Session 26a: Post Class tests

1. Rutherford Inc. is a publicly traded company that reported net income of $100 million in the most recent year, after depreciation of $ 50 million. The firm reported capital expenditures of $75 million and an increase in working capital of $20 million. If total debt at Rutherford increased by $15 million during the course of the year, how much could Rutherford have afforded to pay out in dividends during the course of the year?
   a. $5 million
   b. $20 million
   c. $30 million
   d. $55 million
   e. $70 million
2. In the last example, what would your answer be if working capital decreased by $20 million and total debt decreased by $15 million?
   a. $20 million
   b. $30 million
   c. $60 million
   d. $80 million
   e. $95 million
3. Alibaba Inc. is an all equity-funded company that generated $80 million in net income during the course of the most recent year. The firm had capital expenditures of $60 million, depreciation of $30 million and no working capital investments. If the cash balance at the company increased by $15 million during the course of the year, how much cash did the company return to its stockholders?
   a. $5 million
   b. $20 million
   c. $35 million
   d. $65 million
   e. $ 95 million
   f. None of the above
4. Kenna Software is a growing technology company that has just become profitable, reporting $15 million in the net income for the most recent year. An institutional investor is pushing the company to pay a dividend, since it is now a money making company. Would you agree?
   a. Yes
   b. No
   c. It depends (specify on what)
5. Klarman Inc. reported $150 million as net income on revenues of $1 billion in the most recent year; capital expenditures were $100 million, depreciation was $60 million and non-cash working capital was $80 million. Its revenues, earnings, capital expenditures and depreciation are expected to grow 10% next year, while non-cash working capital will remain at the same percent of revenues that it was in the most recent year. If Klarman pays out 60% of its earnings as

dividends and currently has a cash balance of $200 million, what will its cash balance be at the end of next year?

a. $188 million
b. $214 million
c. $242 million
d. $260 million
e. None of the above

6. You are an activist investor looking to put pressure on companies that have accumulated too much cash to return cash to stockholders. Which of the following companies would you put the most pressure on to return cash? (You can assume that they all have a cost of capital of 10% and an optimal debt ratio of 40%)
    a. Company A: ROC = 25%, Actual debt ratio = 40%
    b. Company B: ROC =25%, Actual debt ratio = 60%
    c. Company C: ROC = 25%, Actual debt ratio = 10%
    d. Company D: ROC = 5%, Actual debt ratio = 40%
    e. Company E: ROC =5%, Actual debt ratio = 60%
    f. Company F: ROC = 5%, Actual debt ratio = 10%