

Skull Candy (SKUL)

Price:	\$6.46	Net Tang. Bk Value Incl. Cash, Excl.	\$120,480,000.00	Net Tang. Book Yr. 5 (Inc. Cash):	\$127,880,997.50
Market Cap:	\$179,329,600	Goodwill (NTBVIC):		Avg. Year Op. Cash:	\$5,834,199.50
Cash:	\$29,710,000	NTBVIC/Market Downside Recovery:	67.18%	Year 5 Disposition FCF Multiple:	3.0
Debt:	\$0	Op. Cash Flow:	\$5,834,200	Year 5 Disposition Price:	\$145,383,596.00
Net Cash:	\$29,710,000	Implied Years to Fill Gap:	10.09		
Enterprise Value:	\$149,619,600	Today's Equity if 5x Op. CF:	\$137,982,599		
		Net Tang. Book+ Gain Disposition:			\$145,383,596.00
Shares Outstanding:	27,760,000	IRR:			-4.11%
		Price:			\$5.24
		Target Market Cap:			\$145,383,596
		Target Enterprise Value:			\$115,673,596

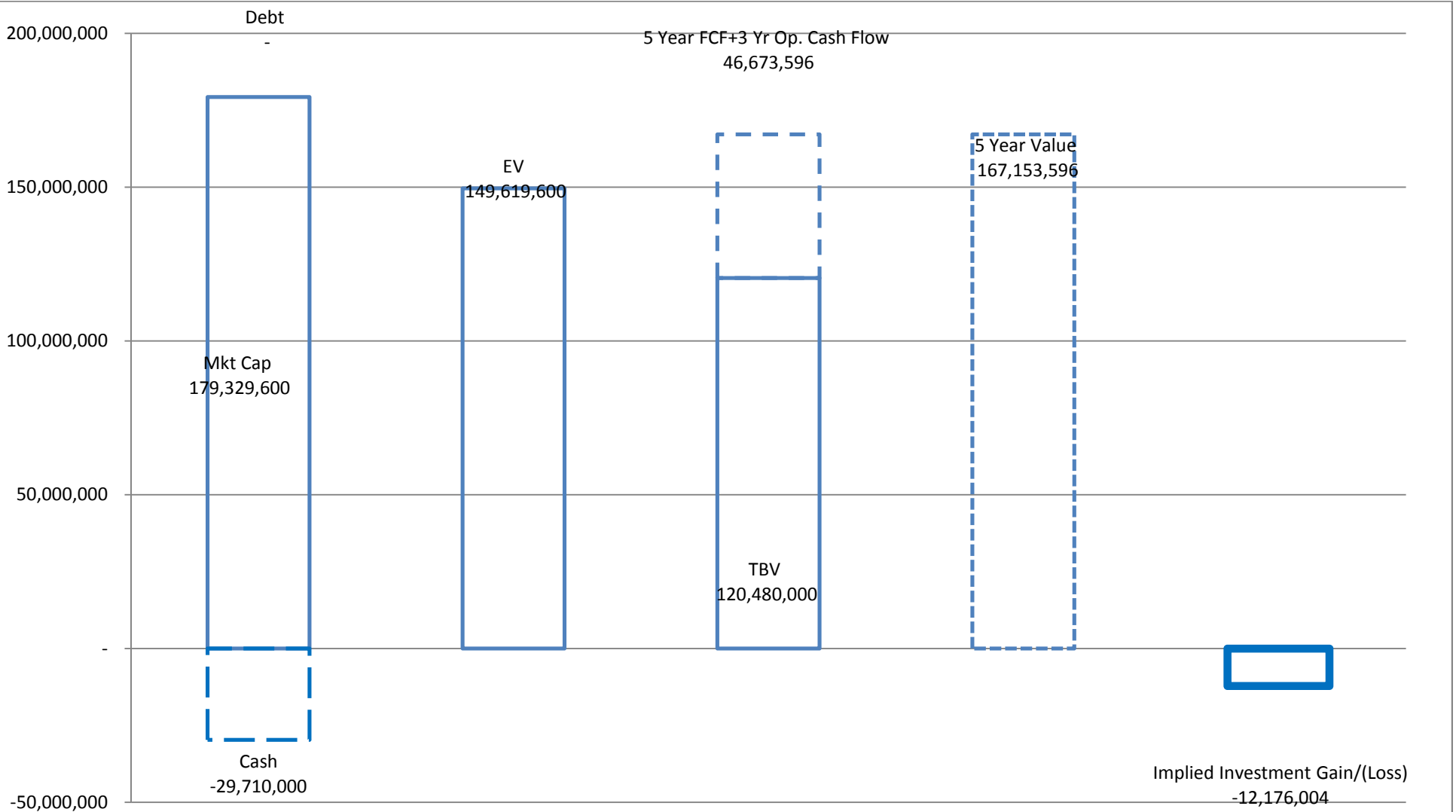
* Our future intrinsic value measures the total return, which includes both capital appreciation and dividend income.

