

CLASS ASSIGNMENTS AND QUESTIONS
For Classes on May 21 – May 25, 2018
Intermediate Credit Analysis

Instructors: **Dr. Ken Cyree**
 Mr. G. Geoffrey Longstaff

The enclosed case, Decor, Inc., is to be read and analyzed prior to the beginning of class two. It is expected that your analysis will be based on the class discussions that precede the case discussion questions being assigned for a particular day. Your familiarity with the case and an attempt to address the questions prior to your arrival at the Graduate School of Banking will enhance your learning experience. Although no formal written case analysis is required, it is expected that you will have "crunched the numbers" and prepared notes prior to each class in order to be able to participate in the class discussions. If you have any questions about the assignments, you may e-mail Ken Cyree at kcyree@bus.olemiss.edu or call at (662) 915-1103.

Class 1 May 21 There is no assignment for this class

The class will be devoted to a discussion of cash flow analysis and the tools necessary for commercial lending analysis.

Class 2 May 22 Case: Decor, Inc.

The first portion of the class will be a continuation of the discussion of the tools necessary for commercial lending analysis. The remainder of the class will be devoted to the analysis of the Decor, Inc. case.

Discussion Questions:

Using Decor's financial statements for 2016 and 2017, estimate Decor's Return on Assets (ROA) for each of these years. Using the financial ratios underlying the ROA analysis, the historical trend in these ratios, and the industry ratios (Exhibit 4 of the case), identify and discuss Decor's financial strengths and weaknesses over the 2016 and 2017 periods.

Class 3 May 23 Case: Decor, Inc. (continued)

Discussion Questions:

Prepare a pro forma income statement for fiscal year 2018, a **monthly** cash budget for fiscal year 2018 and a pro forma balance sheet as of September 30, 2018 for Decor, Inc. Identify your assumptions and make certain that you maintain consistency in the assumptions you use in constructing the pro forma statement and the cash budget. Note that in reality you would know some quarterly numbers, but we will ignore this in the case.

Class 4 May 24 Case: Decor, Inc. (continued)

Discussion Questions:

Prepare a pro forma "Statement of Cash Flows" for the fiscal year ended September 30, 2018. Analyze this Statement of Cash Flows relative to its adherence to the "Matching Principle" or the matching of sources and uses of funds.

Assess the impact of potential changes in your assumptions used to build the pro forma statements on Decor's cash budget.

Assess the business risk, financial risk, and overall risk for Decor by estimating the degree of operating leverage, the degree of financial leverage, and the combined effect of leverage at the 2018 expected sales volume level of \$22 million.

What suggestions do you have for Decor's management?

Class 5 May 25 Case: Decor, Inc. (continued)

Discussion Questions:

Based on the total financing needs for Decor, how would you structure the loan(s) and what are the conditions you would place on the loan(s)? Describe how you would monitor the loan.

Test Review Session at the end of class.