

Ch 3

Consolidated Financial Highlights

Year Ended December 31,	2001	2000	1999
(in millions, except per share data)			
Operating revenues	\$ 7,689	\$ 5,714	\$ 3,786
Operating expenses	5,889	4,450	3,251
EBITDA ⁽¹⁾	1,800	1,264	535
Restructuring and impairment charges	(1,769)		
Depreciation and amortization	(1,746)	(1,265)	(1,004)
Interest expense, net	(1,196)	(849)	(782)
Other (expense) income, net	(318)	106	(47)
Income tax benefit	135	33	28
Loss before extraordinary item and preferred stock dividends	(3,094)	(711)	(1,270)
Extraordinary item - gain (loss) on early retirement of debt, net of income tax	469	(104)	(68)
Mandatorily redeemable preferred stock dividends	(233)	(209)	(192)
Loss attributable to common stockholders	\$(2,858)	\$(1,024)	\$(1,530)
Loss before extraordinary item attributable to common stockholders	\$ (427)	\$ (121)	\$ (229)
Extraordinary item	0.60	(0.14)	(0.10)
Loss per share attributable to common stockholders, basic and diluted	\$ (3.67)	\$ (1.35)	\$ (2.39)
Weighted average number of common shares outstanding	778	756	639

Selected Balance Sheet and Other Data

Capital expenditures	\$ 3,136	\$ 3,631	\$ 2,127
Total assets	\$22,064	\$ 22,686	\$ 18,410
Debt of NII Holdings, non-recourse to and not held by parent ⁽²⁾	\$ 1,865	\$ 2,519	\$ 1,549
Domestic long-term debt, capital lease and finance obligations, including current portion	\$14,865	\$ 12,212	\$ 9,954
Mandatorily redeemable preferred stock	\$ 2,114	\$ 1,881	\$ 1,770

(1) EBITDA consists of loss before extraordinary item, net interest expense, income tax benefit, depreciation and amortization and other charges determined to be non-recurring in nature, such as restructuring and impairment charges. EBITDA is not a measurement under accounting principles generally accepted in the United States and may not be similar to EBITDA measures of other companies.

(2) NII Holdings' 2001 balance is in default and callable or subject to acceleration by third parties and classified in current liabilities. Does not include \$800 million of debt held by Nextel Communications which eliminates when reporting consolidated results.

Key Domestic Data

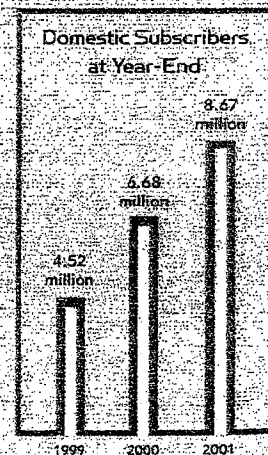
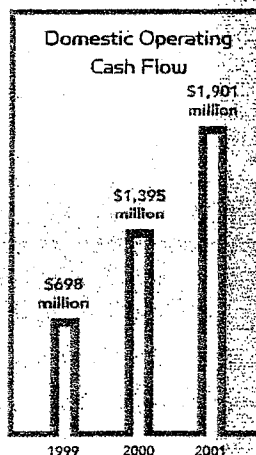
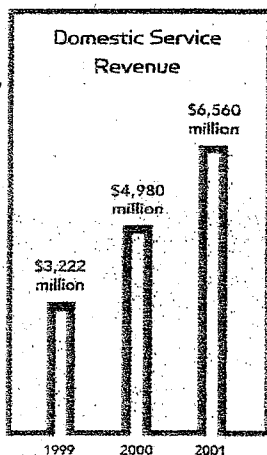