SKUL has seen a quick appreciation in the stock after a broker upgraded the rating, citing a new management and healthy balance sheet. We don't disagree with the healthy balance sheet. We are concerned about the top line decline, and would like to see growth to ease our concerns. We aren't sold on buying a stock because of a new management team, case in point, JCPenney and the Apple crew brought in by Ackman.

Simply stated, do people need to buy Skullcandy products? I visited an electronics store and the competitors are launching quality products with trendy designs. If SKUL doesn't develop their product line to differentiate themselves from the pack, there is no way a talented management team can pull a turnaround. We see the Co. made slim investments in their R&D, if any, over the past 5 years. We are sitting on the fence, and believe the easy money has run its course and now, it's an uphill climb.

We pulled the trigger too soon, buying into the stock a few days before the large dip. If we had averaged down toward the trough, we would be sitting on a tidy profit, but we are skeptical the price will break even any time soon, let alone our initial 5 year target. Since our initial report, we have cut revenues by 30% and increased SG&A cost as a percentage of revenue in our current model.

However, should the new management provide evidence of sustainable growth, then this stock will pop.



NA

Company Name:	Skull Candy
Ticker Symbol:	SKUL
Last Price:	\$6.46
Net Cash/Share:	\$1.07
Net Cash to Last Price:	16.57%
Shares Outstanding:	27,760,000
Industry:	Consumer Electronics
Sector:	Technology
Institutional Ownership:	59.86%
Mutual Fund Ownership:	12.41%
Insider Ownership:	6.70%
Float:	72.00%

Technicals	
52 week low:	\$4.80
Today from 52 week low:	34.58%
52 week high:	\$14.58
Today from 52 week high:	125.70%

Analyst/Consensus	
Analyst Sales Growth FY1:	-25.70%
Analyst Sales Growth FY2:	5.70%
SN Valuation Estimate FY1:	-30.00%
SN Valuation Estimate FY2:	0.00%

Analyst Earnings Estimate FY1:	\$0.08
Analyst Earnings Estimate FY2:	\$0.21
SN Valuation Earnings Est. FY1:	\$0.05
SN Valuation Earnings Est. FY2:	\$0.05

Multiples	
Market Value to Book:	1.33
EV to Book:	1.11
Market Value to Tangible Net Assets:	1.95
P/E Ratio:	17.46
Trailing P/E Ratio:	17.47
Forward P/E Ratio:	30.29
Beta:	1.49
Dividend:	0.00
Dividend Yield:	0.00%
Dividend Date:	N/A
Ex-Dividend Date:	N/A

Competitors	
Average EV to EBITDA:	N/A
Company EV to EBITDA:	3.14
Average EV to EBIT:	N/A
Company EV to EBITA:	3.61

Market Capitalization:	\$179,329,600.00
Total Debt:	\$0.00
Total Cash:	\$29,710,000.00
Net Cash/(Debt):	\$29,710,000.00
Enterprise Value:	\$149,619,600.00
Current EV/Share:	\$5.39
EBITDA:	\$47,700,000.00
EV/EBITDA Multiple:	3.14
EV/EBITDA Multiple Average Year 1-5:	23.24
EV/FCF Multiple (excluding acquisition):	52.87
EV/FCF Multiple Average Year 1-5 (excluding acquisition):	52.79

Upper Range
DCF: EV/EBITDA Terminal Value

Implied TV from 3 X EV/EBITDA Multiple	\$6,251,490.00
Enterprise Value	\$6,251,490.00
Cash at Year 5:	\$43,880,997.50
Debt at Year 5:	\$0.00
Equity Value Year 5:	\$50,132,487.50
Equity/Share at Year 5:	\$1.81
Annualized Return:	-22.50%

