

### Session 10a: Post class test solutions

1. d. \$2.49 million

Revenues in year 5 =  $\$10 (1.20^5) = \$24.88$  million

Operating margin in year 5 = 10%

Operating income in year 5 =  $\$24.88 (.10) = \$2.488$  million

2. d. \$4.2 million

NOL in year 2 =  $\$2$  million +  $\$1$  million (loss in year 1) =  $\$3$  million

Operating income in year 2 =  $\$5$  million

Taxable income in year 2 =  $\$5$  million -  $\$3$  million =  $\$2$  million

Taxes =  $\$2$  million \* .4 =  $\$0.8$  million

After-tax operating income =  $\$5$  million -  $\$0.8$  million =  $\$4.2$  million

3. c. -\$30 million

Expected Operating income next year =  $-\$5$  million (no taxes)

Change in revenue next year =  $\$200$  m -  $\$100$  m =  $\$100$  m

Reinvestment next year =  $\$100$  m / 4 =  $\$25$  million

FCFF next year =  $-\$5$  m -  $\$25$  m =  $-\$30$  million