Candidate Name: _____

Exam Number: _____

FINANCIAL MODELING INSTITUTE (FMI)

LEVEL 1 – ADVANCED FINANCIAL MODELER (AFM) EXAM

CANDIDATES WHO SUCCESSFULLY PASS THIS EXAM WILL BE AWARDED THE AFM DESIGNATION

INSTRUCTIONS

1. Do not turn this page over.
2. Please print your name and confirmation number clearly on the top right corner of this sheet.
3. An Excel worksheet file will be provided to you for the exam. In this file, complete your model for the "Financial Modeling Case Study".
4. Save your worksheet file as follows: **Global - [Candidate Name].xls**
   (e.g. *Global – Cristiano Ronaldo.xls*)
5. You will have 4.0 hours to complete the exam.
6. The exam is a closed book exam. You may not refer to any materials (on paper or electronically).
7. You cannot communicate with any other candidate during the exam (verbally or electronically).
8. For the "Financial Modeling Case Study", all the data you need is in this document or the worksheet file (on the "Model" tab). You may add any other reasonable assumptions that you need to build the model. Complete your model in the Excel file and add worksheets as necessary.
9. You may leave the exam room to get a drink or go to the toilet. If you leave the room, please let a proctor know and do not discuss the exam with anyone outside the room.
10. Candidates will not be permitted to leave the exam room during the last 15 minutes of the allocated exam time to avoid disrupting their peers who are still working.
11. At the conclusion of the exam, the proctor will come around to save your exam file onto a USB stick and to collect this document. Please do not leave the room until we have checked your name off the list to acknowledge that we have received your exam.
12. Any questions?
13. Turn this page over and begin.

Good luck!

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FINANCIAL MODELING INSTITUTE – LEVEL 1 AFM EXAM

FINANCIAL MODELING CASE STUDY

COMPANY OVERVIEW

Global Discount Inc. ("Global") is a family-owned private company that was founded in 1975. The company owns and operates a number of retail stores that sell general merchandise. In 1994, Noah Kokopelli became the CEO of the business and began the transition from a single store to multiple locations.

All stores are owned by the company and there are no franchised stores.

FINANCIAL MODEL

You have been provided with three years of annual historical financial statements for Global. The most recent statement available to you is fiscal 2017. Your job is to build an integrated annual financial model for the Company for the next 5 years (2018-2022) by using the given historical data and the following assumptions. Assume all figures are in dollars unless stated otherwise.

Sales/Turnover

- Global will have 1,095 stores as of the end of 2017, representing a total of 10,023,000 square feet (for reference, 1 foot = 0.3 metres – you do not need to convert to metres on the exam).
- The Company plans on opening 50 stores in 2018, 45 stores in 2019, and 40 stores per year for the following three years. The new stores will be a similar size on average as the existing stores.
- Sales per square foot are expected to grow by 0.5% per year for the next five years.

Operating Costs

- In 2017, 80% of Cost of Sales were classified as variable costs and the remainder as fixed.
- Cost inflation is expected to be 2.0% per year for the next five years.
- Selling, general and administrative (SG&A) expenses are expected to be $480 million in 2018 and grow at inflation thereafter.

Capex and Depreciation

- The Company will spend $150 million on capital expenditures (CAPEX) in 2018 and $125 million per year thereafter.
- Global uses the straight-line method of depreciation.
- Existing assets have a remaining useful life of 10 years while new assets will be depreciated over 20 years.
- Depreciation expense is included as a separate line on the Income Statement and is not included in Cost of Sales or SG&A.
- Intangible Assets will remain flat and unamortized for the purposes of this model.

Working Capital

- Based on the historical data, please make reasonable assumptions for the working capital days over the next five years.

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Income Taxes

- The Company's tax rate is 28%.
- It is expected that the Company's pre-tax income for government purposes will be $40 million lower than the pre-tax income for accounting purposes every year in the forecast due to temporary timing differences.

Debt

- The interest rate on the fixed rate term debt and the revolving credit facility (revolver) is 3.1%.
- The variable rate term debt pays interest at a variable rate equal to LIBOR plus 55 basis points (100 basis points = 1.0%). Assume that LIBOR is 1.1% and will remain constant.
- Excess cash earns interest income at a rate of 1.0%.
- Amortization on the fixed rate term debt will be $200 million per year until the debt is repaid.
- Amortization on the variable rate term debt will be $30 million per year until the debt is repaid.
- The Company will draw on its revolver if it ever has a cash shortfall.
- The revolver has a cash sweep such that whenever there is a revolver balance outstanding, all excess cash available after mandatory debt repayments, share issuances/repurchases and dividends goes towards paying off the revolver.

Equity

- The Company plans to issue $50 million of Preferred Equity at the beginning of 2018 that will pay an 8.5% dividend.
- Global's Common Dividend policy states that the Company's Common Dividend will be based on a payout ratio of 20% of Net Income to Common each year.
- The Company plans to spend $200 million on common share repurchases in 2018 and $50 million per year thereafter.

Other

- Assume that Other Assets, Other Liabilities, and Other Shareholders' Equity will remain constant over the forecast period.

Other Assumptions

- Feel free to make any other reasonable assumptions that you may need to build the model.

INSTRUCTIONS

1. Using the spreadsheet provided and the information in this case, build a financial model that forecasts the Company's financial statements annually for the next five years.
2. Create an assumptions page to enter your inputs. Please make sure the assumptions page is logical and well organized.
3. Build scenarios to run three cases (Base/Best/Worst) on a few of the assumptions that create the most variability on the Company's earnings (make reasonable assumptions for the Best case and Worst case variables).
4. Create schedules in the model for the key items that will appear on the financial statements.
5. Summarize the key operating and financial results for each of the three cases (Base/Best/Worst).

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