INPUT Depreciable Years	INPUT Forecasted Capital Expenditures				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
Short depreciable life (1-5 years)	5	800,000	0	0	0	0
Medium depreciable life (6-19 years)	7	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Long depreciable life (20+)	0	0	0	0	0	0

Step 4. INPUTS for FORECASTED Long Term Financing

A. INPUTS for Current and Forecasted Long Term Debt Financing

INPUT Current Year Interest Expense (In Currency) 0

Debt incurred for acquisition:		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	6.2%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000

Debt Instrument #2						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	6.2%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		3,000,000	2,700,000	2,400,000	2,100,000	1,800,000
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		300,000	300,000	300,000	300,000	300,000
Ending Debt Balance		2,700,000	2,400,000	2,100,000	1,800,000	1,500,000

Debt Instrument #3						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	6.2%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	800,000	800,000	800,000	800,000
INPUT Additional Debt		800,000	0	0	0	0
INPUT Principal Payments		0	0	0	0	800,000
Ending Debt Balance		800,000	800,000	800,000	800,000	0

Debt Instrument #4						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

Debt Instrument #5						
INPUT Fixed or Variable Interest Rate (F or V)	F					
INPUT Fixed Interest Rate (F)	0.0%	INPUT Forecasted Variable Interest Rates				
INPUT Forecasted Variable Interest Rates (V)		0.0%	0.0%	0.0%	0.0%	0.0%
INPUT Beginning of Year Debt Balance (Year 1 only)		0	0	0	0	0
INPUT Additional Debt		0	0	0	0	0
INPUT Principal Payments		0	0	0	0	0
Ending Debt Balance		0	0	0	0	0

B. INPUTS for Forecasted Equity Financing

		INPUT Discreet Equity Issues Repurchases				
		Year 1	Year 2	Year 3	Year 4	Year 5
		1995	1996	1997	1998	1999
INPUT New Equity Issues (In Currency)		0	0	0	0	0
INPUT Equity Repurchases (In Currency)		0	0	0	0	0
INPUT Total Shares Issued (Repurchased)		0	0	0	0	0
INPUT Current Shares Outstanding	1,000,000					

Step 5. INPUT Valuation Assumptions

Working capital/sales	30.0%	Cost of Equity	15.0%
Current year working capital	12,712,000	Fair Market Value of Non-operating assets	75,000
Residual Growth Rate	2.5%		

Discounted Net Cash Flow Model

XYZ Company
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OUTPUT SECTION PAGE 1

Discounted Net Cash Flow	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Total Sales (PAGE 2)	32,819,000	39,382,800	43,321,080	46,786,766	50,529,708	53,056,193
Cost of Goods Sold (Cost of Service) (PAGE 2)	25,197,000	28,867,592	31,754,352	34,294,700	37,038,276	38,890,190
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross Margin	7,622,000	10,515,208	11,566,728	12,492,067	13,491,432	14,166,004
	23.2%	26.7%	26.7%	26.7%	26.7%	26.7%
Variable and Fixed Costs (PAGE 3)						
Total variable costs	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
Total fixed costs	0	0	0	0	0	0
Total variable and fixed costs	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
	13.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	3,367,000	5,789,272	6,368,199	6,877,655	7,427,867	7,799,260
	10.3%	14.7%	14.7%	14.7%	14.7%	14.7%
Depreciation (PAGE 5)	2,576,000	2,713,286	2,856,143	2,999,000	3,141,857	3,284,714
Earnings Before Interest and Taxes (EBIT)	791,000	3,075,986	3,512,056	3,878,655	4,286,010	4,514,546
Interest Expense (PAGE 4)	0	288,300	269,700	251,100	232,500	189,100
Profit Before Tax	791,000	2,787,686	3,242,356	3,627,555	4,053,510	4,325,446
	2.4%	7.1%	7.5%	7.5%	8.0%	8.2%
Tax Provision	237,300	0	0	0	1,216,053	1,297,634
Profit After Tax	553,700	2,787,686	3,242,356	3,627,555	2,837,457	3,027,812
	1.7%	7.1%	7.5%	7.5%	5.6%	5.7%
Free Cash Flow						
Profit After Tax		2,787,686	3,242,356	3,627,555	2,837,457	3,027,812
Depreciation		2,713,286	2,856,143	2,999,000	3,141,857	3,284,714
Additional working capital requirements		(1,969,140)	(1,181,484)	(1,039,706)	(1,122,882)	(757,946)
Capital investment		(1,800,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Additional Debt Financing		800,000	0	0	0	0
Principal Payments		(300,000)	(300,000)	(300,000)	(300,000)	(1,100,000)
Changes in Equity Financing		0	0	0	0	0
Free Cash Flow		2,231,832	3,617,015	4,286,849	3,556,432	3,454,581
Present Value Factor		0.9325	0.8109	0.7051	0.6131	0.5332
Present Value of Cash Flow		2,081,194	2,932,942	3,022,690	2,180,580	1,841,854
				Residual Value		18,612,907

