MAIN DETAILS ON MANAGERIAL FINANCE COURSE PROJECT, INDIVIDUAL RATIOS ASSIGNMENT

Your course project involves the financial analysis and business analysis of Texas Roadhouse: "The Texas Roadhouse Story is simple. Legendary Food, Legendary Service®!!! Hand-cut steaks, award winning ribs, fresh-baked bread and made from scratch side items are the standard at Texas Roadhouse." (http://www.texasroadhouse.com/content/about-us/history). Its stock symbol is TXRH, and it trades on the New York Stock Exchange (NYSE). You will want to read the company's information carefully at http://www.texasroadhouse.com/content/about-us/history and http://phx.corporate-ir.net/phoenix.zhtml?c=179897&p=irol-irhome . You will analyze the company from the point of view of a potential investor. For your individual ratio analysis, you will use Excel to compute the last three years of ratios (2006-2008; FY 2008 ended on December 30, 2008), and then provide a brief commentary on the time series trend of each ratio. The commentary can be a phrase or a sentence.

[Later on, as a group, 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, strategy, competition, the economy, marketing, human resource management, ethics, service management, or other variables.]

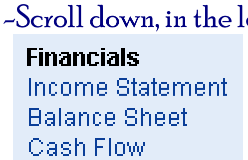
Important: For your individual ratios (and later, for your group ratios presentation), you must calculate and interpret all ratios on pages 40-49 of your textbook. The format to use for your ratios spreadsheet is shown in the solution to Problem 2-12 in your textbook; you will not need to do the industry comparison as part of your individual project, as that will be part of your group project. [Also, for your group project, two additional requirements are that your group 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 (2) Mergent Online (available electronically through our library).]

INDIVIDUAL RATIOS, DONE IN EXCEL, ARE DUE ON TUESDAY, JANUARY 26, AT THE BEGINNING OF CLASS.

Individual Ratios Assignment:

• Getting the financial data into Excel: You can use Mergent Online (through library resources), Hoover's (through library resources), or http://finance.yahoo.com. I would prefer Yahoo, and so the instructions below are for http://finance.yahoo.com :

-Once you enter the stock symbol TXRH (left-hand-side, where it says "Get Quotes"), you will be taken to the TXRH information page.
-Scroll down, in the left margin, until you see Financials.



Click on Balance Sheet.

-Once it is open, make sure you have "Annual" selected by clicking on "Annual Data." If you are using Windows XP, right-click anywhere in the balance sheet. If you are using Windows Vista, hold down on your left mouse button while you select everything from "Period Ending" at the top left until the last number on the bottom right ($227,545).
-Then, if using Windows XP, click on "Export to Microsoft Excel" (or if using Vista, select Edit then Copy). This will open Excel with a sheet including TXRH's balance sheet. (if using the Vista operating system, open Excel, then click on Cell A2, then select Edit and Paste Special and then Text; afterwards, you may have to move some data to align it properly under the appropriate column heading; you may also have to move the column headings). Label the tab (at the bottom left of the screen) Balance_Sheet.
-Go back to the Yahoo page and do the same for the Income Statement and the Statements of Cash Flows, copying these to separate tabs of the same file in which you have the Balance Sheet (put each type of statement in a different tab). Label your tabs Income_Statement and Cash_Flows.
-You may need to manually insert 0s (zeros) where the spreadsheet financials shows dashes.
-Add a tab for Ratios, then do your ratios (making sure to use cell formulas that reference cells in the balance sheets and income statements) in this worksheet.
• **Excel Requirement**: You will do your three years of ratio calculations (2006, 2007, 2008 fiscal years) in an EXCEL worksheet and *use cell references* to calculate your ratios. You will turn in 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 printed, change the screen back to values by again pressing CTRL~.

To get the correct amount of accounts payable (Yahoo includes accrued expenses with accounts payable) and the number of common shares outstanding (use the number of fully diluted shares for the number of shares of common stock outstanding), most likely you will need to get TXRH's most recent 10-K report (annual report with supplemental information, and you will need 2008) and maybe the Annual Report/Form 10-K for the year just prior to that.. You may find this and other useful info on the TXRH Investors page. Also, another way to find this is to go to the TXRH Investors Page and then click on the link "Other SEC Filings": http://phx.corporate-ir.net/phoenix.zhtml?c=179897&p=irol-sec.

