Part 2 Case Study: Financial Statement Projections

Project Summary

FP&A has just completed a set of financial statement projections for the coming period for ShopNow!, a "big box" national discount retailer with roughly 1,500 stores in 30 states. These projections, which you can access as the Excel worksheet financial model (available for download on the **Financial Model** page) are the starting point for this case study. You will be analyzing and modifying them, in your role as a ShopNow! FP&A professional.

Please note that these were created for purposes of an exercise and may not reflect performances of comparable real-world businesses.

Based on what appear to be generally positive projections, management is now considering taking advantage of an opportunity that has suddenly arisen and which will require prompt action. ShopNow! has the opportunity to buy out a small local chain of discount retail stores. Since this is a set of stores that are already up and running, the acquisition would bring in a certain amount of additional revenue during the coming forecast period, even after allowing for the expenses and down-time in making the brand transition at these locations.

For purposes of this exercise, assume that research has been conducted to determine the following:

* The purchase of the chain is projected to increase the revenue growth rate for 2014 by **4%**.
* The acquisition will cost the organization **$2 billion** in additional capital expenditures.
* Any necessary additional financing can be secured at the same rate (**5.64%**) as existing financing.

Financial Model

The Excel worksheet financial model provided at the bottom on this page (filename: **AFP\_FPA\_IIB-CaseStudy.xlxs**) needs to be downloaded to complete this case study. Click on the button to download the file.

**Please note:**

* The information included in the sample model were created for purposes of an exercise and may not reflect performances of comparable real-world businesses.
* It is recommended that you rename the file before modifying it. That way you can re-open the original in case of errors. You will also be comparing these original projections with your revised forecast, so you will need to be able to access the original file.
* Beyond any required updating of formulas, all financial data should be entered into the Projection Inputs worksheet—NOT directly into financial statement fields.
* Data fields display in millions, but the complete number must be entered (e.g., an entry of 2,000,000,000 will display as $2,000).

Your Tasks

FP&A's assignment is to make a preliminary determination as to whether the acquisition is worth active consideration. This involves answering three key sets of questions:

* Based on current projections, is ShopNow! positioned to be able to consider this acquisition?
* If it were to be pursued, would the acquisition require additional financing? That is, once the projected additional revenue and additional CAPEX expenditures are applied to the current projections, is the net result a cash deficit or cash excess?
* Assuming the acquisition (including any financing that may prove necessary) happens —and setting aside long-range considerations and risk analyses—how is this likely to change the organization's overall picture for the coming period? Are different levels of financing possible and how might each affect the overall picture?

Each of the situations explain what you need to do to answer the corresponding questions. After completing all of the situation questions, you can download a completed version of the model so you can check your work.