JET2 Financial Analysis

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Custom Snowboards, Inc

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A1. Company's Financial Picture – Financial Key Points

This financial report will contain the essential analysis of certain key financial line items. These line items will help in assessing the profitability, liquidity and solvency for viewing the company's ability to repay the loan. The following is an analysis of those selected key financial line items.

An Examination of the horizontal analysis of the Income Statement shows that Custom Snowboards, Inc. had a mixture of both positive and negative growth in the Revenue cycle for years 12, 13, and 14. Net Sales and Gross Profit saw a decrease of 6.4% from year 12 to year 13, and an increase of 1.275 % for year 13 to year 14. Operating Income had decreased 50.75% for year 12 to 13 and another decrease of 35.61 % for year 13 to year 14. The decreases with both of these years appear to be related to the Total General and Admin Expenses. The Total General and Admin Expenses showed an increase every year with Administrative Payroll, Executive Compensation, Utilities Services and Other General Admin Expenses. Other General and Admin Expenses saw an increase of 31.12% for year 12 to year 13 and increased even more for year 13 to year 14 by 7.59%. Other General and Admin Expenses increases leads me to believe that theft could be taking place within the company which could be controlled but appears to be a negative for the company right now. Net Earnings for year 14 at 14,475 was down 72.1% from 51,900 for year 13 because of the massive decrease in operating income and decreased Interest Income of 90.625% which was at 3200 in year 13 down to 300 in year 14. Net Earnings for year 13 saw a decrease of 67.66% to 51,900 from the 160,500 in year 12. This is a large negative for the company but could be fixed when the issues with

the Total General and Admin Expenses are addressed and resolved.

An Examination of the horizontal analysis with the comparative Balance Sheet reveals that Total Current Assets are down for year 14 at 699,286 by 16.64% from year 13 at 838,911. In contrast, year 13 at 838,911 did see an increase of 12.32% over year 12 at 746,871. A concern is the large decrease in Short-term Investments for year 14. From year 12 at 150,000, it had increased by 20% to 180,000 for year 13. However, Short-term Investments dropped from 180,000 in year 13 to 30,000 in year 14 for an 83.33% decrease. When looking further, it has shown that the company did spend money on Furniture, Fixtures and Equipment which was a 200,000 (66.6%) increase from year 13 at 300,000 to 500,000 for year 14. Total Assets is another concern, every year it has decreased. Year 12 at 1,746,871 had decreased .456% to 1,738,911 for year 13 and decreased 2.278% more from year 13 to year 14 at 1,699,286. Fortunately, Long-term liabilities and total liabilities have also been decreasing from year to year. Only Current Liabilities in Accounts and Notes Payable have noticed a slight increase of 1.275% for year 14 at 71,460 over the year 13 at 70,560. This could be the result of the payment cycle on the notes and accounts. Total Liabilities have decreased year over year which is very positive. Custom Snowboards is good with paying their mortgage payment, other long term liabilities are decreasing, and Total Long-Term Liabilities are decreasing by 55,000 every year. Total Liabilities from Year 12 at 990,420 decreased 6.04% down to 930,560 for year 13. Total Liabilities again, year 13 at 930,560 decreased 5.81% down to 876,460 for year 14. This is very positive for Custom Snowboards and show they are able to pay down their debt. Another consideration, Retained Earnings and Stockholder’s Equity has increased significantly year over year. This shows the company is positioned for positive growth and stockholder’s confidence should be high because this would be a good investment.

An Examination of the vertical analysis with the Comparative Income Statement shows a very steady Cost of Goods at 69.6% and Gross Profit at 30.4% for year 12 through year 14. This data is very positive because it shows stability which can help in predicting future revenue by using this percentage based allocation system to help with the budget requirements. Selling Expenses have remained at a constant 11.8% of the Net Sales each year while the Total Operating Expenses have increased year over year (year 12 at 26%, year 13 at 28.1%, year 14 at 29%). This vertical analysis shows that there minor yearly percentage increases in Administrative Salaries (from 3.1% in year 12 to 3.9% in year 14), Executive Compensation (from 2.8% in year 12 to 3.4% in year 14), Other General & Admin Expenses (from 1.8% in year 12 to 2.7% in year 14). These little increases have affected the Total General and Admin Expenses. TG&A have increased from 14.2% in year 12, 16.3% in year 13 and 17.2% in year 14. Those increases have caused Total Operating Expenses to increase from 26.0% in year 12, 28.1 % in year 13 and 29.0% in year 14. This has caused downward pressure on Operating Income and has caused it to decrease every year (from 4.4% in year 12, 2.3% in year 13 and 1.5% in year 14). These fluctuations have created a decreasing trend in Net Earnings which had decreased every year (2.4% for year 12, 0.8% for year 13 and .2% for year 14). By tightening down the General and Admin Expenses, the company should be able to achieve similar Net Earnings results like in year 12.

An Examination of the vertical analysis of the Balance Sheet for year 12 to year 14. Cash and Cash Equivalents show that the company is able to stabilize their funds and show liquidity. The company in year 12 only had 121,000 or 6.9% allocated which had increased to 198,583 (11.4%) for year 13 and 198,413(11.7%) for year 14. This shows that the company can easily meet their expenditures and increase their cash when needed while remaining liquid. Another vital consideration

is the leverage and the debt and equity/net worth. This company is showing Total Liabilities are decreasing year over year(990,420 in year 12, 930,560 in year 13 and 876,460 in year 14) while the Total Assets are only slightly dropping (1,746,871 in year 12, 1,738,911 in year 13, and 1,699,286 in year 14). This means that every year this company is in operation, it is increasing their leverage which is a positive for continued financing.

An Examination of the trend analysis of the Historical Trend Analysis for year 12 to year 14 should be able to shed light on the profitability of Custom Snowboards. The data from the horizontal analysis matches the Historical Trend Analysis. Which showed a slight increase from the year 13 of 6,311,200 to year 14 of 6,391,700, for only a year to year increase of 101.3%. While Year 12 had the best year in Net Sales of 6,745,900, the forecast is saying an increase of 103% to 6,583,451 for year 15. While this number is still lower than Year 12 Net Sales if Custom Snowboards makes adjustments to their General and Admin Expenses this is a very realistic obtainable projection with potential for increased profitability.

A2. Financial Risks and Risk Mitigation

There are some risks that the bank loan officer might be concerned about and so Custom Snowboards should be prepared to address these concerns.

