Session 20: Post Class tests

1. In asset-based valuation, you try to value a company by valuing its individual assets and adding up these asset values to arrive at the value of the company. In which of the following scenarios is asset-based valuation likely to work best?
   a. Mature companies with separable, stand alone assets
   b. Growth companies with separable, stand alone assets
   c. Mature companies with interrelated, connected assets
   d. Growth companies with interrelated, connected assets

2. In liquidation valuation, you are trying to value a company in liquidation, where you plan to sell its assets to the highest bidders. Which of the following is best valuation approach in making this estimate?
   a. An intrinsic value of assets in place and growth potential
   b. An intrinsic value of assets in place
   c. An intrinsic value of growth assets
   d. A relative valuation of assets in place and growth potential
   e. A relative valuation of assets in place
   f. A relative valuation of growth assets

3. Given your understanding of fair value accounting, which of the following best describes the mission?
   a. To estimate the intrinsic value of assets in place
   b. To estimate the intrinsic value of growth assets
   c. The estimate the intrinsic value of asset in place and growth potential
   d. To estimate the relative value of assets in place
   e. To estimate the relative value of growth assets
   f. To estimate the relative value of assets in place and growth assets

4. You are trying to value Wyckham Inc., a conglomerate operating in three businesses, with projected after-tax operating income (in millions) in the next period.

<table>
<thead>
<tr>
<th>Business</th>
<th>Expected EBIT (1-t)</th>
<th>ROIC</th>
<th>Cost of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>$150</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$100</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Technology</td>
<td>$ 50</td>
<td>15%</td>
<td>13%</td>
</tr>
</tbody>
</table>

The companies are in stable growth, growing 3% a year in perpetuity. What is the sum of the parts value for Wyckham Inc.?
   a. $3,000 million
   b. $3,500 million
   c. $3,650 million
   d. $4,250 million
   e. $5,167 million

5. Now assume that you are doing a relative valuation of Wyckham Inc. and have been provided with the EBITDA (in millions) and the median EV/EBITDA of in each business:
<table>
<thead>
<tr>
<th>Business</th>
<th>EBITDA</th>
<th>EV/EBITDA multiple for sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>300</td>
<td>8</td>
</tr>
<tr>
<td>Chemicals</td>
<td>200</td>
<td>5</td>
</tr>
<tr>
<td>Technology</td>
<td>100</td>
<td>6</td>
</tr>
</tbody>
</table>

If the company has $1 billion in debt outstanding and $500 million in cash, what is the value of equity in the company?

a. $2,500 million
b. $3,000 million
c. $3,500 million
d. $4,000 million
e. $4,500 million