

## MAIN DETAILS ON BUSINESS FINANCE COURSE PROJECT - GROUP PORTION

Your course project involves the financial analysis and business analysis of Texas Roadhouse: "Texas Roadhouse is a growing, moderately priced, full service restaurant chain. We offer an assortment of specially seasoned and aged steaks hand-cut daily in every restaurant and cooked to order over open gas-fired grills." (<http://phx.corporate-ir.net/phoenix.zhtml?c=179897&p=irol-irhome>). Its stock symbol is **TXRH**, and it trades on the Other-the-Counter market (NASDAQ). You will want to read the company's information carefully at Texas Roadhouse's [Investors](#) site. You will analyze the company from the point of view of a potential investor. For your group project, you will incorporate but expand on (including cross-sectional comparisons with the restaurant industry) on your individually-done financial ratio analysis, as well as build out a full SWOT analysis of the subject company. Please go to the library and study the previous report(s) that are on closed reserve under Zietlow. Note that these reports may not include Value Line and/or Mergent; these resources must now be included in your group projects. Important: For your group ratios presentation, you must calculate and interpret *all ratios* on pages 51-71 of your textbook, both from a time-series perspective and a cross-sectional perspective. You and your group will find a compelling reason **why \*not\* to invest** in TXRH today (given a 5-year expected holding period for your investment), based partly on financial ratio analysis and **partly on all other business factors: general management, product-market strategy, competition, the economy, marketing, human resource management, ethics, service management, or other variables**. Also, for your group project, you *must* use (1) Value Line Investment Survey (hardcopy, in our library reference area) to help you on your evaluation (place it as an appendix to your group report), as well as Mergent Online (available electronically through our library). You are free to choose how and how often to cite these resources. You may quote from their analyses, cite their financial projections, or draw from their understanding of the industry or maybe a peer competitor. Make sure to cite these in your reports so I will know where and how you used them.

### ANSWERS TO FREQUENTLY-ASKED-QUESTIONS/CONCERNS:

Note: If you haven't already, you may get the company's 10-K report to search for detailed and specific company info using the links that you used in the individual ratios part of the project or that were demonstrated in the PC lab.

- 1- You may not use any industry averages that require someone to pay for them (you may only use those available free to anyone). On my website I have provided a number of "free-of-charge" [websites](#) and our library resources on industry financial ratio values.
- 2- You will most likely *not* be able to find an industry average for every single ratio. For example, the fixed-payment coverage ratio may not be available for the casual dining restaurant sector. The average payment period is another one we have difficulty in locating. You can calculate the financial leverage multiplier for the industry by finding the debt-equity ratio or the debt ratio, or by deriving it from the difference between ROE and ROA.
- 3- When doing ratios, make sure you are using annual data, not quarterly data.
- 4- As part of your liquidity analysis, in order to incorporate the information in the Statements of Cash Flows, (1) use the diagnostic handout I provide in class, and (2) study the operating cash flows for the largest entries (largest dollar amounts), and comment on

- them. Also, if you can find data on *unused* short-term borrowing capacity (possibly by searching the 10-K report), comment on that as well.  
 Formula: Unused borrowing capacity = (Total borrowing capacity – Amount of short-term borrowings).
- 5- You can then use CTRL-F, once the 10-K is open in WORD, to find information not in the financial statements (Example: use “loans” or “notes payable” as search words).
  - 6- To get the exact stock price for the day the fiscal year ends, try <http://finance.yahoo.com/q/hp?s=TXRH>.  
 Change both the start and end dates to be the same day (or the nearest trading day just prior to that) as the last day in the fiscal year  
 (i.e., 12/30/2008, 12/25/2007, 12/26/2006).
  - 7- For number of common stock shares, search the 10-K report (see above). 2007's 10-K should have 2007 and 2006 shares outstanding.  
 You *may* also have to go back to the Yahoo website to get an older 10-K report for the very first year of data (2006 fiscal year). Or, you may get it from the company's website under the [Investors Relations](#) (as you mouse-over the word “Investors” you will see a sub-menu) area. Use the number of fully diluted shares.
  - 8- For Common Equity, use Total Stockholder's Equity as long as there is no preferred stock.
  - 9- Instead of using purchases in the average payment period, just use COGS (since we have no way of knowing what % of COGS purchases represent).
  - 10- Yes, “net receivables” is the same as Accounts Receivable, net.
  - 11- Should I use “net income applicable to common shares” as my earnings available to common shareholders? Yes. If that number is negative, the only ratio for which one should put “NA” instead of the calculated number would be the P/E ratio (we don't report a P/E ratio if it would be negative, with the idea that price is always positive and we are reporting with P/E the multiple of \$1 of earnings one is willing to pay for the stock).  
 When doing EPS, use net income, fully diluted, before extraordinary items or accounting changes.
  - 12- Yes, “Revenues” is the same as “Sales Revenues”.
  - 13- Yes, “Cost of Revenues” is equivalent to “Cost of Goods Sold”.
  - 14- For the tax rate for each year, calculate the average tax rate, calculated as tax owed divided by taxable income (earnings before tax).
  - 15- No, you do not need a bibliography. However, I do need to know where you got your industry averages, and make sure to footnote reference any and all outside info you are using in the body of your report.

