

**Quiz 2: Valuation**

Answer all questions and show necessary work. Please be brief. This is an open book, open notes exam.

1. Crowley Inc. reported after-tax operating income of \$150 million in the most recent year on invested capital of \$750 million, and faces a cost of capital of 10%. The company expects to maintain its current return on and cost of capital in perpetuity, and you have been given following information on expected growth:

	1	2	3	After year 3
Growth rate in EBIT (1-t)	20%	10%	8%	4% forever

Estimate the free cash flow to the firm for the next three years, and the terminal value at the end of year 3. (3 points)

2. You have been provided with a table of numbers for Vacana Enterprises, a growing business services company:

	Base year	1	2	3	After year 3
Revenue growth		20.00%	10.00%	5.00%	3%
Revenues	\$ 500.00	\$ 600.00	\$ 660.00	\$ 700.00	\$ 721.00
EBIT(1-t)	\$15.00	\$24.00	\$ 52.80	\$70.00	\$72.10
Sales to capital		2.50	2.50	2.50	
Invested Capital	\$ 200.00				

Assuming that the return on capital that Vacana earns in year 3 is the return on capital in perpetuity, and that the cost of capital for the firm is 9%, estimate the terminal value at the end of year 3. (3 points)

3. You have been asked to assess the value of equity in Filomena Steel Inc. and have been provided with the following information:

- Filomena expects to generate \$120 million in free cash flow to the firm next year, growing at 4% a year in perpetuity, with a cost of capital of 9%.
- Filomena's most recent balance sheet is summarized below:

<i>Assets</i>		<i>Liabilities &amp; Equity</i>	
Cash	\$300	Debt	\$900
Operating Assets	\$2,000	Minority Interests	\$400
Minority Holdings	\$200	Equity	\$1,200

Both the minority holdings and minority interests are in mining companies that trade at 1.25 times book value.

Estimate the value of equity in Filomena.

(2 points)

4. You have been asked to review the valuation of CornerStore Inc. The analyst has estimated a value per share of \$12/share, using the treasury stock approach. The company has 125 million shares outstanding, and there are 25 million options outstanding, with a strike price of \$8/share and a value per option of \$6.00/option. Estimate the correct value per share, with options treated as options. (2 points)