

Calculation Example: FFCF of Just Group

| Just Jeans Group Income Statement for period ending 26 July 2008 | |
|--|-----|
| Net sales | 822 |
| COGS | 717 |
| Depreciation | 24 |
| EBIT | 81 |
| Interest expense | 11 |
| Taxable income | 70 |
| Taxes | 21 |
| Net income | 49 |

| Just Jeans Group Balance Sheet as at 26 July | | |
|---|------|------|
| | 2008 | 2007 |
| Current A | 92 | 105 |
| Non-current A | 195 | 178 |
| Total A | 287 | 259 |
| Current L | 208 | 72 |
| Non-current L | 22 | 134 |
| Owners Equity | 57 | 53 |
| Total L and OE | 287 | 259 |

Note: all figures are given in millions of dollars (\$m).

Question: Find the FFCF using the income statement and balance sheets

Assume that:

- Non-current assets (NCA) is completely made up of Net Fixed Assets;
- All current liabilities are non-interest bearing;
- Current assets includes no excess cash or marketable securities.

Answer:

$$FFCF = NI + Depr - CapEx - \Delta NOWC + IntExp$$

We need to calculate *CapEx* and $\Delta NOWC$ from the changes in the balance sheet.

$$CapEx = NFA_{now} - NFA_{before} + Depreciation$$

$$CapEx = 195 - 178 + 24$$

= 41, so net capital expenditure rose over the year.

$$\Delta NOWC = \Delta CA - \Delta CL - \Delta ExcessCash + \Delta InterestBearingCL$$

$$= (CA_{now} - CA_{before}) - (CL_{now} - CL_{before}) - \Delta EC + \Delta IBCL$$

$$= (92 - 105) - (208 - 72) - 0 + 0$$

= -149, so net working capital fell over the year.

$$FFCF = NI + Depr - CapEx - \Delta NOWC + IntExp$$

$$= 49 + 24 - 41 - -149 + 11$$

$$= 192$$

Questions: Firm Free Cash Flow (FFCF) or Cash Flow From Assets (CFFA)

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