**Finance excel sheet**

Order 1634703

Description

Q5-1. APV Valuation  Flowmaster Forge Inc. is a designer and manufacturer of industrial air-handling equipment that is a wholly owned subsidiary of Howden Industrial Inc. Howden is interested in selling Flowmaster to an investment group formed by company CFO Gary Burton. Burton prepared a set of financial projections for Flowmasterunder the new ownership. For the first year of operations, firm revenues were estimated to be $160 million, variable and fixed operating expenses (excluding depreciation expense) were projected to be $80 million, and depreciation expense was estimated to be $15 million. Revenues and expenses were projected to grow at a rate of 4% per year in perpetuity. Flowmaster currently has $125 million in debt outstanding that carries an interest rate of 6%. The debt trades at par (i.e., at a price equal to its face value). The investment group intends to keep the debt outstanding after the acquisition is completed, and the level of debt is expected to grow by the same 4% rate as firm revenues. Projected income statements for the first three years of operation of Flowmaster following the acquisition are as follows: Burton anticipates that efficiency gains can be implemented that will allow Flowmaster to reduce its needs for net working capital. Currently, Flowmaster has net working capital equal to 30% of anticipated revenues for year 1. He estimates that, for year 1, the firm’s net working capital can be reduced to 25% of year 2 revenues, then 20% of revenues for all subsequent years. Estimated net working capital for years 1 through 3 is as follows: To sustain the firm’s expected revenue growth, Burton estimates that annual capital expenditures that equal the firm’s annual depreciation expense will be required. Burton has been thinking for some time about whether to use Howden’s corporate cost of capital of 9% to value Flowmasterand has come to the conclusion that an independent estimate should be made. To make the estimate, he collected the following information on the betas and leverage ratios for three publicly traded firms with manufacturing operations that are very similar to Flowmaster’s