

Group Classroom Exercise #5

Preparing Forecasts and Performing a Valuation

ACCT 416, Spring 2026

Prepared by Professor Tony Aaron

Due Date, Grading : Your **Word Answer Sheet** and Excel spreadsheet must be turned in as attachments via email to aarona@marshall.usc.edu prior to the start of class, (Either 8:00am or 10:00am, for 14106 and 14107, respectively) on the date set forth in the syllabus. Each group classroom exercise will be graded, based upon a maximum score of 40 points (4% of your ultimate grade). There will be a total of five classroom exercises, plus a group presentation of your cumulative findings for the company you have chosen for your group, based upon the results of your work on the five classroom exercises.

Instructions: Please answer each question in a narrative fashion using a **Word file**. Do not convert the file to PDF or any other format. Include your group number and the names of your group members at the beginning of your deliverable(s). Prepare the exercise portion of the classroom exercise in an Excel spreadsheet. Use the following naming conventions, for the Word and Excel files, respectively:

ACCT 416 Classroom Exercise 5 Group X 8am S26 Narrative.docx

ACCT 416 Classroom Exercise 5 Group X 8am S26 Analysis.xlsx

Or...

ACCT 416 Classroom Exercise 5 Group X 10am S26 Narrative.docx

ACCT 416 Classroom Exercise 5 Group X 10am S26 Analysis.xlsx

Questions:

1. In your own words, list and briefly describe the three categories used in classifying debt securities that may be included as assets on a company's balance sheet, and list and briefly describe the three methods for accounting for equity securities that may be included as assets on a company's balance sheet, based upon levels of voting stock ownership.
2. In your own words, compare and contrast the preparation of a Statement of Cash Flows under the indirect method, versus the preparation of a Statement of Cash Flows under the direct method.

3. In your own words, list and briefly describe four steps that are commonly undertaken by practitioners in converting forecasts of sustainable GAAP Net Income into “unleveraged” Free Cash Flow, for use in a DCF analysis, as we have discussed in class.

Exercise:

Part One, Forecasting: For the publicly traded company which you have utilized in prior classroom exercises (the “Subject Company”), please prepare a Five-Year Income Statement forecast in the form of an Excel spreadsheet (Each year should begin with Revenue and end with Net Income). Please display in an initial numeric column, the most recent year of historical actual income statement data (“Year Zero”), followed by five columns depicting your five-year income statement forecast for the company (years one through five). The first year of your forecast period should be the current year. For instance, if the final year of the five years of historical actual income statement data for your company that you collected was the year ended December 31, 2024 (i.e. “Year Zero as described above), then the first year of your forecast should be the year ending December 31, 2025. Please prepare a narrative footnote, in the spreadsheet, describing each of the assumptions that you used for each line item. You may use the relationships (such as growth rates and expense and profitability percentages) that you developed in the exercise for Classroom Exercise #3, as the basis for your assumptions. However, if you choose a different assumption (such as a decline in the revenue growth rate), please also provide a narrative basis for each such different assumption as a footnote or side note in the spreadsheet. **Very important: Show your calculations in each cell.** For instance, if using a percentage revenue growth, use year zero revenue, and apply your year one growth rate to that historical amount to calculate year one revenue. I find it very helpful to list your numeric assumptions (e.g. revenue growth, gross margin percentage, effective tax rate percentage and so forth) in a separate set of cells in your spreadsheet, so you can “dynamically” change those assumptions and see the impact on your forecast. This set of cells would best be set forth in the form of a “matrix” where each row corresponds to a particular account assumption and each column relates to the year being forecasted. Please contact me if you would like further information on how to make your spreadsheet more “dynamic”.

Part Two, Market Approach Valuation: Use the group of Peer Companies which you identified and analyzed as part of Classroom Exercise #4 (a total of 3 to 5 companies should be sufficient) to support your guideline company valuation analysis to be provided below. Calculate recent multiples, including, but not limited to P/E and TEV/EBITDA ratios, for each Peer Company using recent financial data available through company filings and/or data aggregators and recent stock market prices from financial sources such as Bloomberg or Yahoo finance (do not simply “copy” P/E or TEV/EBITDA ratios from data aggregators or other financial websites). Show your work! **Also, remember the role that debt plays in the calculation of TEV and equity value!** You may also consider applying TEV/Revenue, Price/Revenue, Price to Book value of equity, TEV to BVIC, Price to equity cash flow, TEV to enterprise cash flow or other relevant multiples.

Remember, multiples of negative earnings levels should be “thrown out” as being not meaningful. Also, consider using weighting factors, especially if you find outliers in the data

(many analysts will assign a zero weight to outliers), or if you believe some companies are more comparable than others.

Prepare a guideline company valuation analysis (also referred to as a “Public Company Market Multiple Method”) for the Subject Company, using the peer company ratios you have calculated, above. The results of your guideline company analysis must arrive at a conclusion for the valuation of equity, on a per share basis, using at a minimum, the P/E and TEV/EBITDA ratios calculated above for those companies as of a recent date (your measurement date may differ from that of your DCF analysis—and that is acceptable for purposes of this assignment). You may select the ultimate ratio that you apply to your subject company based on whatever criteria you determine to be the best applicable to your Subject Company (mean, median, most comparable, or some other selection criteria). You may use quantitative weightings (e.g. weighting comparable companies/multiples with arithmetic weights such as 60% to the best comparable, 25% to the second best comparable and 15% to the third best or least comparable multiple or company) or qualitative weightings (e.g. choosing the one comparable company or one multiple that best measures value). Explain your assumptions and methodology. Don’t forget that TEV will need to be converted to SEV before calculating per share estimates. Also, be aware for the group presentation at the end of the semester, you will need to convert the value to equity and solve for value per share using the shares outstanding as of the measurement date.

Part Three, Income Approach Valuation: For the publicly traded company which you have utilized in prior Classroom Exercises, prepare a DCF analysis under the Income Approach, using the Forecast which you prepared as part of Part One, above. The measurement date for your DCF analysis will be the first day of the first year of your forecast (For example, if the first forecast year is Calendar 2025, your measurement date will be January 1, 2025). You may value the enterprise as a whole on an unleveraged basis, or you may value just the equity. Either methodology will be eligible for full credit. Remember, however, that you must either use the weighted average cost of capital if valuing enterprise cash flows or the cost of equity for equity cash flows. Also, be aware for the group presentation at the end of the semester, you will need to convert the value to equity and solve for value per share using the shares outstanding as of the measurement date.

Presentation: Please perform these analyses in an Excel spreadsheet format. You may include whatever data you believe to be relevant, and use tabs, where practical to separate your individual analyses. Remember, your ultimate goal in your group presentation to the class, will be to provide either a buy, sell or hold recommendation, which will result from a comparison of your computed value per share (using both the market approach and the income approach) to the current market price per share. Your ultimate presentation in class can include power point slides or just schedules. I have found that the best presentations utilize power point slides, starting with some qualitative description of your company, stepping through your various analyses, ending with your final recommendation (Buy, Sell or Hold!). You are simulating the role of an equity analyst, and the class is serving as your simulated investor clientele! Understand that the results of your analysis are not to be construed as “real” or “actual” investment recommendations. This is a “laboratory” setting and this exercise and presentation is just for practice (as well as an input into the final grade that you will earn in the class!).