Session 4A: Post class test solutions

1. Navistar and Google saw increases in non-cash working capital, leading to negative cash flows in the aggregate, but Nordstrom decreased non-cash working capital, creating a positive cash flow. (I did not include the tax increase in Google's CF statement in working capital). The implications are simple. If Nordstrom can continue to keep working capital in check or decrease it, its cash flows will benefit.

	Navistar	*Nordstrom*	*Google*
Change in Acc. Receivable	$ 141.00	$ 82.00	$ (1,844.00)
Change In Inventories	$ 103.00	$ 30.00	-
Change in Acc. Payable	$ (250.00)	$ 98.00	$ 182.00
Change in Unearned Rev.			$ 275.00
CF effect of Changein WC	$ (6.00)	$ 210.00	$ (1,662.00)

2. **c. Stock based compensation is an accounting expense, but it is not a cash expense.** Stock based compensation is an expense, but since it uses shares or options, it does not affect the cash flows. (That said, it is very different from depreciation and amortization in its effects on investors)>
3. All three companies invested in operating assets, with Google investing the most. All three companies reduced their holdings of non-operating assets, creating positive cash flows from that grouping. Investments in the former are what we look at in forecasting growth in operating metrics. The income from investments in the latter show up below the operating income line.

	Navistar	*Nordstrom*	*Google*
Capital Expenditure	$ (250.00)	$ (935.00)	$(24,180.00)
Sale of Property, Plant, and Equipment	$ 16.00		-
Cash Acquisitions	-	-	$ (2,623.00)
Divestitures	-	-	-
Sale (Purchase) of Intangible assets	-		-
Investing in operating assets	**$ (234.00)**	**$ (935.00)**	**$(26,803.00)**
Invest. in Marketable & Equity Securt.	$ 38.00	-	$ 1,829.00
Net (Inc.) Dec. in Loans Originated/Sold	-	-	-
Other Investing Activities	$ 2.00	$ 26.00	$ 1,031.00
Investing in non-operating assets	**$ 40.00**	**$ 26.00**	**$ 2,860.00**

4. Navistar and Nordstrom increased their total debt, whereas Google reduce its total debt.

	Navistar	*Nordstrom*	*Google*
Total Debt Issued	$ 1,310.00	$ 507.00	$ 1,898.00
Total Debt Repaid	$ (1,122.00)	$ (500.00)	$ (2,174.00)

Net CF from Debt	**$ 188.00**	**$ 7.00**	**$ (276.00)**

5. Navistar returned no cash to its stockholders and issued $5 million in stock, reflecting its cash flow constraints. Nordstrom returned cash in both dividends and buybacks, in roughly the same amounts. Google paid no dividends but did a significant stock buyback. Dividends are sticky and Nordstrom will have a difficult time decreasing them, if it needed to. Buybacks are not and Google can increase them or not do them next year, with little consequence.

	Navistar	***Nordstrom***	***Google***
Issuance of Common Stock	$ 5.00	$ 29.00	$ -
Repurchase of Common Stock	$ -	$ (227.00)	$(27,142.00)
Net Buybacks	**$ 5.00**	**$ (198.00)**	**$(27,142.00)**
Common Dividends Paid		$ (229.00)	
Total Dividends Paid	**-**	**$ (229.00)**	**-**