TABLE 3.8

Common Financial Ratios

<p>I. Short-term solvency, or liquidity, ratios</p> <p>Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$</p> <p>Quick ratio = $\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$</p> <p>Cash ratio = $\frac{\text{Cash}}{\text{Current liabilities}}$</p> <p>Net working capital to total assets = $\frac{\text{Net working capital}}{\text{Total assets}}$</p> <p>Interval measure = $\frac{\text{Current assets}}{\text{Average daily operating costs}}$</p>	<p>II. Long-term solvency, or financial leverage, ratios</p> <p>Total debt ratio = $\frac{\text{Total assets} - \text{Total equity}}{\text{Total assets}}$</p> <p>Debt-equity ratio = $\frac{\text{Total debt}}{\text{Total equity}}$</p> <p>Equity multiplier = $\frac{\text{Total assets}}{\text{Total equity}}$</p> <p>Long-term debt ratio = $\frac{\text{Long-term debt}}{\text{Long-term debt} + \text{Total equity}}$</p> <p>Times interest earned ratio = $\frac{\text{EBIT}}{\text{Interest}}$</p> <p>Cash coverage ratio = $\frac{\text{EBIT} + \text{Depreciation}}{\text{Interest}}$</p>
<p>III. Asset utilization, or turnover, ratios</p> <p>Inventory turnover = $\frac{\text{Cost of goods sold}}{\text{Inventory}}$</p> <p>Days' sales in inventory = $\frac{365 \text{ days}}{\text{Inventory turnover}}$</p> <p>Receivables turnover = $\frac{\text{Sales}}{\text{Accounts receivable}}$</p> <p>Days' sales in receivables = $\frac{365 \text{ days}}{\text{Receivables turnover}}$</p> <p>NWC turnover = $\frac{\text{Sales}}{\text{NWC}}$</p> <p>Fixed asset turnover = $\frac{\text{Sales}}{\text{Net fixed assets}}$</p> <p>Total asset turnover = $\frac{\text{Sales}}{\text{Total assets}}$</p>	<p>IV. Profitability ratios</p> <p>Profit margin = $\frac{\text{Net income}}{\text{Sales}}$</p> <p>Return on assets (ROA) = $\frac{\text{Net income}}{\text{Total assets}}$</p> <p>Return on equity (ROE) = $\frac{\text{Net income}}{\text{Total equity}}$</p> <p>ROE = $\frac{\text{Net income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$</p>
	<p>V. Market value ratios</p> <p>Price-earnings ratio = $\frac{\text{Price per share}}{\text{Earnings per share}}$</p> <p>Market-to-book ratio = $\frac{\text{Market value per share}}{\text{Book value per share}}$</p>

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Balance Sheets as of December 31, 2001 and 2002

	2001	2002		2001	2002
Assets					
Current assets					
Cash	\$ 650	\$ 710	Accounts payable	\$ 987	\$ 1,215
Accounts receivable	2,382	2,106	Notes payable	640	718
Inventory	4,408	4,982	Other	90	230
Total	<u>\$ 7,440</u>	<u>\$ 7,798</u>	Total	<u>\$ 1,717</u>	<u>\$ 2,163</u>
Fixed assets					
Net plant and equipment	<u>\$13,992</u>	<u>\$18,584</u>	Long-term debt	<u>\$ 4,318</u>	<u>\$ 4,190</u>
			Owners' equity		
			Common stock and paid-in surplus	\$10,000	\$10,000
			Retained earnings	5,397	10,029
			Total	<u>\$15,397</u>	<u>\$20,029</u>
Total assets	<u>\$21,432</u>	<u>\$26,382</u>	Total	<u>\$21,432</u>	<u>\$26,382</u>

Liabilities and Owners' Equity

INCOME STATEMENT

	2001	2002
Sales	\$23,000.00	\$28,000.00
Cost of Goods Sold	\$ 9,840.00	\$11,600.00
Depreciation	\$ 1,970.00	\$ 2,140.00
<hr/>		
EBIT	\$11,190.00	\$14,260.00
Intrest Paid	\$ 742.00	\$ 980.00
<hr/>		
Taxable Income	\$10,448.00	\$13,280.00
Tax (35%)	\$ 3,656.80	\$ 4,648.00
<hr/>		
Net Income	\$ 6,791.20	\$ 8,632.00

I. Short-Term Solvency, or Liquidity Ratios:

1. Current Ratio

2. Quick Ratio

3. Cash Ratio

4. Networking Capital to Total Assets

5. Interval Measure

Current Ratio

Measures ability to meet current debts with current assets

Formula: Current Assets/Current Liabilities

<u>Account</u>	<u>2001</u>	<u>2002</u>
Current Assets		
Current Liabilities		
Current Ratio		

