

Session 10a: Post Class tests

1. PeopleMeet is a small software company that reported an operating loss of \$1 million on revenues of \$10 million in the most recent year. If you expect revenues to grow (CAGR) at 20% a year for the next five years and the operating margin to improve to 10% by year 5, what will the company will earn as operating income in year 5?
 - a. -\$2.49 million
 - b. \$1 million
 - c. \$ 2 million
 - d. \$2.49 million
 - e. None of the above
2. You are valuing TeleTech, a small software company that is on the verge of becoming profitable. The company has net operating loss carried forward (from prior years) of \$ 2 million, is expected to report an operating loss of \$ 1 million next year and then an operating profit of \$ 5 million in year 2. What is the after-tax operating income for Teletech in year 2, if the tax rate is 40%?
 - a. \$1.2 million
 - b. \$ 1.8 million
 - c. \$ 3 million
 - d. \$4.2 million
 - e. \$5 million
 - f. None of the above
3. You are trying to estimate the free cash flow to the firm for FormaWare, a young, money losing company with significant growth potential. The company generated a loss of \$10 million on revenues of \$100 million in the most recent year but is expected to double revenues next year, while halving its operating losses. If the company has a sales/capital ratio of 4.0, what is the FCFF next year?
 - a. -\$ 5 million
 - b. -\$ 20 million
 - c. -\$30 million
 - d. -\$35 million
 - e. None of the above