Lower Range

DCF: Net Tangible Asset excluding Cash/Debt Terminal Value

Year 5 Net Tangible Assets excluding cash and debt	\$92,170,000.00
Enterprise Value	\$92,170,000.00
Cash at Year 5:	\$43,880,997.50
Debt at Year 5:	\$0.00
Equity Value Year 5:	\$136,050,997.50
Equity/Share at Year 5:	\$4.90
Annualized Return:	-5.37%

EVA

EVA today:	\$146,204,001.19
EVA in 5 Years:	\$87,078,769.89
EVA/Share:	\$3.14
Cash at Year 5:	\$43,880,997.50
Debt at Year 5:	\$0.00
Equity Value Year 5:	\$130,959,767.39
Equity/Share at Year 5:	\$4.72
Annualized return	-9.84%

Current Net Tangible Asset

Net Tangible Asset/Share:	\$4.02
Net Tangible Asset/Share in Year 5:	\$4.28
Annualized return	1.29%

Current Equity Price:	\$6.46
Selling at Discount?	Premium
Appreciation Potential:	-37.81%

Income Statement

Revenue:	\$259,810,000.00	100.0%
Cost of Goods Sold:	\$118,890,000.00	45.8%
Gross Profit:	\$140,920,000.00	54.2%
EBITDA:	\$26,720,000.00	10.3%
Net Income:	\$10,270,000.00	4.0%

Balance Sheet

Cash:	\$29,710,000.00
Short Term Investment:	\$0.00
A/R:	\$42,000,000.00
PP&E:	\$13,000,000.00
Assets:	\$168,060,000.00

A/P:	\$15,900,000.00
Deferred Tax:	\$1,550,000.00
Other Liabilities:	\$13,380,000.00
Short term Debt:	\$0.00
Long Term Debt:	\$0.00
Liabilities:	\$30,830,000.00
Retained Earnings:	\$48,500,000.00
Paid-In Capital:	\$130,000,000.00
Treasury Stock:	-\$44,000,000.00
Stockholder's Equity:	\$134,480,000.00

Cash Flow

Net Income:	25,820,000.00
Depreciation/Amortization:	6,220,000.00
Change in Working capital:	-28,570,000.00
Cash from Operating Activities:	13,540,000.00
Capital Expenditures:	-10,720,000.00
Cash from Investing Activities:	-10,720,000.00
Total Cash Dividends Paid:	0.00
Issuance (Retirement) of Stock:	2,370,000.00
Issuance (Retirement) of Debt:	-9,880,000.00
Cash from Financing Activities:	-6,810,000.00

Profitability Margins

Debt to Equity:	0.00%
Return on Assets:	15.40%
Return on Capital:	19.24%
Return on Equity:	19.24%

SN VALUATION

LBO Pro Forma Income Statement

Name:

Skull Candy

Ticker:

SKUL

	Historical				Forecasted				
	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2013	2014	2015	2016	2017
Revenue	118.31	160.58	232.47	297.69	208.38	208.38	208.38	208.38	208.38
COGS	60.85	75.08	116.93	156.77	112.53	112.53	112.53	112.53	112.53
Gross margin	57.46	85.50	115.54	140.92	95.86	95.86	95.86	95.86	95.86
SG&A	28.57	67.50	73.98	99.44	93.77	93.77	93.77	93.77	93.77
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation is: Included within COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	28.89	17.90	42.16	41.48	2.08	2.08	2.08	2.08	2.08
Interest income/(expense)	-8.34	-8.38	-7.47	-0.73	0.19	0.19	0.19	0.19	0.19
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.11	-14.56	-1.76	-0.36	0.00	0.00	0.00	0.00	0.00
Income before tax	20.66	-5.04	32.93	40.39	2.28	2.28	2.28	2.28	2.28
Tax	8.32	4.65	14.31	14.57	0.80	0.80	0.80	0.80	0.80
Income after tax	12.34	-9.69	18.62	25.82	1.48	1.48	1.48	1.48	1.48
Minority Interest	0.00	0.00	0.00	0.06	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	12.34	-9.69	18.62	25.88	1.48	1.48	1.48	1.48	1.48
*Figures are in millions (\$)									
EPS (based off today's share count)	\$0.44	-\$0.35	\$0.67	\$0.93	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
P/E (historical today's price; forecasted intrinsic price)	14.53	-18.51	9.63	6.93	116.17	111.40	106.82	102.43	98.22
Revenue Growth	N/A	35.73%	44.77%	28.06%	-30.00%	0.00%	0.00%	0.00%	0.00%
Tax Rate	40.27%	-92.26%	43.46%	36.07%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	-14.15%	-9.67%	-75.61%	0.00%	NA	NA	NA	NA	NA
Margins									
COGS	51.43%	46.76%	50.30%	52.66%	54.00%	54.00%	54.00%	54.00%	54.00%
Gross margin	48.57%	53.24%	49.70%	47.34%	46.00%	46.00%	46.00%	46.00%	46.00%
SG&A	24.15%	42.10%	31.57%	33.40%	45.00%	45.00%	45.00%	45.00%	45.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Depreciation is: Included within COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	24.42%	11.15%	18.14%	13.93%	1.00%	1.00%	1.00%	1.00%	1.00%
Interest income/(expense)	-7.05%	-5.22%	-3.21%	-0.25%	0.09%	0.09%	0.09%	0.09%	0.09%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.09%	-9.07%	-0.76%	-0.12%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	17.46%	-3.14%	14.17%	13.57%	1.09%	1.09%	1.09%	1.09%	1.09%
Tax	7.03%	2.90%	6.16%	4.89%	0.38%	0.38%	0.38%	0.38%	0.38%
Income after tax	10.43%	-6.03%	8.01%	8.67%	0.71%	0.71%	0.71%	0.71%	0.71%
Minority Interest	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	10.43%	-6.03%	8.01%	8.69%	0.71%	0.71%	0.71%	0.71%	0.71%

						Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	As of 2009-12-31	As of 2010-12-31	As of 2011-12-31	As of 2012-12-31	As of 2013-06-30	+	-						
Cash	1.73	6.46	23.30	19.34	29.71			29.71	32.5441995	35.38	38.21	41.05	43.88
Short term investment	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	1.73	6.46	23.30	19.34	29.71			29.71	32.54	35.38	38.21	41.05	43.88
Accounts Receivable	29.27	46.68	50.62	76.31	42.00			42.00	42.00	42.00	42.00	42.00	42.00
Other receivables	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	29.27	46.68	50.62	76.31	42.00			42.00	42.00	42.00	42.00	42.00	42.00
Total Inventory	17.86	22.56	43.98	41.57	51.13			51.13	51.13	51.13	51.13	51.13	51.13
Prepaid Expenses	1.06	5.16	8.50	5.60	3.00			3.00	3.00	3.00	3.00	3.00	3.00
Other Current Assets	1.76	3.71	3.98	2.94	3.48			3.48	3.48	3.48	3.48	3.48	3.48
Current Assets	51.68	84.57	130.38	145.76	129.32	0.00	0.00	129.32	132.1541995	134.99	137.82	140.66	143.49
PP&E, Gross	2.53	5.16	12.99	22.27	23.00			23.00	26.00	29.00	32.00	35.00	38.00
Change in Depreciation	0.41	0.68	2.03	6.22	6.22			6.22	4.35	4.35	4.35	4.35	4.35
Accumulated Depreciation	0.51	1.19	2.70	9.99	10.00			10.00	14.35	18.71	23.06	27.42	31.77
PP&E, Net	2.02	3.97	10.29	12.28	13.00			13.00	11.65	10.29	8.94	7.58	6.23
Goodwill	0.00	0.00	13.87	13.87	14.00	0.00		14.00	14.00	14.00	14.00	14.00	14.00
Intangibles	0.25	0.56	13.68	12.48	11.70			11.70	11.70	11.70	11.70	11.70	11.70
Long term investments	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	3.70	4.23	0.40	0.16	0.04			0.04	0.04	0.04	0.04	0.04	0.04
Long Term Assets	5.97	8.76	38.24	38.79	38.74			38.74	37.39	36.03	34.68	33.32	31.97
Total Assets	57.65	93.33	168.62	184.55	168.06	0.00	0.00	168.06	169.54	171.02	172.50	173.98	175.46
Accounts Payable	5.26	13.46	23.21	22.89	15.90			15.90	15.90	15.90	15.90	15.90	15.90
Accrued Expense	11.40	15.53	25.10	14.98	13.00			13.00	13.00	13.00	13.00	13.00	13.00
Other current Liabilities	0.00	0.00	0.00	6.06	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	16.66	28.99	48.31	43.93	28.90	0.00	0.00	28.90	28.90	28.90	28.90	28.90	28.90
Notes Payables/Short Term Debt	0.00	10.80	9.88	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term Debt	58.93	75.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Lease Obligations	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	58.93	86.69	9.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Income tax	0.49	0.00	3.61	2.22	1.55			1.55	1.55	1.55	1.55	1.55	1.55
Minority Interest	0.00	0.00	0.60	0.54	0.46			0.46	0.46	0.46	0.46	0.46	0.46
Other liabilities	0.00	0.00	0.00	0.00	-0.08			-0.08	-0.08	-0.08	-0.08	-0.08	-0.08
Total Liabilities	76.08	115.68	62.40	46.69	30.83	0.00	0.00	30.83	30.83	30.83	30.83	30.83	30.83
Redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Additional Paid-in capital	3.40	9.20	119.04	128.68	130.00	0.00	0.00	130.00	130.00	130.00	130.00	130.00	130.00
Dividends Paid	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	21.46	11.74	30.34	56.22	48.50			48.50	49.98	51.46	52.94	54.42	55.90
Treasury Stock	-43.29	-43.29	-43.29	-43.29	-44.00		0.00	-44.00	-44.00	-44.00	-44.00	-44.00	-44.00
Other Equity	0.00	0.00	0.12	-0.02	-0.02		0.00	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
Total Equity	-18.43	-22.35	106.21	141.59	134.48	0.00	0.00	134.48	135.96	137.44	138.92	140.40	141.88
Liability + Equity	57.65	93.33	168.61	188.28	165.31	0.00	0.00	165.31	166.79	168.27	169.75	171.23	172.71
Variance	0.00	0.00	0.01	-3.73	2.75			2.75	2.75	2.75	2.75	2.75	2.75
Debt/Equity	-3.20	-3.88	0.09	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Inventory Turnover	6.62	7.12	5.29	7.16	4.08			5.82	4.08	4.08	4.08	4.08	4.08
Inventory Turnover Days	55.10	51.28	69.05	50.97	89.56			62.69	89.56	89.56	89.56	89.56	89.56
Days Inventory Outstanding	107.13	109.68	137.28	96.79	165.85			119.04	165.85	165.85	165.85	165.85	165.85
Accounts Receivable Turnover	4.04	3.44	4.59	3.90	4.96			7.09	4.96	4.96	4.96	4.96	4.96
Accounts Receivable Turnover Days	90.30	106.10	79.48	93.56	73.57			51.50	73.57	73.57	73.57	73.57	73.57
Days Payable Outstanding	31.55	65.44	72.45	53.29	51.57			37.02	51.57	51.57	51.57	51.57	51.57
Days Sales Outstanding	90.30	106.10	79.48	93.56	73.57			93.56	51.50	73.57	73.57	73.57	73.57
Cash Conversion Cycle	165.88	150.34	144.31	137.06	187.84			175.59	165.77	187.84	187.84	187.84	187.84
Net tangible assets/share	(\$0.67)	(\$0.83)	\$2.83	\$4.15	\$3.92				\$3.97	\$4.03	\$4.08	\$4.13	\$4.19