Risk 1: Decreasing in Total Current Assets

The first thing that is going to catch the attention of the Banker is the decrease in Total Current Assets. Since Short-term Investments have decreased, it has drastically reduced the amount of the Total Current Assets. However, there appears to be an increase in Furniture, Fixtures and Equipment and it has almost balanced out the Total Assets with only a slight decrease of 1,728,911 for year 13 to

1,699,286 for year 14. As a result, the Banker should not be concerned about the realignment of assets as long as the company can show stability and even an increase in Total Assets for the future. If this Banker remains concerned, it is recommended that Custom Snowboards works on increasing their short-term investments for the next reporting period. The company can increase the short-term investments by investing in short term bonds or stocks.

Risk 2: Increasing of Total Operating Expenses

Total Operating Expenses have continued to increase every year. This will be a concern to the Bankers since Total Operating Expenses are lowering the Operating Income. These Total Operating Expenses are increasing due to the yearly increases in Administrative Payroll and Executive Compensation. Custom Snowboards should be able to show the purpose for these increases. The first purpose should be the need for additional employees due to the increased sales. The second purpose should be to show that executive compensation was the result of higher sales. These salary and compensation increases are a result of the company performing well; the Banker should not be concerned with this. However, to help eliminate the risk, the company could take action by lowering the executive compensation and lowering all employee salaries if it is deemed necessary. It is very important that the Banker knows that the company will adjust the salaries so that it will reduce Operating Expenses. Assurance must be made to the Banker that there will not be a pattern of continued pay increases and salary compensations until Operating Income numbers are on par with the year 12 Operating Income numbers.

Risk 3: Decreasing in Net Earnings

The Net Earnings for Custom Snowboards is another possible concern for the Banker. It has

seen major drops from year 12. Year 12 was at 160,500 then dropped to 51,900 in year 13 to a very low 14,475 for year 14. This is mainly due to the drop in Operating Income as discussed above. Another contributor to this drop is the decrease in Interest Income. It had dropped 2,900 from year 13 to year 14. To mitigate this issue, the company should invest more in the short-term investments. Also, the company should take necessary actions to increase sales in the next year to increase the Net Earnings since there was an increase of Admin Payroll and Executive Compensation the Net Sales should increase too. These steps will show the Banker that the decrease in Net Earnings are not a pattern.

These risks will be a concern to the Banker. Therefore, they will lead to them to believe that Custom Snowboards will not be able to repay the loan. If the above risks are mitigated, the Banker will more likely be inclined to lend the money to Custom Snowboards.

A3. Ratio Analysis – Ability to Repay the Principal and Interest on the 5 year loan

The lending institution will also want to look at the Key Ratios for Custom Snowboards. These ratio analysis will show the lender how well Custom Snowboards compares to the competition (Winter Sports). The Ratio Analysis will also give the lender a better idea of how well Custom Snowboards is doing compared to the rest of the industry. Most important to the banker is the company's ability to pay the interest payments and the loan principle.

Current Ratio

The current ratio is one of the most commonly used ratios in financial analysis. This ratio is calculated by taking current assets divided by current liabilities. The ratio shows how well a company can pay their current liabilities with their current assets (Horngren, 2008). Custom Snowboards in

Year 13 had a ratio of 6.68 and a decrease to 5.53 in Year 14. In comparison to Winter Sports "Benchmark" ratio of 4.20 for Year 14, Custom Snowboards showed a positive ratio. Even with the lower ratio of 5.53 in Year 14, this shows that Custom Snowboards current assets are 5 times more than their liabilities. When the ratio is low, this is a signal that the company might not be in good financial health and has difficulty paying their current liabilities. Since Custom Snowboards has a 6.68 for Year 13 and 5.53 for Year 14, this clearly shows that this company is very stable and better solvency. This favorable ratio shows that the company is in a favorable position to obtain short-term credit easier than their competitor. The Current Ratio also shows that Custom Snowboards is able to pay off its liabilities and that the company is not too liquid. The Banker should know that this shows that Custom Snowboards is more than able to pay off any loan that they might approve.

Acid-Test Ratio

Another name for the acid-test ratio is quick ratio. This ratio will show whether the company could pay all of its current liabilities if they became due immediately. The acid-test ratio is calculated by adding cash, short-term investments, and net current receivables. You then take this number and divide it current liabilities (Horngren, 2008). Custom Snowboards had a ratio 4.52 in Year 13 and 3.32 in Year 14. Since Winter Sports only had a ratio of 3.40, this looks very favorable for Custom Snowboards. This positively shows that Custom Snowboards could pay all of their current liabilities if they were to all of sudden become due, even though they had a decrease for year 14 to 3.32. With 3.32, it is only slightly lower than the benchmark standard of 3.40 by Winter Sport for year 14. If Custom Snowboards follows the plan to increase their short-term investments again, this will increase the Acid-Test Ratio for the company and move that ratio into a very favorable position. Increasing this ratio will give the Banker greater confidence that Custom Snowboards will be able to pay the note

if it came due immediately.

Inventory Turnover

The Inventory Turnover Ratio is a measure of how many time a company sells its average inventory per year. The higher this number is the better for the company because this shows that a company can easily sell their inventory. Year 13 inventory turnover ratio was at 32.2 and increased to 33.3 for year 14 while Winter Sports was only showing 30.4 for year 14. This shows that Custom Snowboards is doing a better job at selling off their inventory. While this is only a slight increase, this does show a positive in moving the inventory and reducing inventory overhead cost. This information is important to the Banker because it shows that Custom Snowboards can move the inventory quickly without excessive inventory,which reduces holding costs that could be used to pay off the loan. The increased number also shows that Custom Snowboards is selling a product that is in demand. A lending institution will less likely lend money to a company if they are unable to sell their inventory because of the lack of demand for that product.

Average Collection Period

The approximate amount of time that it takes for a business to receive payments owed, in terms of receivables, from its customers and clients (investopedia). Average Collection Period is calculated by taking the Accounts Receivable and dividing it by the Net Sales. From that amount, then divide that number by 365. Custom Snowboards had 11.0 for both Year 13 and Year 14. Winter Sports was 32.5 for Year 14. This shows that Custom Snowboards was extremely successful at receiving payments from their customers and clients. It translates to the company getting their cash from the accounts receivable far faster than the competition (industry standard of 32.5 days). The extreme success of Custom Snowboards average collection period means the company benefits in the cash

conversion cycle that results in more working capital. The increase in working capital creates a very favorable impression on the lending institutions. The lending institution sees a company with more cash as a company that is better able to pay all of their debts as well as any loan that they should approve.

