

Session 14B: Post class test solutions

1. B: 29.2%

Market in year 10 = \$10 billion $(1.10)^{10} = \$25.94$ billion

Techstar Revenues in year 10 = \$25.94 (.05) = \$1.29 billion

CAGR over next 10 years = $(1.29/0.1)^{1/10} - 1 = 29.2\%$

2. b. -\$50 million

Expected operating loss next year = -\$25 million

Expected change in revenue next year = \$100 million

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

Expected FCFF next year = -\$25 million - \$25 million = -\$50 million

3. b. \$7.06 million

$PV = \$10 / (1.15 * 1.12 * 1.1) = \7.06 million

4. c. \$210 million

Expected value = \$250 (.8) + \$50 (.2) = \$210 million

5. b. 33.33%

Let X be the probability of change

$$15(X) + 30(1-X) = 20$$

Solving for X, $X = 1/3$ or 33.33%