Sum of Present Value of Cash Flows	12,059,259
Present Value of Residual	9,923,707
Preliminary Value	21,982,966
Working capital (deficiency) surplus	2,866,300
Non-operating assets	75,000
Equity value indication	24,924,266
Total shares outstanding	1,000,000
Equity value per share	24.92

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 2

SALES AND COST OF GOODS SOLD (COST OF SERVICE) ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Unit Production						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Unit Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Percent of Capacity						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Price per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Sales by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Cost per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Total Costs by Product						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Profit per Unit						
Product #1	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #2	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Product #3	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
TOTAL SALES	32,819,000	39,382,800	44,321,080	46,786,766	50,529,708	53,056,193
TOTAL COSTS OF GOODS SOLD (COST OF SERVICE)	25,197,000	28,867,592	31,754,352	34,294,700	37,038,276	38,890,190

Discounted Net Cash Flow Model

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OUTPUT SECTION PAGE 3

VARIABLE AND FIXED COST ANALYSIS	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Variable Costs						
Administrative	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
Marketing	0	0	0	0	0	0
Insurance	0	0	0	0	0	0
Legal and auditing	0	0	0	0	0	0
Utilities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL VARIABLE COSTS	0	0	0	0	0	0
Total Variable Costs	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
Fixed Costs						
Rent	0	0	0	0	0	0
Salaries	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Other #1	0	0	0	0	0	0
Other #2	0	0	0	0	0	0
TOTAL FIXED COSTS	0	0	0	0	0	0
Total Fixed Costs	0	0	0	0	0	0
Variable Costs (as a percent of sales)						
Administrative	13.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Marketing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal and auditing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other #2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Variable Costs	13.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Fixed Costs (percent growth)						
Rent		0.0%	0.0%	0.0%	0.0%	0.0%
Salaries		0.0%	0.0%	0.0%	0.0%	0.0%
Maintenance		0.0%	0.0%	0.0%	0.0%	0.0%
Other #1		0.0%	0.0%	0.0%	0.0%	0.0%
Other #2		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FIXED COSTS		0.0%	0.0%	0.0%	0.0%	0.0%
Total Fixed Costs		0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL VARIABLE COSTS	4,255,000	4,725,936	5,198,530	5,614,412	6,063,565	6,366,743
TOTAL FIXED COSTS	0	0	0	0	0	0

Discounted Net Cash Flow Model

XYZ Company
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 4

FORECASTED INTEREST PAYMENTS AND NET CHANGES IN LONG TERM FINANCING REQUIREMENTS

A. INPUTS for Current and Forecasted Long Term Debt Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
TOTAL INTEREST PAYMENTS	1995	1996	1997	1998	1999
Debt incurred for acquisition	62,000	62,000	62,000	62,000	62,000
Debt Instrument #2	176,700	158,100	139,500	120,900	102,300
Debt Instrument #3	49,600	49,600	49,600	49,600	24,800
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL INTEREST PAYMENTS	288,300	269,700	251,100	232,500	189,100
TOTAL ADDITIONAL DEBT FINANCING					
Debt incurred for acquisition	0	0	0	0	0
Debt Instrument #2	0	0	0	0	0
Debt Instrument #3	800,000	0	0	0	0
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL ADDITIONAL DEBT FINANCING	800,000	0	0	0	0
TOTAL PRINCIPAL PAYMENTS					
Debt incurred for acquisition	0	0	0	0	0
Debt Instrument #2	300,000	300,000	300,000	300,000	300,000
Debt Instrument #3	0	0	0	0	800,000
Debt Instrument #4	0	0	0	0	0
Debt Instrument #5	0	0	0	0	0
TOTAL PRINCIPAL PAYMENTS	300,000	300,000	300,000	300,000	1,100,000
TOTAL ENDING DEBT	4,500,000	4,200,000	3,900,000	3,600,000	2,500,000
TOTAL CHANGE IN EQUITY FINANCING					
New Equity Issues	0	0	0	0	0
Additional shares issued	0	0	0	0	0
Equity Repurchases	0	0	0	0	0
TOTAL CHANGE IN EQUITY FINANCING	0	0	0	0	0
EBIT to INTEREST	10.67	13.02	15.45	18.43	23.87

