Financial Modeling Mastery – Certification Quiz Questions

Module 5 – More Advanced 3-Statement Modeling Case Study from a Blank Excel Sheet (EasyJet) (1 Week)

1. Consider the Income Statement projections for EasyJet shown below, which are based on half-year periods for the next few fiscal years and full annual periods after that:

			Projected (Half-Years):					Projected (Annual):	
Income Statement:	*Units:*	1H 22	2H 22	1H 23	2H 23	1H 24	2H 24	FY 25	FY 26
Total Revenue:	£ M	£ 1,498	£ 2,652	£ 2,276	£ 3,810	£ 2,726	£ 4,621	£ 8,537	£ 9,846
(-) Non-Fuel Costs:	£ M	(1,357)	(1,680)	(1,776)	(2,318)	(2,074)	(2,704)	(5,506)	(6,282)
(-) Fuel Costs:	£ M	(362)	(528)	(538)	(753)	(662)	(927)	(1,861)	(2,129)
EBITDAR:	£ M	(221)	444	(38)	739	(10)	989	1,169	1,435
Lease and Depreciation Costs:									
(-) Lease Depreciation:	£ M	(133)	(144)	(120)	(134)	(132)	(147)	(310)	(349)
(-) Impairments:	£ M	-	-	-	-	-	-	-	-
(-) Depreciation & Amortisation:	£ M	(145)	(158)	(134)	(155)	(150)	(170)	(357)	(401)
Total Lease and Depreciation Costs:	£ M	(278)	(302)	(254)	(289)	(282)	(317)	(667)	(750)
Operating Income (EBIT):	£ M	(499)	142	(292)	450	(293)	672	502	685
Financing Costs:									
(+) Interest Income:	£ M	8	22	35	41	44	32	54	55
(-) Interest Expense:	£ M	(66)	(48)	(41)	(38)	(39)	(51)	(84)	(122)
Net Financing Costs:	£ M	(58)	(26)	(6)	3	6	(19)	(30)	(67)
Pre-Tax Income:	£ M	(557)	116	(298)	453	(287)	654	472	618
(-) Income Taxes:	£ M	126	(22)	57	(113)	72	(163)	(118)	(154)
Net Income:	£ M	-£ 431	£ 94	-£ 241	£ 340	-£ 215	£ 490	£ 354	£ 463

These projections also use half-year periods for the Balance Sheet, Cash Flow Statement, Debt & Equity Schedule, and Key Metrics and Ratios.

Which of the following statement(s) describe(s) valid DIFFERENCES for the formulas in the half-year vs. full-year periods?

a. Working Capital line items such as Accounts Receivable and Deferred Revenue should be based on LTM Income Statement figures in the half-year periods, but they should switch to annual numbers in the two full-year periods.

b. The Lease-related line items, such as the Right-of-Use Asset Additions and Lease Depreciation, should be linked to metrics such as the Available Seat Kilometers (ASK) in the half-year periods, but they should be based on the company's internal guidance in the full years.

c. The Interest Expense for all tranches of Debt and all Leases is based on the Debt or Lease Balance * Interest Rate in the full years; it must be divided by 2 in the half-year periods.

d. If the company pays Dividends only in certain months of the year, the Dividend formula on the Cash Flow Statement must check for that case and ensure that payouts occur in the right periods; no such check is required in the full years.

e. All of the above.

f. Answer choices A and B.

g. Answer choices C and D.

h. Answer choices B, C, and D.

2. Consider an excerpt from the Debt & Equity Schedule for EasyJet, shown below in the "Extreme Downside Case," with 100% of the company's required funding set to Debt Issuances:

Debt & Equity Schedule:	Units:	1H 22	Projected (Half-Years): 2H 22	1H 23	2H 23	1H 24	2H 24	Projected (Annual): FY 25	FY 26
(+) Drawn Term Loans:	£ M	£ 785	£ -	£ 406	£ 488	£ 1,550	£ 1,432	£ 1,550	£ -
(+) Eurobonds:	£ M	2,261	2,261	1,881	1,881	1,522	1,522	2,025	3,000
(+) Additional Loans:	£ M	-	-	-	-	-	-	-	1,256
Total Debt:	£ M	**3,046**	**2,261**	**2,287**	**2,369**	**3,072**	**2,954**	**3,575**	**4,256**
(-) Eurobond Maturities:	£ M		-	(380)	-	(440)	-	(440)	-
(-) Term Loan Amortisation:	£ M		(8)	-	(4)	(5)	(16)	(29)	(31)
(-) Term Loan Maturities:	£ M		-	-	-	-	-	-	(1,519)
Total Mandatory Repayments:	£ M		**(8)**	**(380)**	**(4)**	**(445)**	**(16)**	**(469)**	**(1,550)**
Minimum Cash (Def. Rev. +):	£ M	500							
Minimum Cash Required:	£ M		2,322	2,251	2,014	1,674	1,536	1,713	1,883
Cash Before Additional Funding / Repayments:	£ M		3,470	1,845	1,928	526	1,638	624	(347)
Funding Required / (Excess Liquidity):	£ M		(1,148)	406	86	1,148	(102)	1,090	2,230
Term Loan Repayments:	£ M		(777)	-	-	-	(102)	-	-
Debt Funding Required:	£ M		-	406	86	1,148	-	1,090	2,230
Equity Funding Required:	£ M		-	-	-	-	-	-	-
(+) Additional Term Loan Draws:	£ M		-	406	86	1,067	-	146	-
(+) Additional Eurobond Issuances:	£ M		-	-	-	81	-	943	975
(+) Additional Loans Issued:	£ M		-	-	-	-	-	-	1,256
(+) Additional Equity Issued:	£ M		-	-	-	-	-	-	-
Total Additional Funding:	£ M		**-**	**406**	**86**	**1,148**	**-**	**1,090**	**2,230**
Net Change in Debt:	£ M		**(785)**	**26**	**82**	**703**	**(118)**	**621**	**680**
Net Change in Equity:	£ M		**-**	**-**	**-**	**-**	**-**	**-**	**-**

After this company's business experienced a huge disruption in FY 20 – 21, it is expected to recover over the next several years, with a faster recovery in the Base Case and slower recoveries in the Downside and Extreme Downside Cases. Interest rates are expected to rise modestly over this period, which will affect all new Debt issuances.