Debt Ratio

The Debt Ratio is a ratio that indicates the proportion of debt a company has in relation to its assets. This determines the amount of the debt-load and the amount of leverage and potential risks the business faces. The Debt Ratio is calculated by taking Total Liabilities and then dividing it by Total Assets. The Custom Snowboards had a Debt Ratio of 53.5% for Year 13 and 51.6% for Year 14. If the Debt Ratio is greater than 1, it means the company has more debt than assets. Meanwhile, if the Debt Ratio is less than 1 indicates that the company has more assets than debt. Since Custom Snowboards has a ratio of 53.5% in Year 13 and 51.6% in Year 8, this is a very good sign. This means Custom Snowboards has more assets than debt. In comparison to Winter Sports,which has 38% for year 14, Custom Snowboards ratio is still very positive even if it is higher than the industry standard. Lending Institutions might want to see that number become lower in the future to create security in knowing that the company is not over extending themselves with the long term debt. They might even want to make sure the Debt Ratio does not become unmanageable if a loan is given. So it would be good to show them that the Debt Ratio is dropping from 53.5% in year 13 down to 51.6% in year 14, this will show the intent to get it even lower in future years.

Gross Profit Margin

Gross Profit Margin is a measure of how well a company controls its costs. It is calculated by dividing a company's profit by its revenues and expressing the result as a percentage. The higher the

gross profit margin is, the better the company is thought to control costs (Harvey, 2012). Custom Snowboards had a gross profit margin of 30.4% for both Year 13 and Year 14. Winter Sports had a gross profit margin off 32.1%. This a very good indicator that Custom Snowboards is still able to be more competitive in its pricing. However, Winter Sports is doing a little bit better than Custom Snowboards. The lending institution is going want to see how this number could be increased to stay competitive with the industry. A solution would be reduce costs in the operating expenses and find ways to increase the net profit as mentioned earlier. Another solution would be to control production and inventory costs or adjust the prices that were set too low so it will raise the Gross Profit Margin percentage. Since this Gross Profit Margin has remained steady, this should not encourage or discourage the Banker in giving the loan.

Operating Profit margin

Operating Profit Margin exhibits a company's efficiency in controlling costs by measuring the company's pricing strategy and operating efficiency. The proportion is the amount of money left over after deducting variable expenses to pay off fixed expenses. To calculate operating profit margin, the manager needs operating income and net sales or revenue. Operating income is operating revenues minus operating expenses (McBride, 2013). To create a healthy, operating margin, the company must be able to pay the fixed costs. The Operating Profit Margin is calculated by using Operating Income divided by the Net Sales. Custom Snowboards Operating Profit Margin for Year 13 was 2.3% and 1.5% in Year 14. Both of these percentages are significantly lower than Winter Sports 5.2% for year 14. As previously discussed, Custom Snowboards' operating income had decreased due to the increases in Administrative Payroll and Executive Compensation. Custom Snowboards needs to show the Banker that the company is taking steps and actions to increase operating income by

decreasing administrative payrolls and executive compensation. Once these issues are addressed, this should ease the concerns of the lending institution. Also by taking these steps, Custom Snowboards will be able to catch up with Winter Sport's year 14 operating profit margin of 5.2%. This operating profit margin is going to be of significant importance to the Banker because the company will actualize on more profit, which in return will enable the company to be able to pay off their debts.

Net Profit Margin

A Net Profit Margin is used to measure the ratio of profitability. A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings (Profit Margin, 2013). Net Profit Margin is very useful when comparing companies in similar industries. The Net Profit Margin for Custom Snowboards in Year 13 was 0.8%. This was not nearly as good as the Winter Sports standard of 5.1%. However, this could be acceptable if the rest of industry had a lower ratio. For Year 14, Custom Snowboards dropped to only 0.2%. This amount in not acceptable and shows a huge decrease from the previous year. This appears to be caused by Custom Snowboards increase in Total Operating Expenses and relatively flat Net Sales. The problem is also compounded by the company's lack of cutting Total Operating Expenses to compensate for the flat sales. If the expenses are not brought under control, the company will have a very hard time staying competitive. Winter Sports showed an impressive Net Profit Margin of 5.1%, which is considerably better than Custom Snowboards. The lending institutions are going to want to know how this Net Profit Margin number could be increased. While Net Sales appear to have slightly increased, the Net Profit Margin is decreasing. This is because the company needs to look at its expenses that are growing with the company. Attempts to increase the product price might cause a drop in demand and decrease in sales

because customers might not be willing to the increased price. The best solution is to increase the Operating Income by decreasing Administrative Salaries, Executive Compensation, investigate the increases in Other General and Admin Expenses and reinvest in Short-term Investments to get more Interest Income. Decreasing these expenses and reinvesting in Short-term Investments should create profitable and favorable results that would encourage the Banker to give the loan.

Earnings Per Share

Earnings per Share is another ratio used to determine profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio (Earnings Per Share - EPS, 2013). This ratio will provide the portion of the company's profit allocated to each outstanding share of common stock. This cannot calculate the outstanding shares of treasury stock in the Earnings per Share. The Earnings per Share is calculated by taking the Net Earnings and dividing it by the Average Common Shares. Earnings per Share for Custom in Year 13 was .06 was slightly lower than the industry standard of .08 (Winter Sports). Earnings Per Share continued to decrease for year 14 down to 0.02. This is exactly the opposite of what Custom Snowboards wants to see happen. With the Earnings Per Share decreasing, this will most likely mean that their stock prices have dropped as well, which would result in less return for the investors. While this might be of little concern to the lending institution, Custom Snowboards should make attempts to increase their profits & net income to increase their EPS.

Return to Total Assets

The Return of Total Assets ratio will measure a company's success by using assets to earn a profit. This ratio can be calculated by adding Net Income plus Interest Expense and dividing it by the

Average Total Assets. Custom Snowboards in year 13 had a rate of 3.0% which was below Industry Standard of 4.8% (Winter Sports). It continued to drop even further in year 14 to 0.9%. This is a clear indicator that the company is making poor use of their assets. This ratio will show the Banker that once again that decreased operating income has impacted this ratio. The company needs to lower their operating expenses. Also, the company should assure the Banker that there will be no more withdrawing from short-term investments to be used for Furniture, Fixtures and Equipment. The lending institution will probably want to see the plan or strategy to increase Total Current Assets which would include increasing Short-term Investments. The Short-term Investments should increase profit from the earned Interest Income.

Return on Common Equity

Return on Common Equity (REO) is one of the most popular ratios used to measure profitability. This ratio will show the relationship between Net Income and the Common Stockholder's Equity. To calculate this ratio you will subtract preferred dividends from the net income to get net income available to the common stockholders. Then you will divide that amount by average common stockholders' equity (Horngren, 2008). In Year 13, Custom Snowboards had a return on the Return on Common Equity of 6.4%. This was not as high as Winter Sports of 8.10%. Custom Snowboards noticed a huge decrease in Return on Common Equity to 1.8%. Custom Snowboards is not being very efficient at generating profits for every unit of shareholder's equity.