Discounted Net Cash Flow Model

NYZ Company
Privatization
As of December 31, 1994

OUTPUT SECTION PAGE 5

FIXED ASSET AND CAPITAL EXPENDITURE DEPRECIATION	Current year 1994	Year 1 1995	Year 2 1996	Year 3 1997	Year 4 1998	Year 5 1999
Fixed Asset Depreciation - Existing Assets	Net Fixed Assets					
Depreciation for short term depreciable assets	0	0	0	0	0	0
Depreciation for medium term depreciable assets	16,873,000	2,410,429	2,410,429	2,410,429	2,410,429	2,410,429
Depreciation for long term depreciable assets	0	0	0	0	0	0
Capital Expenditure Depreciation						
Depreciation for short term depreciable assets		160,000	160,000	160,000	160,000	160,000
			0	0	0	0
				0	0	0
					0	0
						0
Depreciation for medium term depreciable assets		142,857	142,857	142,857	142,857	142,857
			142,857	142,857	142,857	142,857
				142,857	142,857	142,857
					142,857	142,857
						142,857
Depreciation for long term depreciable assets		0	0	0	0	0
			0	0	0	0
				0	0	0
					0	0
						0
TOTAL DEPRECIATION EXPENSE		2,713,286	2,856,143	2,999,000	3,141,857	3,284,714

Module 2 Exercises and Handouts

Item	File name
Bulgarian Cement - Value as is	valasis.doc
Bulgarian Cement - Exhibits	bulgcem.wk4
Model answer to Value as is	value1.xls
Product mix exercise using the model	prodmix.doc
Model answer to product mix scenario 1	pm-sc1
Model answer to product mix scenario 2	value2.xls
Model answer to product mix scenario 3	pm-sc3
Cost leadership versus differentiation strategy exercise using the model	diff-cos.doc
Model answer to differentiation vs. cost leadership scenario: cost leadership	value3.xls
Model answer to differentiation vs. cost leadership scenario: differentiation	val3-dif.xls
Exercise - Managing net working capital	nwcexer.doc
Exercise - Managing net working capital	nwcexer.xls
Model answer to changing nwc/sales to 15%	value4.xls
Capital budgeting exercise - analyzing two investment opportunities	capbudg.doc
Capital budgeting exercise - analyzing two investment opportunities	capbudg.xls
Capital budgeting exercise using the model	capex.doc
Capital budgeting exercise using the model	capex.xls
Capital budgeting exercise using the model - option B	value5.xls
Capital budgeting exercise using the model - option A	val5-ex2.xls
Case study - Canadian Plastics	plastic.doc
Case study - Canadian Plastics	plastic.wk3
Model answer to Canadian Plastics part A	plastic-a.xls
Model answer to Canadian Plastics part B: seller	plst-sel.xls
Model answer to Canadian Plastics part B: buyer option (lease)	plst-buy.xls
Model answer to Canadian Plastics part B: buyer option (buy)	plst-buy2.xls
Instructions for using the disocunted cash flow model	instruct.doc

Instructions for Using the Discounted Cash Flow ("DCF") Model:

This instruction manual is to be used with the discounted net cash flow model enclosed under the file name: "dcfmodel.xls." The model inputs are organized into five different steps. Inputs may only be made in the shaded cells.

Before the model outlined steps are completed, the Company's name, purpose, and date of valuation should be placed in the first three lines of the input section. Example:

Discounted Net Cash Flow Model

Romanian Cement
Privatization
As of December 31, 1995

Step 1. INPUTS for Product Sales and Gross Margin FORECASTS

A. INPUT Current Year: Enter the most recently ended year (current year). This year will serve as the base year from which the forecasts will be made. All of the years in the forecast period will appear subsequent to this year. *This entry is mandatory.*

B. Forecast TOTAL SALES or UNIT SALES (T or U)?: The DCF model allows the user to forecast sales by either of two methods:

TOTAL SALES ("T") method: this method allows the user to forecast sales based upon growth rates for the forecasted period (Years 1-5), using the current year sales as a basis for the growth (for this method, INPUT "T"). *This method is most appropriate when:*

- *forecasted product unit sales and costs are not available.*
- *the subject is a service company and product units are not an issue.*

NOTE: If "T" is selected, proceed to entry number 1C.

