

### Calculating Free Cash Flow to the Firm (FCFF)

**Objective:** The objective of this assignment is to apply the concept of Total Cash Flow that you learned in Chapter 10: Making Capital Investment Decisions (RWJ) to a real world company. This assignment should be done after you have finished the assigned homework problems for Chapter 10.

**Company:** CBRL (Ticker: CBRL, <http://www.cbrlgroup.com/>) was formerly known as Cracker Barrel Old Country Store. The restaurants (432) are designed as rustic country stores with old-fashioned decor and country cooking. Customers can also purchase items such as crockery and handmade crafts. In 1998, the firm acquired Carmine's Prime Meats which has two gourmet food stores, Carmine Giardini's Gourmet Market and La Trattoria concepts. Last year (1999), the company acquired Logan's Roadhouse restaurants, which have an atmosphere reminiscent of an American roadhouse of the 1940s and 1950s. CBRL also restructured itself as a holding company to expand into new business areas.



**Competitors:** Bob Evans Farms (BOBE), Advantica (DINE), and Shoney's (SHOY)

**Assumptions:** Use in calculating the Free Cash Flow to the Firm

Line Item	Calculation/Assumption
Non-cash Working Capital (NWC)	Accounts Receivable + Inventory – Accounts Payable <sup>1</sup>
Change in Non-cash Working Capital ( $\Delta$ NWC)	NWC in period T – NWC in period T-1. $\Delta$ NWC = $NWC_T - NWC_{T-1}$ . Here T = 7/28/200 and T-1 = 7/30/1999.
Capital Expenditures (CapEx)	CapEx in each period is the amount spent per quarter.
Free Cash Flow to the Firm	EBITDA – Taxes - $\Delta$ NWC – Capital Expenditures (please refer to pages 296-297 of your text.)

<sup>1</sup>This definition of working capital differs from that in your textbook. RWJ define net working capital total current assets – total current liabilities. The current portion of LT debt is excluded in our definition since we will consider it as part of the overall financing and thus we exclude it in NWC to avoid double counting. We also eliminate cash from our definition since we are estimating the effect of changes on cash flows. See Damodaran's Corporate Finance text for a fuller elaboration on this subject.

**Assignment:** Download the CBRL data from my website and use the downloaded spreadsheet to answer the following questions (all work should be done on this spreadsheet):

1. Operating Cash Flow (33 points): Calculate the operating cash flow for the last twelve months (LTM) or trailing twelve months (TTM). *Intuition:* In the real world, analysts use the most current financial information on a firm. As such, they frequently add together information on the last twelve months (e.g. quarterly sales, expenses, and other “flow” information) if several quarters have past since a firm issued their annual report/10K.



2. Non-cash Working Capital and Change in non-cash Working Capital (33 points): Calculate the non-cash working capital for the current period (7/28/2000). Also calculate the NWC for the prior period (7/30/1999). Calculate the change in non-cash working capital by subtracting  $NWC_{7/28/00} - NWC_{7/30/99}$ .

3. Free Cash Flow to the Firm (34 points): Calculate the free cash flow to the firm using the results in questions 1 and 2 above and your calculations for capital expenditures for the trailing twelve months.