### **Format of Paper – Business Finance GROUP Project:**

The group paper due date is on April \_\_\_ of the course. Your group will turn in one paper and also individually-done peer evaluations of your contribution as well as the contribution of your group members toward that paper.

The paper should focus on the following items:

1. (Briefly) Why are investments analysts so “high” on this company? What did you find in your ratio analysis that might support this optimism?
2. What are the “cracks in the wall” (fault lines) that make this optimism dangerous now? Include management (including business product/market strategy and competitive forces), marketing, production/operations management, human resource management, ethical, as well as financial aspects. A SWOT analysis works well here (see two-page handout given in class from Kerin/Peterson), or you can try to link everything to the modified DuPont formula. Include peer comparison data in this discussion as well.
3. What are the “cracks in the wall” (fault lines) that make this optimism dangerous for investors who are holding the stock and then selling it 5 years from now? Consider the same aspects detailed in #2.
4. As part of #1, #2, and #3, what do the industry standard ratio values tell you? (Don't limit your analysis to just trend or time-series analysis.)
5. Make sure to address all 3 drivers in your DuPont analysis, including how they explain the time-series changes in ROE and the “versus industry” ROE comparison.

*Ratio Analysis:*

- Include your company financial ratios and the cell formulas as appendixes to your report.
- Analyze each of the five categories of ratios in Chapter 2 of your textbook, providing at least two or three paragraphs on each category you analyze. Don't forget to include your company's trend ratio values over the three years as well as the industry average ratio values (cross-sectional analysis) to supplement the three years' trend analysis for our subject company.
- To fill out your profitability analysis, include a DuPont analysis using the DuPont identity, with the numbers filled in for each of the three ratios for the company, for each of the three years. Include the industry values for ROE and the three drivers (NPM, TAT, FLM) for the last year, as well. Within the body of your paper, comment on the drivers of ROE performance (NPM or TAT or FLM) and how each of them have changed from one year to the next, thus contributing to the ROE change.
- DO use industry averages, available online and through Mergent Online at the library. You may not use any industry averages that require someone to pay for them. You may use only those available free for anyone at Malone. Also, you are expected to use Value Line Investment Survey, available in the Reference area of the library (hardcopy).
- Regarding liquidity as assessed through the Statement of Cash Flows, study the SCF diagnostic handout and also analyze the operating cash flows for the largest entries (largest dollar amounts), and comment on them. If you can find data on unused short-term borrowing capacity (possibly by searching the 10-K report), comment on that as well.

*Grading:*

Not everyone will receive the same grade on the group portion of the project. Based on the work done from the very start of the course project through the day when you turn in your paper, each of the group members will be evaluating his/her own as well as your contribution to all the work done. You and your fellow group members will be individually graded based partly on the quality and quantity of all group members' contributions.

The paper requirements are as follows:

**Paper:** Your course project paper, done in WORD, and based on ratios done in Excel. It is due at

the time of your presentation. It should be no more than 10-13 pages, *not including* exhibits such as graphs, tables and charts.

- No, you do not need a bibliography, but you should footnote any references you are using when gathering information from outside sources. However, I do need to know where you got your industry averages. Also, include the Value Line Investment Survey report on TXRH (photocopy) as an appendix to your report.
- Format: Your report must start your report with an Executive Summary and end with a Conclusion. Both the Executive Summary and the Conclusion should highlight major strengths or weaknesses that are supported in your five-category analysis. IMPORTANT: Give some specific ratio numbers (values) to support your key findings as part of that Executive Summary.
- Format: Add to the impact of your presentation with graphs or charts you construct of key ratios (again, choose those that have a story, which support your Executive Summary).
- Type your group project write-up, double-spaced. Spell-check it and have someone proofread for grammar before turning it in to me. I recommend that you finish your paper early and have someone else proofread it. I take off points for incorrectly spelled words and grammar errors.
- Length of the written part of the paper (not including exhibits such as ratio calculations or the financial reports you download) should be 10-13 pages. In no case should it be more than 13 pages, not including in-text charts/graphs/tables and end-of-paper exhibits.
- Format: Included each piece of information (such as balance sheets) you used for a peer competitor or for the industry that you got using Internet Explorer or Mergent Online or Value Line as an appendix.
- **Excel Requirement:** You must do your ratio calculations in an EXCEL worksheet and use cell references to calculate your ratios. You may select from the individuals' XLS files which were done for the individual part of the report, augmenting this with the industry ratio values you locate online or through Mergent Online. You will turn in printouts of both the values and the cell formulas.
  - Values: Print out your worksheet.
  - Cell Formulas: Change the display in Excel from values to formulas by holding down the CTRL key and pressing ~. The ~key is just below the ESC key on the left side of the keyboard. You may need to adjust the column widths before printing out your cell formulas (you may also have to change to landscape mode in you page setup). Once cell formulas are printed, you may change back to values by again pressing CTRL~.
- **Format Choices:** You may elect to reference the calculated ratio values by saying "See Appendix I". Or, cut and paste your ratio values to small tables within the paper itself.

*Final note:*

Even though the project you are doing is more extensive in scope, I highly recommend that you make a trip to the library to look at the previous successful Business Finance projects (front desk reserve, under Zietlow).