Once there, enter the string 10-K in the search box and leave the Groupings Filter set to "All Forms.":

Sec Filings

SEC Filing Keyword Search (View search tips)

10-K

Groupings Filter (View SEC Groupings descriptions)

All Forms Search

Then click on the Search button.

You will then see links to the last three 10-K reports, each in XLS, DOC, or PDF (Filing Date 2/27/09 is 2008's annual report, and this includes
the 2008 Form 10-K):

Filing Date	Form	Description	Filing Group	Downloads
02/27/09	10-K	Annual report which provides a comprehensive overview of the company for the past year	10K,10Q,8K,6K,DEF14	
02/25/08	10-K	Annual report which provides a comprehensive overview of the company for the past year	10K,10Q,8K,6K,DEF14	
02/23/07	10-K	Annual report which provides a comprehensive overview of the company for the past year	10K,10Q,8K,6K,DEF14	

Whichever you are best able to search (DOC or PDF, most likely), would be the best format to click on. You may also wish to use XLS to be able to copy-and-paste info to your XLS ratios worksheet.
*If the 10-K is in PDF, it will open in Adobe Reader. If the 10-K is in text format or RTF format, open up WORD, and then search the downloaded document. Do not print it out--it is approximately 100 pages.
*Once the 10-K is open in WORD, you can then search for what you need by using CTRL-F in order to find accounts payable or number of shares of stock or other items you are interested in;
*In the 10-K, if you do not find historic stock prices for your P/E and M/B ratios: To get the exact price for the day the fiscal year ends (which is the end of December each year for TXRH), try http://finance.yahoo.com/q/hp?s=TXRH (you will have to enter the date range—maybe Dec 24-Dec 30 for 2008, etc.; the point is, since the stock does not trade on Saturday or Sunday, you may have to look a day or two before the fiscal year-end date to find the stock price just previous to that date):

* For number of common stock shares outstanding, search the 10-K report.

Print out and turn in three years of ratios (values and cell formulas) and a column of evaluation comments, identical to that shown in Problem 2-12 (but for the individual ratios project you will not be doing a comparison to industry averages—we'll do this in the group portion of the project), which will be distributed to you via e-mail or as a handout in class, PLUS ANY OTHER RATIOS included in pages 40-49 of your textbook. You <u>do not</u> need industry averages for the <u>individual</u> assignment, so don't concern yourself with cross-sectional or combined analysis until you get going on the group project. Remember to use CTRL and ~ to view the cell formulas, then print those out. Turn in both a printout of your values and a printout of your cell formulas at the beginning of class on Tuesday, January 26.

<u>ANSWERS TO FREQUENTLY-ASKED-QUESTIONS:</u>

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

1- The "accounts payable" amount is most likely incorrect in Yahoo because it includes accrued expenses – you will need to look it up in the Form 10-K or using Mergent Online, then key it into your Excel worksheet in the appropriate cell.
2- 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., 30-Dec-2008, 25-Dec- 2007, and 26-Dec-2006). If no price exists for that date, try the day before it.
3- For number of common stock shares, search the 10-K report (see above). 2008's 10-K should have 2008 and 2007 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 in the <u>Investors</u> area. Use the number of **fully diluted shares**.
4- For Common Equity, use Total Stockholder's Equity as long as there is no preferred stock.
5- Instead of using purchases in the average payment period, just use COGS (since we have no way of knowing what % of COGS purchases represent).
6- When doing ratios, make sure you are using annual data, not quarterly data.

7- Yes, “net receivables” is the same as Accounts Receivable, net.
8- 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.
9- Yes, "Cost of Revenues" is equivalent to "Cost of Goods Sold".
10- Yes, “Operating Income” is the same as “Operating Profit.”
11- For the tax rate for each year, calculate the average tax rate, calculated in your Excel worksheet as tax owed divided by taxable income (earnings before tax).
12- (Group Project) You may not use any industry averages that require someone to pay for them (you may only use those available free to anyone).
13- (Group Project) 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 outside info you are using in the body of your report.