OR

UNIT SALES ("U") method: this method allows the user to forecast sales based on discreet unit sales, price per unit, and cost per unit (for this method, INPUT "U"). *This method is most appropriate when:*

- *forecasted product unit sales and costs are available with reasonable accuracy.*

NOTE: If "U" is selected, proceed to entry number 1D.

C. INPUTS for Variable and Fixed Costs and Taxation FORECASTS: This section is only applicable for the TOTAL SALES ("T") method. Inputs for this section are divided into four parts:

- INPUT Current year sales: Input the current year sales (in numerical amounts: example $100,000,000). This amount will serve as the base year from which the forecasted sales will be grown.

- INPUT Current year cost of goods sold (cost of service): Input the current year cost of goods sold (cost of service) (in numeric amounts: example $70,000,000).

- INPUT Sales growth rates for years 1-5: Input the forecasted sales growth rates for each of the five years in the forecast (Years 1-5). Example:

	1995	1996	1997	1998	1999
INPUT Sales growth rates for years 1-5:	5.0%	5.0%	5.0%	5.0%	5.0%

- INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5: Enter the forecasted cost of goods sold *as a percent of sales* for each year of the forecast (Years 1-5). Example:

	1995	1996	1997	1998	1999
INPUT Cost of goods sold (or cost of service) as a percent of sales for years 1-5:	80%	80%	80%	%	80%

D. INPUTS for UNIT SALES ("U") forecasts: This section is only applicable for the UNIT SALES ("T") method. The steps under this approach are as follows:

- INPUT Product Names and Forecasted Unit Production: Enter the names of the company's products. Note: Under this method, the model allows for up to *three product lines* to be forecasted.

- INPUT Current year Unit Production: Enter the current year and forecasted production for each of the company's products.

- INPUT Product Groups-Unit Capacity: Enter the total unit capacity for each of the previously named products for *both* the current year and for each year of the projected period (Years 1-5).

- INPUT Current year prices: Enter the individual unit product prices for the current year in nominal amounts (example $1,000 per unit). In addition, enter the forecasted price growth rates for each of the forecasted years (Years 1-5). Example:

	INPUT Current year Unit Prices	1995	1996	1997	1998	1999
Product #1	1,000	3%	3%	3%	3%	3%

- INPUT Product Cost per Unit: Enter the individual unit product costs for the current year in numeric amounts (example $1,000 per unit). In addition, enter the forecasted price growth rates for each of the forecasted years (Years 1-5). Example:

	INPUT Current year Unit Prices	1995	1996	1997	1998	1999
Product #1	1,000	3%	3%	3%	3%	3%

Step 2. INPUTS for Variable and Fixed Costs and Taxation FORECASTS:

A. INPUT Variable Cost forecasts: This section requires three entries. First, enter the appropriate expense item name. The model allows for up to eight expense items to be discreetly forecasted *OR* total variable costs may be forecasted as a total percent of sales (select *OPTIONAL: INPUT TOTAL VARIABLE COSTS*). The provided expense names (Administrative, Marketing, etc.) are presented for example purposes only and may be typed over with expense items specifically for the subject company.

Next, input the current year expense amount in numeric terms under the area marked *Current year Variable Costs*. Lastly, forecast the expense item as a percent of sales. Example:

	INPUT Current year Variable Costs	1995	1996	1997	1998	1999
Administrative	10,000,000	10%	10%	10%	10%	10%

B. INPUT Fixed Cost forecasts: These inputs are presented in the same format as the Variable Cost inputs. However, the main difference is that the inputs for the forecasted years are entered as growth rates versus as a percent of sales. First, enter the appropriate expense item name, if it is not already provided (example: Rent expenses). The model allows for up to five expense items to be discreetly forecasted *OR* the fixed costs may be combined and forecasted using one growth rate (select *OPTIONAL: INPUT TOTAL FIXED COSTS*). The provided expense names (Rent, Salaries, etc.) are presented for example purposes only and may be typed over with expense items specifically for the subject company.

C. INPUT Current year Taxes and Forecasted Tax Rates: This section requires the entering of the current tax rate and the tax rates forecasted for the future as a percent of the pretax income (Example 38%).

Step 3. INPUTS for FORECASTED Depreciation and Capital Expenditures:

A. INPUT Current Year Depreciation Expense: Enter the current year depreciation expense in numeric terms (Example $1,000,000).

