



CLOSING CASE

CASH FLOWS AT EAST COAST YACHTS

Because of the dramatic growth at East Coast Yachts, Larissa decided that the company should be reorganized as a corporation (see our Chapter 1 *Closing Case* for more detail). Time has passed and, today, the company is publicly traded under the ticker symbol “ECY”.

Dan Ervin was recently hired by East Coast Yachts to assist the company with its short-term financial planning and also to evaluate the company’s financial performance. Dan graduated from college five years ago with a finance degree, and he has been employed in the treasury department of a Fortune 500 company since then.

The company’s past growth has been somewhat hectic, in part due to poor planning. In anticipation of future growth, Larissa has asked Dan to analyze the company’s cash flows. The company’s financial statements are prepared by an outside auditor. Below you will find the most recent income statement and the balance sheets for the past two years.

EAST COAST YACHTS 2008 Income Statement	
Sales	\$617,760,000
Cost of goods sold	435,360,000
Selling, general, and administrative	73,824,000
Depreciation	20,160,000
EBIT	<u>\$ 88,416,000</u>
Interest expense	11,112,000
EBT	<u>\$ 77,304,000</u>
Taxes	30,921,600
Net income	<u>\$ 46,382,400</u>
Dividends	\$ 17,550,960
Retained earnings	\$ 28,831,440

EAST COAST YACHTS Balance Sheet					
	2009	2010		2009	2010
Current assets			Current liabilities		
Cash and equivalents	\$ 10,752,000	\$ 11,232,000	Accounts payable	\$ 23,701,440	\$ 24,546,000
Accounts receivable	19,116,000	20,208,000	Notes payable	20,220,000	18,725,000
Inventories	17,263,200	22,656,000	Accrued expenses	5,472,000	6,185,000
Other	1,108,800	1,184,000	Total current liabilities	<u>\$ 49,393,440</u>	<u>\$ 49,456,000</u>
Total current assets	<u>\$ 48,240,000</u>	<u>\$ 55,280,000</u>			
Fixed assets			Long-term debt	<u>\$ 129,360,000</u>	<u>\$146,560,000</u>
Property, plant, and equipment	\$408,816,000	\$ 462,030,000	Total long-term liabilities	<u>\$ 129,360,000</u>	<u>\$146,560,000</u>
Less accumulated depreciation	(94,836,000)	(114,996,000)			
Net property, plant, and equipment	<u>\$313,980,000</u>	<u>\$ 347,034,000</u>	Stockholders’ equity		
Intangible assets and others	6,840,000	6,840,000	Preferred stock	\$ 3,000,000	\$ 3,000,000
Total fixed assets	<u>\$320,820,000</u>	<u>\$ 353,874,000</u>	Common stock	30,000,000	40,800,000
			Capital surplus	12,000,000	31,200,000
			Accumulated retained earnings	157,306,560	186,138,000
			Less treasury stock	(12,000,000)	(48,000,000)
			Total equity	<u>\$ 190,306,560</u>	<u>\$213,138,000</u>
Total assets	<u>\$369,060,000</u>	<u>\$ 409,154,000</u>	Total liabilities and shareholders’ equity	<u>\$ 369,060,000</u>	<u>\$409,154,000</u>



RATIOS AND FINANCIAL PLANNING AT EAST COAST YACHTS

After Dan's analysis of East Coast Yachts's cash flow (at the end of our previous chapter), Larissa approached Dan about the company's performance and future growth plans. First, Larissa wants to find out how East Coast Yachts is performing relative to its peers. Additionally, she wants to find out the future financing necessary to fund the company's growth. In the past, East Coast Yachts experienced difficulty in financing its growth plan, in large part because of poor planning. In fact, the company had to turn down several large jobs because its facilities were unable to handle the additional demand. Larissa hoped that Dan would be able to estimate the amount of capital the company would have to raise next year so that East Coast Yachts would be better prepared to fund its expansion plans.

To get Dan started with his analyses, Larissa provided the following financial statements. Dan then gathered the industry ratios for the yacht manufacturing industry.

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EAST COAST YACHTS
2008 Income Statement

Sales	\$514,800,000
Cost of goods sold	362,800,000
Selling, general, and administrative	61,520,000
Depreciation	16,800,000
EBIT	<u>\$ 73,680,000</u>
Interest expense	9,260,000
EBT	<u>\$64,420,000</u>
Taxes	25,768,000
Net income	<u><u>\$ 38,652,000</u></u>
Dividends	\$ 15,460,800
Retained earnings	23,191,200

EAST COAST YACHTS
2008 Balance Sheet

Current assets		Current liabilities	
Cash and equivalents	\$ 9,360,000	Accounts payable	\$ 19,880,000
Accounts receivable	16,840,000	Notes payable	13,250,000
Inventories	18,880,000	Accrued expenses	3,160,000
Other	1,570,000	Total current liabilities	<u>\$ 36,290,000</u>
Total current assets	<u>\$ 46,650,000</u>		
		Long-term debt	<u>\$103,800,000</u>
		Stockholders' equity	
Fixed assets	<u>\$294,820,000</u>	Preferred stock	\$ 2,500,000
		Common stock	34,000,000
		Capital surplus	26,000,000
		Accumulated retained earnings	154,280,000
		Less treasury stock	<u>(15,400,000)</u>
		Total equity	<u>\$201,380,000</u>
Total assets	<u><u>\$341,470,000</u></u>	Total liabilities and shareholders' equity	<u><u>\$341,470,000</u></u>

Yacht Industry Ratios

	LOWER QUARTILE	MEDIAN	UPPER QUARTILE
Current ratio	0.86	1.51	1.97
Quick ratio	0.43	0.75	1.01
Total asset turnover	1.10	1.27	1.46
Inventory turnover	12.18	14.38	16.43
Receivables turnover	10.25	17.65	22.43
Debt ratio	0.32	0.47	0.61
Debt-equity ratio	0.51	0.83	1.03
Equity multiplier	1.51	1.83	2.03
Interest coverage	5.72	8.21	10.83
Profit margin	5.02%	7.48%	9.05%
Return on assets	7.05%	10.67%	14.16%
Return on equity	9.06%	14.32%	20.83%