This ROE is going to show the lending institution that the company is not very efficient at generating earnings growth with the investment funds. While generating growth on investment funds is good to show the lending institution, they are more interested in seeing if they can be repaid as well as the interest on that loan.

Price/Earnings Ratio

This ratio is the ratio of the market price “investors willing to pay” of a common stock to the company’s earnings per share. This amount will show what the market price of $ 1 of earnings. The Price/Earnings ratio is calculated by taking the market price per share of common stock and divide by the company’s earnings per share. The price/earnings ratio for Custom Snowboards in year 13 was 169.56 and increased to 197.03 in year 14. This was more than the Winter Sports ratio of 29.00. The higher P/E ratio is always a bad sign. However, P/E numbers should be compared to the type of industry that they are in. Since Winter Sports is the benchmark, Custom Snowboards has extremely high P/E ratio which will be very unfavorable to investors. Of course, a high P/E ratio could signal a very fast growing company but investors could see this as other investors losing faith in the company. While the lending institution will notice this difference, they will probably be interested in what investors are willing to invest. Since the market prices of shares are not controlled by the company, the lending institution might want to see if the investor thinks that the company is going downhill and maybe even reconsider in giving the loan.

Time Interest Earned

The Time Interest Earned Ratio is a measure to determine the company’s ability to honor its debt payments. This can be calculated as either EBIT or an EBITDA divided by the Total Interest Payable. This ratio shows the financial safety level to creditors. It shows whether the money the

company earns is enough to cover its' interest payments. It is represented by the number of times operating income can cover the interest expense. Custom Snowboards had a 1.83 in Year 13. This is not a very good ratio and shows that the company could have a problem with paying their interest expense. Winter Sports showed a 5.10 which is very good for them. Unfortunately in year 14, that ratio decreased to 1.25 which shows that Custom Snowboards could have a difficult time paying their interest expenses in the future. Since this number goes below 1.5, the company will have problems covering their interest payments. If it drops below 1, this means the company will be unable to cover its' interest payments because it is earning less money than the amount it has to pay as interests. The lending institutions view this as a very important indicator on whether the company can meet its debt obligations. Anything that is at 2.5x and below would send a warning sign to the lending institution which could cause them to decline the loan. This would require the company to show how they can improve their EBIT by increasing sales income, create a new demand, evaluate discounts, and even decrease the COGS (cost of goods).

In Conclusion, Custom Snowboards should be prepared to provide the lending institution with all of the financial documents pertaining to Custom Snowboards. These financial documents would include all of the different types of analysis, trend forecasts and future projections, and even the financial ratio analysis. The company would benefit if it was prepared to answer any questions and concerns the lending institutions might have about the potential risks with the company. Custom Snowboards should also prepare a plan for the lending institution on how it plans to pay back the five year loan. By doing this, the lending institution will have all of the pertinent information needed in order to make an informed decision.

Custom Snowboards, Inc

B1. Historical Analysis of Past Performance

Historically, Custom Snowboards appears to have done fairly well for itself over the years, with the exception of a few areas of concern. This Historical Analysis information can be found in the Income Statement as well as the Balance Sheet, Horizontal and Vertical Analysis that the company has prepared.

Custom Snowboards' Gross Profit was very strong in year 12, and it was the best year for the company in comparison to the other years. Year 12 had a Gross Profit of 2.053,100. However, Gross Profit took a hit for year 13 to 1,920,800, the company saw a decline of 132,200 from year 12. This could have been caused by a worldwide economic downturn. Even with an economic downturn, Custom Snowboards was able to stop the loss for year 13 and even managed to make a slight increase Gross Profit for year 14 to 1,945,300. The success of the Gross Profit in year 14 could be attributed to the increase of Net Sales 6,391,700 in that year. This slight increase during the economic downturn shows that Custom Snowboards are able to create a durable and reliable snowboard that is desired in the market. Historically, this shows that Custom Snowboards is a strong company.

Operating Expenses appear to follow with the Revenue except in the following areas: Administrative Payroll, Executive Compensation and Other General and Admin Expenses. While Net Sales and Gross Profit decreased for year 13, Total Selling Expenses adjusted according to the changes in Net Sale and Gross Profit. However, this did not happen within the General and Admin Expenses. Every year it noticed an increase in Administrative Payroll, Executive Compensation, Utility Services and Other General and Administrative Expenses. With increases in Total General and Admin

Expenses, this caused Total Operating Expense to Increase every year. Even with Gross Profit slightly improving from year 13 1,920,800 to year 14 1,945,300, the increase in Total Operating Expenses has chipped away at the Operating Income every year. This continual decrease every year in Operating Income ultimately has had a negative impact on the Net Earnings.

Custom Snowboards has been very stable with their Current Assets except for Short-Term Investments. In year 13, Custom Snowboards had 180,000 in Short Term Investments only to have it decrease to 30,000 in year 14. Custom Snowboards might have thought it would have been smart to free up their Short-Term investment to create more liquidity during the economic downturn. However, this had hurt the company because they were no longer getting the Interest Income from those Short-Term Investments. The Company was getting Interest Income of 3,200 in year 13 to only have it drop to 300 for year 14.

While the company has been very good at maintain their Property and Equipment, it shows a massive amount of money 200,000 was applied to the Furniture, Fixtures and Offices assets in year 14. The Custom Snowboards notices that the updates do add value to the company. My only concern is that they liquidated their Short-Term Investments which added Interest Income for the purpose of purchasing the Furniture, Fixtures and Equipment. However, with these asset purchases, the company should be looking to increase production and output capacity.

Retained Earnings have seen an increase every year from 156,451 in year 12 to 208,351 in year 13 and 222,826 in year 14. From year 12 to year 13 it had an increase by 51,900 and from year 13 to year 14 it had an increase by 14,475. As these Retained Earnings increase so does the Total Stockholders' Equity.

The Current Ratio of Custom Snowboards is better than the Winter Sports- the industry

standard. This shows that Custom Snowboards has the liquidity to pay off any short-term liabilities. Custom Snowboards had 6.68 in year 13 but had a slight decrease in year 14 to 5.53. This ratio is still better than the Winter Sports 4.20 for year 14. Custom Snowboards has done a very good job at keeping this liquidity which will be very enticing for prospective investors and lenders.