SN VALUATION

LBO Debt Schedule

Ticker:

SKUL

	Proforma	2013	2014	2015	2016	2017
Net Change in Cash	-3.96	2.83	2.83	2.83	2.83	2.83
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	0.00	0.00	0.00	0.00	0.00	0.00
Current Portion Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Forward Libor Curve		3.00%	3.00%	3.00%	3.00%	3.00%
Spread		7.00%	7.00%	7.00%	7.00%	7.00%
Interest Rate		10.00%	10.00%	10.00%	10.00%	10.00%
Interest Expense		0.00	0.00	0.00	0.00	0.00
Cash Balance		19.34				
Interest @ 1.0%		0.19	0.19	0.19	0.19	0.19
Net Interest Expense/(Income)		(0.19)	(0.19)	(0.19)	(0.19)	(0.19)
Net Interest Rate		N/A	N/A	N/A	N/A	N/A
EBITDA		2.08	2.08	2.08	2.08	2.08
EBITDA/Interest Expense Coverage		N/A	N/A	N/A	N/A	N/A

Interest Rate Coverage Table

Debt Rating					
AAA					
AA					
A+					
A					
A-					
BBB					
BB+					
BB					
B+					
B					
B-					
CCC					
CC					
C					
D					

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

Skull Candy

Ticker:

