

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. To 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.

| <i>Business</i> | <i>Expected EBIT (1-t)</i> | <i>ROIC</i> | <i>Cost of capital</i> |
|-----------------|----------------------------|-------------|------------------------|
| Steel | \$150 | 9% | 8% |
| Chemicals | \$100 | 12% | 9% |
| Technology | \$ 50 | 15% | 13% |

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:

| Business | EBITDA | EV/EBITDA multiple for sector |
|------------|--------|-------------------------------|
| Steel | 300 | 8 |
| Chemicals | 200 | 5 |
| Technology | 100 | 6 |

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