Earnings Per Share has noticed a decline from year 13 at .06 to year 14 at .02. This means that the company is not allocating a large enough portion of the company's profit to each outstanding stocks. The best way to increase the EPS is to concentrate on increasing the net profit which goes back to addressing the General and Admin Expenses. Another solution would be to do a Buy-back program so the company can buy back their shares which would increase the EPS.

Overall, Custom Snowboards has historically done very well, expect for the problems with their operating expenses. Now that these problems have been identified, the company should now look forward to see how the historical data will affect the future.

B1a. Future Performance

By using the Historical Analysis, the company can study and determine the future direction of the business.

Historical and Future Trend Analysis

	Year 17	Year 16	Year 15	Year 14	Year 13	Year 12	
Net Sales	6,630,750	6,519,534	6,583,451	6,391,700	6,311,200	6,745,900	
Trend Percentage	103.7%	102%	103 %	94.7%	93.6%	100%	
Year to Year Increase	101.7%	99%	103%	101.3%	93.6%		
Total Long Term Liabilities	Decreased	Decreased	Decreased	750,000 @ 44.1%	805,000 @ 46.3%	860,000 @ 49.2%	
Total Operating Expenses	Increased	Increased	Increased	1,851,300 @ 29.0%	1,774,800 @ 28.1%	1,756,600 @ 26%	
Net Earnings	Decreased	Decreased	Decreased	14,475 @ 0.2%	21,900 @ 0.8%	160,500 @ 2.4%	
	Trend Percentage (based on Year 14 @	Trend Percentage (based on Year 12)					

	100%)						

Trend Analysis - Horizontal from year 12 to year 17

Horizontal Analysis:

The Years 12 to 13 showed a negative result with a decrease in Net Sales from 6,745,900 to 6,311,200. Net Sales lost 434,700 or drop of 6.4% for year 13. Years 13 to 14 showed a slight positive result with an increase in Net Sales from 6,311,200 to 6,391,700 for year to year an increase of 1.3%. The Net Sales for year 14 were still only 94.7% of the Net Sales for year 12. Years 14 to 15 project an increase of Net Sales from 6,391,700 to 6,583,451 for year to year increase of 3% based on using year 14 as the base. Year 15 to 16 projects a decrease of Net Sales from 6,583,451 to 6,519.534 for a 1% decrease year to year and only 2% increase from the Year 14 base. Year 16 to 17 projects an increase of Net Sales from 6,519,534 to 6,630,750 for 1.7% increase for year to year and an increase of 3.7% from the Year 14 base.

Parallels from the first three historical trend years with the next three forecasted trend years. Net Sales for year 12 to year 13 took a dip, but from year 13 to year 14 it noticed a small increase in Net Sales. The forecasted trend appears to be the same for the next three years. Year 15 to year 16 is projected to have a dip of 1%, but from year 16 to year 17 it is expected to increase 1.7% over year 16 and 3.7% from the base year 14.

Income Statement – Vertical Analysis

After observing the Income Statement –Vertical Analysis, it became apparent that there is an increasing trend Total Operating Expenses. Total Operating Expenses increases every year starting with year 12 at 1,756,600 @ 26%. It increases for year 13 at 1,774,800 @ 28.1% and increases again

for year 14 at 1,851,300 @ 29.0%. These Total Operating Expenses increases are because of the continual increases in Administrative Salaries, Executive Compensation, minor Utilities & Services and Other General and Admin Expenses. This trend of increasing expenses has been driving down the Operating Income. Operating Income in year 12 was 4.4% at 296,500 only to decrease in year 13 to 2.3% at 146,600. Year 13 to year 14 Operating Income saw a decrease of 1.5% at 94,000. This Trend of increasing expenses and decreasing Operating Income will eventually create a negative Operating Income which would drive down Net Earnings, and this would be very negative for the company.

Balance Sheet – Vertical Analysis

When viewing the Trends for the Balance sheet – Vertical Analysis, I noticed that the Total Liabilities had been decreasing year over year. Total Liabilities for year 12 were 990,420 @ 56%, year 13 decreased to 930,560 @ 53.5% and year 14 decreased to 876,460 @ 51.6%. The company has been very active in paying down the Mortgage and Long-Term Liabilities. This company has made great process in paying down those Liabilities. At this continued rate, they will have those Long Term Liabilities pay off within a short period of time.

B2. Operations Improvement

There are many different ways to control measures that Custom Snowboards can implement in order to save money and improve current operations. The following are two improvement programs that will improve operational results.

The first control measure that Custom Snowboards can implement is Activity Based Costing

(ABC). Activity Base Cost breaks the product into activities and assigns costs associated with completing those activities. The ABC process eliminates the process of attaching some unrelated manufacturing costs to other products and it applies overhead costs to activities, rather than to direct labor hours. This costing method recognizes the relationship between costs, activities and products and through this relationship assigns indirect costs to products less arbitrarily than traditional methods.

After reviewing the unit cost comparisons for both the Regular and the Personalized units using traditional and ABC costing calculations, it shows that traditional costing for the Regular unit is at $119/unit while the ABC is at $105/unit for the same Regular unit. The ABC method clearly provides evidence that it is less expensive to produce the Regular units than previously thought by using the traditional costing method. The Personalized units in the traditional costing method shows that each unit costing $162, unlike the ABC method showing that each unit is higher at a cost of $218. This ABC analysis proves that Personalized units are more expensive to produce in comparison to the traditional costing method. The reason these changes occurred was because instead of a flat overhead cost based on the number of hours of labor, it was applied to the each of the activities. It results in more granular and accurate picture of the how much each product actually costs to produce. This is a significant finding that warrants adjustment in the pricing of the Personalized unit price in order to avoid significant financial losses.

Custom Snowboards was able to break up their manufacturing overhead costs by categories. These categories costs were: Factory Set-up, Quality Control, Engineering Services, Product Movements, Utilities and Depreciation. This process is vastly different from the Traditional Costing Method which is known to assign a total to the overall Overhead and does not take into consideration the different processes.

ABC and Traditional also show a substantial difference in the Total Product Cost. While both agree that the total Overhead cost is 1,403,030 the allocation of the costs are not appropriate applied to the products (Regular and Personalized). Since ABC and Traditional can agree about Direct Material, Direct Labor and Total direct cost for materials and labor, the manufacturing overhead is different for both snowboards. The Regular traditional overhead is 1,068,982 unlike the Regular ABC of 546,863. The Personalized Traditional overhead is 334,048 unlike the Personalized ABC of 856,167.

Using the Custom Snowboards Spreadsheet, the ABC method can calculate the per unit overhead cost under the ABC costs assigned to each product. This is done taking the Total ABC Overhead Cost and dividing the number of units to get the unit cost.