Considering this company's business profile and industry, what is the BIGGEST potential problem with the setup or logic for this schedule?

a. It seems odd that the company's Term Loans and Eurobonds are capped at £1.6 and £3.0 billion, respectively, as EasyJet could increase these borrowing limits and draw on more of these facilities for lower-cost funding by the last two full years.

b. When the Term Loans mature in the final year, EasyJet is more likely to refinance via another Term Loan issuance rather than issuing higher-cost "Additional Loans."

c. Linking the Minimum Cash to the Deferred Revenue + £500 million may be overstating the Minimum Cash balance in the last few years once the company has completed its recovery.

d. The company's funding needs appear to be highest in the last two full years, even though the recovery should be complete or nearly complete by this time.

e. Considering the company's Eurobond maturities in 1H 23 and 1H 24, it should not use its Excess Liquidity in 2H 22 to repay the Term Loan principal in this period.

3. Besides determining the optimal mix of Debt and Equity to fund its business, EasyJet also wants to achieve certain operational goals over the next few years.

   One of these goals is to earn a Return on Capital Employed (ROCE), defined as Net Operating Profit After Taxes / (Debt + Lease Liabilities + Equity – Cash), of 15% by FY 26.

   In the current Base Case of this model with 100% Debt funding, the ROCE reaches the 9-11% range by the end of the forecast period:

Key Metrics & Ratios:	Units:	Historical: FY 19	FY 20	FY 21	Projected: FY 22	FY 23	FY 24	FY 25	FY 26
LTM EBITDAR:	£ M	£ 970	-£ 358	-£ 425	£ 223	£ 701	£ 979	£ 1,169	£ 1,435
LTM Interest Expense:	£ M	60	491	209	114	79	89	84	122
LTM Net Interest Expense:	£ M	36	374	126	84	2	13	30	67
Total Debt + Lease Liabilities:	£ M	1,902	3,441	4,446	3,316	2,980	2,879	3,278	3,795
Net Debt + Lease Liabilities:	£ M	326	1,125	910	(196)	34	910	1,071	1,326
Capital Employed:	£ M	3,311	3,024	3,549	2,369	2,779	3,962	4,409	5,016
Normalised Operating Profit After Tax (NOPAT):	%	378	(762)	(754)	(273)	100	285	377	514
Return on Capital Employed (ROCE):	%		(24.1%)	(22.9%)	(9.2%)	3.9%	8.4%	9.0%	10.9%
YoY Revenue Growth:	%		(52.9%)	(51.5%)	184.6%	46.7%	20.7%	16.2%	15.3%
Operating Margin:	%	7.3%	(29.9%)	(62.4%)	(8.6%)	2.6%	5.2%	5.9%	7.0%
EBITDAR Margin:	%	15.2%	(11.9%)	(29.1%)	5.4%	11.5%	13.3%	13.7%	14.6%
Net Margin:	%	5.5%	(35.9%)	(58.8%)	(8.1%)	1.6%	3.7%	4.1%	4.7%
(Total Debt + Lease Liabilities) / EBITDAR:	x	2.0 x	(9.6 x)	(10.5 x)	14.9 x	4.2 x	2.9 x	2.8 x	2.6 x
(Net Debt + Lease Liabilities) / EBITDAR:	x	0.3 x	(3.1 x)	(2.1 x)	(0.9 x)	0.0 x	0.9 x	0.9 x	0.9 x
EBITDAR / Interest Expense:	x	16.2 x	(0.7 x)	(2.0 x)	2.0 x	8.9 x	11.0 x	13.9 x	11.7 x
EBITDAR / Net Interest Expense:	x	26.9 x	(1.0 x)	(3.4 x)	2.7 x	291.4 x	75.1 x	39.2 x	21.4 x
(Total Debt + Lease Liabilities) / Total Capital:	%	38.9%	64.4%	62.8%	56.4%	52.1%	48.5%	49.6%	50.7%
(Net Debt + Lease Liabilities) / Total Capital:	%	9.8%	37.2%	25.6%	(8.3%)	1.2%	23.0%	24.3%	26.4%

Based on what you know about the company and the metrics and ratios shown in this screenshot, what is the MOST REALISTIC change that would allow EasyJet to achieve this 15% ROCE target?

a. Increase EBITDAR margins by reducing fuel costs (e.g., via newer, more fuel-efficient aircraft) or operating with fewer employees.

b. Reduce Capital Expenditures and plan to grow metrics like Revenue, ASK, and EBITDAR at slower rates going forward.

c. Instead of 100% Debt, switch to a mix of Equity and Debt or 100% Equity to reduce the Capital Employed in the denominator of ROCE.

d. Complete sale-and-leaseback transactions in which the company sells some of its aircraft and then leases them from the buyers to reduce its Net PP&E.

e. Switch to 100% directly owned aircraft rather than a mix of owned and leased aircraft, as this will reduce the Lease Liabilities within Capital Employed.