Session 9: Post Class tests

1. DBK Bank paid out $ 80 million in dividends on net income of $100 million in the most recent year. The book value of equity for the firm is $800 million. Assuming that the bank maintains its current payout ratio and return on equity in perpetuity, what is the expected growth in earnings per share in perpetuity?
   a. 8%
   b. 2%
   c. 5%
   d. 2.5%
   e. None of the above
2. Viaconda Inc. is a tourism company that reported $10 million in net income on a book value of equity of $110 million in the most recent year; the company generated $ 1 million in after-tax interest income on a cash balance of $20 million. The company also reported net capital expenditures of $4 million, an increase in working capital of $ 2 million and an increase in total debt of $3 million during the year. Assuming that it maintains its current non-cash ROE and equity reinvestment rate, estimate the expected growth in non-cash net income in the future.
   a. 3.00%
   b. 6.67%
   c. 3.33%
   d. 6.00%
   e. None of the above
3. Pokemon Inc. is a toy manufacturer that reported after-tax operating income of $50 million in the most recent year. At the start of the year, the company reported book value of equity of $400 million, book value of debt of $250 million and a cash balance of $150 million. The company also reported capital expenditures of $75 million, depreciation of $ 30 million and a decrease in non-cash working capital of $5 million. Assuming that it plans to maintain its current return on invested capital and reinvestment rate, what is the expected growth in operating income?
   a. 6.15%
   b. 8.00%
   c. 13.33%
   d. 10.00%
   e. None of the above
4. Nevis Enterprises reported a return on invested capital of 15% in the most recent year and a reinvestment rate of 60%. The firm expects its return on capital to rise to 18% over the next 5 years on both existing investments and new investments. What will the compounded average annual expected growth rate be over the five years?
   a. 10.8%
   b. 9%
   c. 14.51%
   d. 12.71%

    e. None of the above

5. You are forecasting the operating earnings for TalkMedia, a young, high growth social media company.

	Last year	1	2	3	4
Revenues	$100	$200	$320	$450	$600
Operating Margin	-10%	-5%	0%	5%	10%
Operating Income	-$10.00	-$10.00	$0.00	$22.50	$60.00

The firm currently has invested capital of $50 million. If the sales-to-capital ratio is 2.00, what will the pre-tax return on capital be in year 4?

    a. 120%
    b. -20%
    c. +20%
    d. 10%
    e. None of the above