Regular:

Total ABC Overhead Cost 546,863 / Regular Units 37,377 = $14.63 overhead cost per unit

Personalized:

Total ABC Overhead Cost 856,167 / Personalized Units 9,344 = $91.63 overhead cost per unit.

Using the Custom Snowboards Spreadsheet, the Traditional method allocates overhead based on the direct labor dollars, total costs for all for the Snowboards then it is divided by the total direct labor dollars for all of the bikes to find the unit cost. This process creates weaker controls for finance managers to figure out the granular specific price for that individual product.

The Tradition method takes the Total direct cost for materials and labor used for each product and assigns a percentage of the manufacturing overhead to its cost. For this spreadsheet, I have found that 76.19% 1,068,982 is applied to Regular and 23.8% 334,048 is applied to Personalized which is determined by the overall total direct cost for materials and labor.

In the case with the Factory Setups, the Quantity of 9,500 (125 for Regular and 9,375 for Personalized), The Activity Cost per Unit the Regular at 0.07 is considerable less than the Personalized at 19.67 in the Factory Setups. This proves that the Regular product is utilizing more Activity costs to produce that product. Also, Regular has higher Activity Costs per unit of product in Quality control, Engineering Service, product movements. This detail of Activity Based Costing with the Activity Cost Pool can lead to actions that would improve efficiency and results.

The above is the proof that Activity Based Costing can change the product cost. Based on this Custom Snowboards Spreadsheet, the ABC method can help with future product planning which will help determine the accurate unit price and appropriate overhead expenditures. Custom Snowboards should implement the ABC system so that the company accurately measure the amount of money that is allocated to different processes and products.

Another control measure that Custom Snowboards can implement in order to save money and improve current operations is Just-In Time (JIT). The Just-In-Time strives to create a work-in-process environment where inventory arrives only when it is needed. This process reduces the cost of inventory holding. JIT production facility uses work cells, where groups of people and equipment are all brought together to create the product. This process eliminates the costs involved in transporting a work in the process to other departments for completion.

Custom Snowboards currently has both automated and manual production processes. If the company were to go with the JIT, they would have one team to complete many steps in their production process. The change would be instead of one department handling one step at a time, there would be a work cell that would take care of every step. These employees within the work cell would be extremely qualified and trained to make the complete product. This process would make the

employee/work cell completely responsible for any problems, and it ensures that quality control throughout the production. The benefits of JIT include: eliminating of waste, transferring from one department to another, work in process backlogs which saves time and the cost of time of production. Another benefit is fewer materials are tied up in inventory costs, overhead costs, operating costs, facility floor space and requires only the employees needed to fulfill the current demand. Custom Snowboard could benefit from JIT if the company is looking to lower and find inefficiencies in the Cost of Goods Sold which could increase their Gross Profit.

Custom Snowboards could benefit with Just-In-Time process by using the efficiencies stated above. The better supply chain management could lower the manufacturing costs so that the savings could be passed onto the customer. Just-In-Time also increases customer satisfaction by being able to quickly respond to the customer's needs during production. This would satisfy the customer as well as reducing the number of unsold and out of date products which creates waste.

B3 and B3a. Internal and External Risks and Recommended Strategies and Techniques

An expansion into Europe could greatly benefit Custom Snowboards, but the company needs to be aware that there are several internal and external risks. Here are the following business risks with recommended strategies and techniques that could be used to mitigate these risks.

Internal Business Risks

Internal Business Risks usually can be controlled by the company.

The first Internal Business Risk is Technology Transfer: Since Custom Snowboard is making a high quality product in the United States, the company wants to make sure the same quality product is transferred into the European operations. Maintaining the quality is a risk which could result in loss of

sales especially when the Operations are taking place over a great distance from the United States Facilities. To Mitigate the Technology Transfer would include to do the construction of the Snowboard and Bindings in the United States then ship the completed components to Europe for Final construction of the Snowboards. Quality control of the Product would take in the United States, and the unassembled product could be shipped and assembled in Europe. Another way to mitigate this issue is to offer job transfers for the current skilled workforce to go work in Europe. This will allow them to produce the same product that they were making in the United States.

The second Internal Business Risk is Work Environment and Language: Custom Snowboards is based in the United States where the language spoken is English. This could create a risk with different language barriers if the operations were placed into Europe. This risk could mean that highly skilled employees would not be able to work the equipment because they do not understand the language. The best way to mitigate this issue is to allow the facilities to operate in their native language or have to equipment that is bilingual so that the equipment could be operated by an employee that might not speak the English Language. Custom Snowboards should consider hiring a language liaison that can communicate between the Custom Snowboard Executives and Operations Management in Europe. This Liaison Officer can focus on the diversity issues with language and culture barriers that might exist between the two different locations. Communication between the two companies will be paramount to the success of Custom Snowboards. Another solution to mitigate language barriers will be to offer education in other languages and diversity training. Training and Education opportunities for every employee will create a new synergy of communications between the two companies even in the face of different languages and cultural differences.

The third Internal Business Risk is Accounting systems: There are two different accounting

standards that could be a risk to Custom Snowboards. In Europe, they have the IAS (International Accounting Standards) and IFRS (International Financial Reporting Standards). These accounting standards are different from the United States FASB (Financial Accounting Standards Board). This could be a risk to Custom Snowboards because each of the accounting standards are vastly different. To mitigate this situation is not as simple as just making both companies use the GAAD (General Accepted Accounting Principles) since they are not compatible. This risk will create inaccurate financial statements. In order to mitigate this risk, the company will have to hire a CPA firm in both locations that knows how to handle the different accounting standards.

External Business Risks

External Business Risks usually cannot be controlled by the company, but Custom Snowboards should develop ways to mitigate these potential risks.

The first External Business Risk is Currency Fluctuations: There will be currency fluctuations between the two different countries. While the U.S. Dollar and Euro can increase and decrease in value, this could cost the company millions in profits. Even if the Custom Snowboards thought buying special equipment from Europe was a deal at that time, the euro could drop by the time they take delivery of the equipment in the United States. So this would become a loss to the company, instead of the initially perceived profit. This is because the equipment could have been purchased at a lower price if they had waited. Likewise, Custom Snowboards might think the cost of making the Snowboards would be cheaper to do in the United States and then ship them to Europe. However, once the snowboards arrive in Europe and the value of the Euro dropped, the cost of making the Snowboards in the United States would be instantly become more expensive. Then the Snowboards would be overpriced for the European market which would result in lower sales and a loss in profit

from Europe.