SKUL

Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	35.02	55.58	82.07	100.42	103.25	106.09	108.92	111.76	114.59
Total Assets	57.65	93.33	168.62	168.06	169.54	171.02	172.50	173.98	175.46
X1	0.61	0.60	0.49	0.60	0.61	0.62	0.63	0.64	0.65
Retained Earnings	21.46	11.74	30.34	48.50	49.98	51.46	52.94	54.42	55.90
Total Assets	57.65	93.33	168.62	168.06	169.54	171.02	172.50	173.98	175.46
X2	0.37	0.13	0.18	0.29	0.29	0.30	0.31	0.31	0.32
EBITDA	28.89	17.90	42.16	41.48	2.08	2.08	2.08	2.08	2.08
Total Assets	57.65	93.33	168.62	168.06	169.54	171.02	172.50	173.98	175.46
X3	0.50	0.19	0.25	0.25	0.01	0.01	0.01	0.01	0.01
Market Value of Equity	179.33	179.33	179.33	179.33	171.96	164.89	158.11	151.62	145.38
Total Liabilities	76.08	115.68	62.40	30.83	30.83	30.83	30.83	30.83	30.83
X4	2.36	1.55	2.87	5.82	5.58	5.35	5.13	4.92	4.72
Net Sales	118.31	160.58	232.47	297.69	208.38	208.38	208.38	208.38	208.38
Total Assets	57.65	93.33	168.62	168.06	169.54	171.02	172.50	173.98	175.46
X5	2.05	1.72	1.38	1.77	1.23	1.22	1.21	1.20	1.19
Altman Z Score	6.37	4.17	4.76	7.20	5.76	5.63	5.51	5.40	5.29

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red

Year	Present Value	Holding Period					Terminal Value			Sale Price
	0	1	2	3	4	5	6	7	8	TBV at Year 5 + 3 Years FCF
Tangible Book Value	120.48	121.96	123.44	124.92	126.40	127.88				127.88
Annual Change		1.48	1.48	1.48	1.48	1.48				
Annual FCF	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83	8.50
Annual Op. Cash Flow	13.55	5.83	5.83	5.83	5.83	5.83	5.83	5.83	5.83	
Annual PP&E Investment	(10.72)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	
Today's Tangible Book Value	120.48	121.93	123.39	124.87	126.37	127.88				136.38
Intrinsic Value IRR	1.20%									
Market Price	179.33	169.78	160.73	152.17	144.06	136.38				136.38
Market Price IRR	-5.33%									

Debt	50.00%	89.66
Equity	50.00%	89.66
Total	100.00%	179.33

Year	Present Value	Holding Period					Terminal Value			Sale Price	
	Historic	ProForma	1	2	3	4	5	6	7	8	
Book Equity	134.48	89.66	82.78	75.90	69.02	62.13	55.25				
Goodwill	14	58.85	58.85	58.85	58.85	58.85	58.85				
Debt	0	89.66	89.66	89.66	89.66	89.66	89.66				
Debt Interest Rate		10.00%	10.00%	10.00%	10.00%	10.00%	10.00%				
Additional Interest Expense		9.16	9.16	9.16	9.16	9.16					
Tangible Book Value	120.48	30.82	23.93	17.05	10.17	3.28	-3.60				-3.60
Annual Change			-6.88	-6.88	-6.88	-6.88	-6.88				
Annual FCF	2.83		(5.53)	(5.53)	(5.53)	(5.53)	(5.53)	(5.53)	(5.53)	(5.53)	(16.59)
Annual Net Income	25.88		(6.88)	(6.88)	(6.88)	(6.88)	(6.88)	(6.88)	(6.88)	(6.88)	
Annual Op. Cash Flow	13.55		(2.53)	(2.53)	(2.53)	(2.53)	(2.53)	(2.53)	(2.53)	(2.53)	
Dividend Payments											
Annual PP&E Investment	(10.72)		(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	
Debt Paydown	0.00							0.00	0.00	0.00	

Sale Price in Year 5 **(20.18)**

Capital Left for Equity Investor **(20.18)**
 Dividend Payments 0.00
 Total Cash In Flow **(20.18)**

We assume the debt taken on by the investor is now on the Co's books, so the investor has no more liability from the deal.

Invested Equity **89.66**
 IRR **-174.21%**

Value Creation
 TBV Growth (equals sum of NI Year 1-5) -34.41
 Cash Flow (Year 6-8) -16.59
-51.00

Value Dilution
 Debt 89.66
 Goodwill 44.85
 Additional Interest 45.80
180.31