Quick (Acid Test) Ratio

Measures ability to meet current debts with most-liquid (quick) current assets

Formula: $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$

<u>Account</u>	<u>2001</u>	<u>2002</u>
Current Assets		
Inventory		
Current Liabilities		
Quick Ratio		

Cash Ratio

Measures ability to pay current liabilities
with the cash on hand

Formula: Cash/Current Liabilities

<u>Account</u>	<u>2001</u>	<u>2002</u>
Cash		
Current Liabilities		
Cash Ratio		

Net Working Capital to

Total Assets

Shows the amount of liquidity per the amount of total assets

Formula: Net Working Capital/Total Assets

<u>Account</u>	<u>2001</u>	<u>2002</u>
Net Working Capital		
Total Assets		
NWC to Total Assets		

Interval Measure

Measures ability to pay daily operating costs
with current assets

Formula: Current Assets/Average Daily Operating Costs

<u>Account</u>	<u>2001</u>	<u>2002</u>
Current Assets		
Operating Costs		
Interval Measure		

II. Long-Term Solvency, or Financial

Leverage Ratios:

- 1. Total Debt Ratio**
- 2. Debt-Equity Ratio**
- 3. Equity Multiplier**
- 4. Long-Term Debt Ratio**
- 5. Times Interest Earned Ratio**
- 6. Cash Coverage Ratio**

Total Debt Ratio

Measures percentage of debt versus assets

Formula: (Total Assets-Total Equity)/ Total Assets)

Or

Remember: Assets=Liabilities + Equity;

Liabilities (or Debt)= Assets-Equity;

Therefore, the formula is Debt/Assets.

Why the Complication?

Account	2001	2002
Total Assets		
Total Equity		
Total Assets		
Total Debt Ratio		

Debt-Equity Ratio

Indicates the extent to which debt financing is used relative to equity financing

Formula: Total Debt/Total Equity

<u>Account</u>	<u>2001</u>	<u>2002</u>
Total Debt		
Total Equity		
Debt to Equity Ratio		

Equity Multiplier

Indicates the extent to which assets are in proportion to equity financing

Formula: Total Assets/Total Equity

<u>Account</u>	<u>2001</u>	<u>2002</u>
Total Assets		
Total Equity		
Equity Multiplier		

Long-Term Debt Ratio

Measures what percentage long-term debt is relative to long-term debt and equity

Formula: $\text{Long-Term Debt} / (\text{Long-Term Debt} + \text{Equity})$

<u>Account</u>	<u>2001</u>	<u>2002</u>
Long-Term Debt		
Long-Term Debt		
Total Equity		
Long-Term Debt Ratio		

Times Interest Earned

Ratio (Interest Coverage)

Indicates Ability to cover interest charges;

tells the number of times interest is earned

Formula: $\text{EBIT}^*/\text{Interest Expense}$

*Earnings Before Interest and Taxes

<u>Account</u>	<u>2001</u>	<u>2002</u>
EBIT		
Interest Expense		
Interest Coverage		

Cash Coverage Ratio

Indicates Ability to cover interest charges;

tells the number of times interest is earned

-In this ratio, the non-cash expense of

depreciation is added back into the equation

Formula: $(\text{EBIT} + \text{Depreciation Expense}) / \text{Interest Expense}$

<u>Account</u>	<u>2001</u>	<u>2002</u>
EBIT		
Depreciation Expense		
Interest Expense		
Cash Coverage Ratio		

III. Asset Utilization, or Turnover, Ratios:

- 1. Inventory Turnover**
- 2. Days' Sales in Inventory**
- 3. Receivables Turnover**
- 4. Days' Sales in Receivables**
- 5. Net Working Capital Turnover**
- 6. Fixed Asset Turnover**
- 7. Total Asset Turnover**

Inventory Turnover

Measures how many times the inventory has been turned over (sold) during the year; provides insight into liquidity of inventory and tendency to overstock

Formula: Cost of Goods Sold/ Inventory

<u>Account</u>	<u>2001</u>	<u>2002</u>
GOGS		
Inventory		
Inventory Turnover		

Days' Sales in Inventory

(Inventory Turnover In

Days)

Average number of days the inventory is held before it is turned into accounts receivable through sales