To mitigate this issues, Custom Snowboards could do the following things to minimize the risks with currency fluctuations. Large company's use exchange hedging tactics to limit the exchange rate risk. The first approach could be to monitor the changes if the Custom Snowboards does not think that currency fluctuations are a high risk. Setting up a locked exchange rate for a period of time by setting up a forward contract. A forward contract creates a contract by both parties to buy or sell an asset at a specified future time at a price agreed upon today. It could also be beneficial if the company could purchase currency in advance if there are going to be big purchases and are concerned about future volatility. Another solution to mitigate this risk is the complicated option of derivatives. Derivatives can also give a clearer picture of the company's operations are really performing.

The second External Business Risk is Political Unrest: Political Unrest is a very real threat for Custom Snowboards. The political unrest risks are often associated with riots, terrorism and even war. A country that has political unrest could be the result of economic instability which could threaten Custom Snowboards by either that country's government or by its public. Custom Snowboards must be prepared to handle these worst case scenario situations.

To eliminate the risk of political unrest is impossible. However, there are some ways to mitigate it. The way to mitigate the risk is to do a thorough research of the area in Europe where Custom Snowboards is planning to expand to. If the research reveals a significant amount of history of political unrest, then the company should reconsider the location of the expansion. If the country has been deemed stable, then Custom Snowboards will not have to deal with the problems associated with this risk. Once Custom Snowboards has established operation in its European location, the company should create a team of observers to monitor and to frequently report on any potential

problems. These reports are to be sent to the management team in the United States to determine the best course of action for certain situations. If the political unrest results into massive riots or even war, the company might want to have an action plan to temporarily suspend operations and to secure the company's assets.

The third External Business Risk is Foreign Competition: Custom Snowboards will be dealing with many local firms as well as multinational organizations. Even though Custom Snowboards already knows that their snowboards are desired in Europe, the risk is to make sure the product stays in demand in Europe. Since this company will be in a foreign country, the management needs to evaluate this European Market differently than the United States market. This European evaluation will help determine the European customer's demands and trends which could be completely different from the ones in the United States.

While eliminating foreign competition might be impossible, there are several way to mitigate the risks that could affect Custom Snowboards. The first mitigation solution is to create a strong, positive relationship within the European businesses and local communities. This would require the company to do sponsorships to local events and charities. Custom Snowboards should support the local communities with positive PR and Advertising. The company should hire local talent to work for Custom Snowboards. This would create jobs for the community and Europe which will enable them to also purchase the Custom Snowboards. Another way to mitigate risk is to create a Keiretsu type network with other European businesses. This will create solid working relationship with other Businesses and Suppliers within Europe which would solidify the marketshare for the company. Custom Snowboards could utilize the European transportation companies for delivery of products, purchase supplies from European textile businesses and hire employees from local trade schools and

universities.

B4. Potential Returns – Capital Budgeting and Lease/Buy

The Potential Returns to our New Plant / Direct Expansion option into Europe would provide the company with access to their geographical market, increase market share and increase the company's customer base. An increase in the market and customer base would ultimately translate into an increase of revenue for the company. This growth in revenue could also provide more future expansion opportunities. If the acquisition option is selected, this would provide the company with the opportunity to obtain valuable resources such as assets, human capital and additional knowledge about the business. European SnowFun already has assets, operations systems, and distribution channels that could be extremely beneficial to the company.

Another benefit of an acquisition would be the increased economies of scale and the decreasing of our overhead and costs. As a result of the reduced overhead and costs, the company would eventually be able to increase their profits. Capital budgeting must be carefully developed and implemented, and there are methods to evaluate it like using the average rate of return, cash payback method, net present value method, and internal rate of return method (Carl S. Warren, 2008)

The Net Present Value (NVP) is a way to look at a project and determine how profitable it will be with its present value of expected future cash flows minus the cost. NVP shows the difference between the present values of cash inflows and cash outflows. If the project's NVP is greater than zero, the project should be accepted. It the NVP is less than zero, it should be rejected (Gitman, 2012).

Another area of concern is the IRR (Internal Rate of Return) expected for the company. The internal rate of return on an investment or project is the "annualized effective compounded return rate" or "rate of return" that makes the net present value of all cash flows (both positive and negative) from a particular investment equal to zero (Internal rate of return, 2013). The IRR is a number that can be used to project a company's rate of growth. By using a predetermined Hurdle number, the company can use the IRR to make the decision to accept or reject the project.

The Net Present Value has set a minimum Goal (Hurdle Rate) at 10% Cost of Capital. Year 15 present value is 76,908 at .909, year 16 present value is 99,712 at .826, 17 present value is 123,432 at .751, year 18 present value is 139,719 at .683, year 19 present value is 144,327 at .621, Working Capital Return present value is 124,200 at .621 and Salvage Return present value is 372,600 at .621. This creates a Total Present Value of 1,080,899 which is more than the Investment of 1,000,000 by 80,899 which is the Net Present Value.

The Internal Rate of Return shows an internal rate of return of 12.1%,which is more than the minimum hurdle rate required of 10 %. This shows that Cash Flows will not be a problem for Custom Snowboards if all of the projected five-year annual sales increases for Europe are met.

This shows that the company will earn enough money to cover the cost of the capital. After reviewing these areas of concern, it is recommended that Custom Snowboards go forward with the expansion build project into Europe.

If the company also agrees with the decision to expand into Europe, the company needs to decide if they want to Lease or Buy. After reviewing the Lease vs Purchase tab, I recommend going

with the Lease with the cash buyout at the end. The first reason for going with the lease option is because the After Tax Cash Flow is constant at 146,250 annually which is lower than the After-Tax Cash Flows than with the Purchase every year. This will preserve working capital by using less money upfront. The second reason for going with the lease option is that this will also give the company more working capital that would have been absorbed into the Purchase. The third reason for going with the lease option is to not increase any more long-term liabilities such as Mortgage Payables. The fourth reason for going with the lease option is because after the five year period with the buyout; the total Present Value of Outflows is only 653,355, which is considerably less expensive compared to the Purchase total Present Value of Outflows of 809,409. That would be 156,054 in savings over the five year period by leasing.

B5. Summary

Custom Snowboards has the opportunity to enter into the European market by procuring a new production plant, merging with European SnowFun, Inc. via a stock swap or acquiring European SnowFun, Inc. outright via a stock purchase.

Here are the following financial alternatives with their pros and cons:

Build a New Plant:

Custom Snowboards has the option to build a new production plant in Europe. In order to figure the viability for the procurement of new production plant, the company needs to review the Net Present Value. Since the Total Present Value is 1,080,899 by subtracting the Investment of 1,000,000, it will have a Net Present Value of 80,899. This positive Net Present Values makes this a Viable alternative for Custom Snowboards.

