

Example of finance case study

[Business](#), [Company](#)



1. Finally, using any logical method you can, calculate a valuation for Riley. For Riley's Supply, Asset Valuation method could be used for calculating the value for the business as limited information is available.

$$\text{FMV/FA} + \text{OB} + \text{I} = \text{MV}$$

$$468 + 86 + 2718 = \$3272$$

2. In ONE PARAGRAPH, identify/comment on the source of Riley's cash flow problem using historical data as well as the new pro-forma data.

There could be quite a few sources of Riley's cash flow problems. Over Investment in fixed assets could be one as it is a supply business and it might not need as much investment in the fixed assets as it has and an increasing trend in this regard is seen over the years. The company is holding too much stock which is a reason of tied up cash. In 2005 it was \$1683 which rose to \$2091 in 2006, and is expected to reach \$2718 in 2007. Holding so much stock increases the risk that the stock might not become obsolete and then bulk buying reduces the price of the inventory. However the major source is the company is allowing the customers too much credit. As we can see from the cash flow statement the account receivables have risen to \$435 from \$234 over one year and are expected to reach 563 in the projected CF for 2007. The company also faces seasonal changes and fluctuating demand due to which it was unable to pay off its debt in 2006. The impact of which is spread over the future financial statements. This is a persistent problem and the company needs to figure out a permanent solution to this issue by allowing cash flow forecast a seasonal change.

3. Finally, evaluate whether Riley can buy out his partner. If so, how would you recommend structuring the buyout?

It is not advisable for Riley to buy out his partner, as the company already intends to invest \$775 in order to achieve the sales target of 30% for which the company needs to do debt financing of course. To buy out its partner Riley would need additional \$1308. 8. Riley is already under debt and has to pay off \$1795 in the coming years. The company is not in a position to buy out its partner in 2007.