B. INPUT Current Depreciable Assets: This section allows for inputs of fixed asset amounts as divided into three group categories: Short depreciable lives (1-5 years), Medium depreciable lives (6-19 years), and Long depreciable lives (20+years). The entries for the forecasting of depreciation and capital expenditures are in two parts:

- First assign the depreciable asset to a category and input the net depreciable asset amount in the section: INPUT Current Year Existing Fixed Assets.

- Next enter the depreciable life of the entered asset under the heading: INPUT Depreciable Years (Example: Medium Depreciable life 7 years).

NOTE: The total net fixed assets should match the net fixed assets from the latest balance sheet. All of the depreciation expenses are forecasted using the straight line method of depreciation.

C. INPUT Capital Expenditures in: This section requires the input of capital expenditure amounts for each depreciable life category. As in Step 3 B, the model calculates future capital expenditure depreciation based on the following categories: Short depreciable lives (1-5 years), Medium depreciable lives (6-19 years), and Long depreciable lives (20+years). Enter the depreciable life of the asset for which the capital expenditures will be made under the heading: INPUT Depreciable Years. Next, enter the forecasted capital expenditures in nominal amounts for assets with the corresponding depreciable lives. Again, all of the depreciation expenses are forecasted using the straight line method of depreciation.

Step 4: INPUTS for FORECASTED Long Term Financing:

A. INPUTS for Current and Forecasted Long Term Debt Financing: The first step under this section is to input the current year interest expense (in numeric amounts) at the heading INPUT Current Year Interest Expense. Next, the estimated interest expense and principal payments for existing debt and/or additional debt may be forecasted. The model allows for *five* existing/additional debt instruments to be forecasted. The procedures for entering the principal and interest for each category of debt are as follows:

- First, enter the name of the debt instrument (example: Bank Loans).

- Second, select whether the interest rate will be forecasted at a fixed rate or variable rate over the projected period (under the heading INPUT: Fixed or Variable Interest Rate (F or V) for Fixed Interest Rate forecasts enter "F"; for Variable Interest Rate forecasts enter "V").

- If "F" (Fixed) is selected, enter the rate of interest assumed to be constant throughout the forecast at the heading INPUT: Fixed Interest Rate (F).

- If "V" (Variable) is selected, enter the rate of interest for *each year* of the projected period at the heading INPUT: Forecasted Variable Interest Rates (V).

- Next, enter the debt balance at the beginning of the first forecasted year (or the end of the current year) under the heading INPUT Beginning of Year Debt Balance (Year One Only). This entry is required only for debt that existed at the beginning of the first year of the projection.

- Next, enter any additional debt incurred over the projection period. *Note: The entries for additional debt should be entered only on the line entitled* INPUT: Additional Debt. *All additional debt is assumed to be incurred at the beginning of each forecasted year.*

- Lastly, enter the discreet principal payments for each of the debt instruments of the forecasted years under the heading INPUT Principal Payments. *All principal payments are assumed to made at the end of each forecasted year.*

Note: The Ending Debt Balance is automatically calculated and no entries are required in this section.

B. INPUTS for Forecasted Equity Financing This section allows the user of the model to forecast any anticipated equity issues/repurchases

- First, input any forecasted equity issues, in numeric terms, under the heading INPUT New Equity Issues.

- Second, input any forecasted equity repurchases, in numeric terms, under the heading INPUT New Equity Repurchases.

- Third, input the total shares issued (for example 5,000)/repurchased (for example -5,000) that corresponds to the nominal terms entered in the previous two steps under the heading INPUT Total Shares Issued (Repurchased)

- Lastly, enter the total shares outstanding as of the current date under the heading INPUT Current shares outstanding.

Step 5: INPUT Valuation Assumptions

This section requires five inputs: *Working capital sales* (in percentage terms), *Current year working capital* (defined as current assets less current liabilities), *Residual growth rate* (in percentage terms), *Cost of Equity* (percent), and the *Fair Market Value of Non-operating assets* (defined in numeric terms according to the appropriate market value estimates of value as of the current date).

Print Instructions:

The print macro can be engaged in one of two methods:

1. Go to the INPUT section. Under the Tools menu option, highlight the Macro option; Highlight the INPUTOUTPUT macro option using the mouse and click the RUN button with the mouse.
2. Go to the INPUT section. Create a macro button using the View and Toolbars option (see instructor). Once the macro button is created, highlight the INPUTOUTPUT macro option using the mouse and click the RUN button with the mouse.

Note: You must be in the INPUT section in order to run the macro correctly.