The pros for building a new plant compared to a merger or an acquisition is the complete control over all of the operations without having pick up another company's problems that might not have been disclosed. This will allow the company to select their equipment, machines and employees. The cons for building a new plant could be you are doing everything on our own with the highest risk, dealing with timing issues since it is being built from scratch.

Merger: Business combo with ESF via Stock Swap

Custom Snowboards has the option to do a merger with European SnowFun via Stockswap. In order to figure the viability for the merger with European SnowFun via Stockswap, the company needs to review the Earnings Per Share. If the Earnings Per Share are higher after the Merger, then this would be a viable alternative option. The Custom Snowboards was at 0.98 Before the Merger and are expecting the Expected EPS After the Merger to drop to 0.92. This negative drop in Expected EPS After the Merger which would make this Not a Viable alternative for Custom Snowboards.

The pros for doing a merger compared to a build or an acquisition would be it is done as stock swap instead of paying in cash for the transaction. Another pro would be, combining with European SnowFun is less of a risk because they are already concerned about being profitable.

The cons for the Merger would include some Stock Dilution and may even affect earnings per share. This merger will most definitely have an impact on voting power.

Acquisition: Business combo with ESF via Stock Purchase

Custom Snowboards has the option to do an acquisition with European SnowFun via Stock

Purchase. In order to figure the viability for an acquisition with European SnowFun via Stock Purchase, the company needs to review the Net Present Value of the European SnowFun Projected Cash Flows. The Present Value for Year 15 to Year 19 is 732,522. The European SnowFun has an Offer Price of 720,000. This Offered Price of 720,000 is less than the Total Present Value of 732,522 which would make this a viable alternative for Custom Snowboards.

The pros for doing an acquisition is that the company would not have to give up any stock to acquire European SnowFun.

The cons for the acquisition would be the cost of 720,000 to make the purchase.

The best option for expanding operations into Europe is to acquire European SnowFun. The European SnowFun has an offer price of 720,000 which is below the present value. European SnowFun will also basically be a turnkey operation without the risk of building it from scratch. This acquisition would make the transition seamless since they have already dealt with issues of getting the company up, running and profitable. The Merger was considered, but because the "Expected EPS After Merger" was going to drop, this would have angered our stockholders, and without their support it could really hurt the company in the future.

B6. Presentation of Final Financing Recommendation

Here is the Recommended Capital structure approach that maximizes shareholder return.

Custom Snowboards wants to expand into Europe. In order to ensure adequate funding and future funding stability, the company must have Capital Structure needs to be in place. The total capital funds expected is to be $720,000. Custom Snowboards has created five different approaches to generate the needed capital for this expansion. The first approach is to issue long term debt of the

financial requirements. The second alternative capital source approach is to issue 30% long term debt and 70% common stock. The third is to offer 80% long term debt and 30% common stock. The fourth alternative is to offer No Long Term Debt.

In order for Custom Snowboards to maximize return for shareholders, the appropriate course of action is to do an analysis of the EBIT-EPS. Since the company is focused on minimizing shareholder risk, the risk to the company will be overlooked, and only the Earnings Per Share will be evaluated. Below are the EBIT numbers used for the European Sales Forecast for the year 15 through 19.

Year	EBIT	EPS	EPS	EPS	EPS
		Long Term Debt	30% Long TermDebt and Common	80% Long-Term Debt and Common	No Long-Term Debt
15	59,477	-0.04	0.053	0.014	0.064
16	107,622	0.15	0.119	0.134	0.115
17	165,809	0.369	0.198	0.28	0.178
18	219,422	0.57	0.272	0.414	0.235
19	256,548	0.709	0.322	0.506	0.275
	Totals	**1.758**	**0.964**	**1.348**	**0.867**

The Above Chart shows the Highest EPS by using the EBIT for over 5 year period. This chart shows that over the five year period, the company will have a total of (EPS) Earnings Per Share of $1.758 if they were to use the Long Term Debt to finance the company's expansion. The other approaches had the following results over the 5 year period: 30% Long Term Debt and Common Stock only generate .964, 80% Long-term Debt and Common show only 1.348, and lastly No Long-Term Debt returns only .867 which is the least recommended of the capital structures.

After reviewing each of the four approaches, I would recommend going with the Number 1 by

Long-term Debt in the interests of maximizing the shareholder's return. Of the four choices, I believe this will give the highest EPS (Earnings Per Share) over the expected EBIT (Earnings Before Interest and Taxes) for over the five year period. This approach of Long-term Debt will give a five year total of 1.758 in comparison to the .964 If the company was to use 30% Long Term Debt and Common Stock. Even though the other approaches appear to be doing better for the first year, the third, fourth and fifth year really increased for the Long Term Debt. Custom Snowboards should use the Long-term Debt capital structure source to finance their expansion.

Additional Reasons and considerations for going with the recommended Long-term Debt approach.

1) The Common Stock Shares Outstanding will stay the lowest of all of the other Capital Structures at only 200,000
2) EPS for Long Term Debt is higher than the other capital structures starting in year 16 and increases every year.
3) Common Stock has been added for all of the other Capital Structures which gives those stockholders additional leverage which could indirectly influence business management.

Here are the reasons why I did not select the other three alternative capital sources and recommend the Long Term Debt option. These three other capital sources were not maximizing shareholders returns and maximizing the use of the firm's value.

1) The capital structure called 30% Long-Term Debt and 80% common stock. In comparison to the Long Term Debt, the Common Stock Shares Outstanding was the second highest at 550,000 compared to the 200,000 for the Long Term Debt. The only thing going for this option was that it had the second lowest Interest on Long Term Debt of 20,250.

2) The capital structure called 80% Long-Term Debt and 20% common stock. This structure has the lowest common stock of all of the other options except for the Long Term Debt. However, this had the second highest amount of Interest on Long Term Debt at 54,000. Even though it had the third lowest Net Income, this could have been the second best option since the EPS showed was higher than both the 30% Long-Term Debt 80% Common and the No Long-term Debt.

3) The capital structure called No Long-Term Debt. This Capital Source has the worst performing EPS among all of the Bond/Common Stock combinations. It might have the highest EBT Income Before Tax, but it also has the Highest Income Tax (25% marginal rate). What makes this option even worse is the 700,000 in Common Stock Shares Outstanding that utterly destroys the potential for a higher EPS.

Again, my recommendation is to use the Long-term Debt approach. After reviewing the year over year EBIT figures, I did notice that No Long Term Debt could be a good option but for one year at the maximum. However, I really liked how the low Common Stock Shares Outstanding of 200,000 year over year created the highest EPS even if the Total Income Available for Common Stock was the lowest among the other Capital Structures.

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