Spring 2020 Name:

Quiz 1: Valuation

Answer all questions and show necessary work. Please be brief. This is an open book, open notes exam.

1. Kroll is all equity-funded, US-based household products company that generates all its revenues in the US and has a beta of 0.90, and a US $ cost of equity of 6%. It is considering acquiring Maya Inc, an Indian household products company with all of its revenues in India. The expected inflation rate in India is 4% and the country risk premium for India is 2%. **Estimate the cost of equity that Kroll should use** to discount Maya's cashflows, if those **cash flows will be in Indian rupees**? (The US T.Bond rate is 1.5%, the inflation rate in the US is 1% and you can assume that the acquisition will be all-equity funded, as well.) (2 points)

2. Manolo Inc. is a Colombia-based company that operates in three countries, Brazil, Colombia and the United States. You have collected the following information on revenues in each country in US dollars and the government bond rates in each country:

	Revenues (millions US $)	Govt Bond Rate (in $)	Govt Bond rate (local currency)
Brazil	$ 450.00	4.50%	9.00%
Colombia	$ 600.00	3.50%	5.00%
United States	$ 150.00	1.50%	1.50%

a. Assuming that the local currency default spread for Colombia is equal to its default spread in US$, estimate the risk free rate in Colombian pesos. (1 point)

b. The ERP for the US (and other mature markets) is 5%. If equity markets in Latin America are 1.25 times more risky than government bonds, estimate the equity risk premium for Manolo Inc. (2 points)

3. GoodStay Inc. is a hotel company that is currently only in the hotel business and has no debt, a market capitalization of $800 million and a beta of 0.75. It is considering borrowing $400 million and expanding into the travel services business, which has an unlevered beta of 1.20. Estimate GoodStay's equity beta (levered beta) after the expansion. (The marginal tax rate for all companies is 25%) (2 points)

4. You have been asked to estimate the expected free cash flow to the firm for Overlook Inc, and have been given the following financials:

	Most Recent Year
EBITDA	$200
- DA (Depreciation & Amort)	$50
EBIT	$150
- Interest Expense	$25
EBT	$125
Taxes	$25
Net Income	$100

	Most Recent year	Previous Year
Capital Expenditures	$80	$60
Cash	$40	$25
Total Working Capital	$100	$90

Estimate the **free cash flow to the firm** in the most recent year. (3 points)