

Session 9A: Post Class tests

1. In the most recent year, Revco Inc. reported capital expenditures of \$ 80 million and depreciation & amortization of \$ 60 million. It also spent \$ 100 million in acquisitions, paying \$40 million in cash and \$ 60 million in stock. Estimate the net capital expenditures for the firm for use in computing the free cash flow to the firm.
 - a. \$ 80 million
 - b. \$ 20 million
 - c. \$ 60 million
 - d. \$120 million
 - e. \$ 180 million
2. You are trying to compute the change in working capital to use in computing free cash flow to the firm for Zapata Inc. The firm's total working capital increased from \$100 million last year to \$120 million this year. However, this working capital includes cash and short term debt; last year's cash balance had \$ 30 million in cash and \$15 million in short term debt, whereas this year's cash balance has \$20 million in cash and \$25 million in short term debt. What effect did working capital have on your cash flow this year?
 - a. Decreased cash flow by \$20 million
 - b. Decreased cash flow by \$30 million
 - c. Decreased cash flow by \$35 million
 - d. Decreased cash flow by \$40 million
 - e. None of the above
3. Tymba Inc. generated \$20 million in after-tax operating income on revenues of \$100 million during the course of the most recent year. You expect revenues to grow 10% a year next year and margins to stay stable. The firm's non-cash current assets are \$40 million and its non-debt current liabilities are \$50 million, and non-cash working capital as a percent of revenues is expected to remain unchanged next year. If the net cap ex is expected to be \$10 million next year, what is your estimate of the FCFF for the next year?
 - a. \$13 million
 - b. \$11 million
 - c. \$8 million
 - d. \$23 million
 - e. None of the above
4. Roomba Inc. is a manufacturer of vacuum cleaners and you have estimated a FCFF of \$50 million for firm for the most recent year. Roomba's total debt decreased from \$100 to \$85 million during the course of the year and it reported interest expense of \$10 million for the year. If Roomba's tax rate is 30%, estimate the FCFE for the most recent year.
 - a. \$ 25 million
 - b. \$ 58 million
 - c. \$ 28 million
 - d. \$ 55 million
 - e. None of the above

5. Telsome Publishing is a small, publicly traded firm and has reported the following earnings over the last five years:

| Year | Earnings (in millions) |
|---------|------------------------|
| Current | \$180.00 |
| Year -1 | \$100.00 |
| Year -2 | \$150.00 |
| Year -3 | \$115.00 |
| Year -4 | \$120.00 |
| Year -5 | \$90.00 |

What is the geometric average annual growth rate over the last five years?

- a. 20.00%
- b. 14.87%
- c. 21.25%
- d. 12.47%
- e. None of the above