Formula: $365 / \text{Inventory Turnover}$

<u>Account</u>	<u>2001</u>	<u>2002</u>
365	365	365
Inventory Turnover		
IT in Days		

Receivables Turnover

Measures how many times the receivables have been turned over (into cash) during the year; provides insight into the quality of the receivables

Formula: Sales/Accounts Receivable

Account	2001	2002
Sales		
Accounts Receivable		
Receivables Turnover		

Days' Sales in

Receivables

Average number of days receivables are outstanding before being collected

Formula: $365 / \text{Receivables Turnover}$

<u>Account</u>	<u>2001</u>	<u>2002</u>
365	365	365
Inventory Turnover		
RT in Days		

Net Working Capital

Turnover

Measures the amount of production received from the sales.

Formula: Sales/ Net Working Capital

<u>Account</u>	<u>2001</u>	<u>2002</u>
Sales		
NWC		
NWC Turnover		

Fixed Asset Turnover

Measures the relative efficiency of net fixed assets to generate sales

Formula: Sales/ Net Fixed Assets

Account	<u>2001</u>	<u>2002</u>
Sales		
Net Fixed Assets		
Fixed Asset Turnover		

Total Asset Turnover

Measures relative efficiency of total assets to generate sales

Formula: Sales/ Total Assets

<u>Account</u>	<u>2001</u>	<u>2002</u>
Sales		
Total Assets		
Total Asset Turnover		

IV. Profitability Ratios:

1. Profit Margin

2. Return on Assets (ROA)

3. Return on Equity

Profit Margin

Measures profitability with respect to sales generated; net income per dollar of sales.

Formula: Net Income/ Sales

<u>Account</u>	<u>2001</u>	<u>2002</u>
Net Income		
Sales		
Net Profit Margin		

Return on Assets (ROA)

(Return on Investment

(ROI))

Measures overall effectiveness in generating profits with available assets; earning power of invested capital

Formula: Net Income/ Total Assets

Or

Net Profit Margin * Total Asset Turnover

<u>Account</u>	<u>2001</u>	<u>2002</u>
Net Income		
Total Assets		
ROI		

Return on Equity (ROE)

Measures earning power on shareholders'
book-value investment

Formula: Net Income/ Total Equity

Or

Net Profit Margin * Total Asset Turnover * Equity Multiplier

<u>Account</u>	<u>2001</u>	<u>2002</u>
Net Income		
Total Equity		
ROE		

V. Market Value Ratios

1. Earnings Per Share

2. Price-Earnings Ratio

3. Market-to-Book Ratio

Earnings Per Share

Income per share outstanding

Formula: Net Income/ Shares Outstanding

Price-Earnings Ratio

How much higher the market value of the shares are over

Formula: Price Per Share/ Earnings Per Share

Market-to-Book Ratio

How much higher (or lower) the market value of the stock is in respect to the book value of the stock

Formula: Market Value Per Share/ Book

Value Per Share

RATIO	2001	2002	INDUSTRY
<i>Liquidity</i>			
Current Ratio	4.33	3.61	4.7
Quick Ratio	1.77	1.3	2
Cash Ratio	0.38	0.33	0.5
NWC to Total Assets	0.36	0.3	0.34
Interval Measure	0.63	0.57	0.71
<i>Financial Leverage</i>			
Total Debt Ratio	0.28	0.24	0.31
Debt to Equity Ratio	0.39	0.32	0.52
Equity Multiplier	1.39	1.32	1.52
LTD Ratio	0.22	0.17	0.34
TIE Ratio	15.08	14.55	13
Cash Coverage Ratio	17.74	16.73	15
<i>Asset Utilization</i>			
Inventory Turnover	2.23	2.33	3.1
Days Inventory	163.68	156.65	142.46
Receivables Turnover	9.66	13.3	16
Days Receivable	37.78	27.44	21.65
NWC Turnover	2.98	4.97	5.3
Fixed Asset Turnover	1.64	1.51	1.7
Total Asset Turnover	1.07	1.06	1.17
<i>Profitability</i>			
Profit Margin	0.3	0.31	0.27
ROA	0.32	0.33	0.3
ROE*	0.44	0.43	0.39