

1. Suppose Leonard, Nixon, & Shull Corporation's projected free cash flow for next year is \$100,000, and FCF is expected to grow at a constant rate of 6%. If the company's weighted average cost of capital is 11%, what is the value of its operations?

- a. \$1,714,750
- b. \$1,805,000
- c. \$1,900,000
- d. \$2,000,000**
- e. \$2,100,000

2. Leak Inc. forecasts the free cash flows (in millions) shown below. If the weighted average cost of capital is 11% and FCF is expected to grow at a rate of 5% after Year 2, what is the Year 0 value of operations, in millions? Assume that the ROIC is expected to remain constant in Year 2 and beyond (and do not make any half-year adjustments).

Year: 1 2

Free cash flow: -\$50 \$100

- a. \$1,456**
- b. \$1,529
- c. \$1,606
- d. \$1,686
- e. \$1,770

3. Based on the corporate valuation model, the value of a company's operations is \$1,200 million. The company's balance sheet shows \$80 million in accounts receivable, \$60 million in inventory, and \$100 million in short-term investments that are unrelated to operations. The balance sheet also shows \$90 million in accounts payable, \$120 million in notes payable, \$300 million in long-term debt, \$50 million in preferred stock, \$180 million in retained earnings, and \$800 million in total common equity. If the company has 30 million shares of stock outstanding, what is the best estimate of the stock's price per share?

- a. \$24.90
- b. \$27.67**
- c. \$30.43
- d. \$33.48
- e. \$36.82

Market Value of company = 1200M + 100M = 1300M

MV of company = MV of debt + MV of preferred + MV of equity = 420M + 50M + MV Equity

=> MV Equity = 1300M - 420M - 50M = 830M (assume book value of debt approximately = MV debt)

=> share price = 830/30 = \$27.67(d)

4. Based on the corporate valuation model, the value of a company's operations is \$900 million. Its balance sheet shows \$70 million in accounts receivable, \$50 million in inventory, \$30 million in short-term investments that are unrelated to operations, \$20 million in accounts payable, \$110 million in notes payable, \$90 million in long-term debt, \$20 million in preferred stock, \$140 million in retained earnings, and \$280 million in total common equity. If the company has 25 million shares of stock outstanding, what is the best estimate of the stock's price per share?

a. \$23.00

b. \$25.56

c. \$28.40

d. \$31.24

e. \$34.36

5. Vasudevan Inc. forecasts the free cash flows (in millions) shown below. If the weighted average cost of capital is 13% and the free cash flows are expected to continue growing at the same rate after Year 3 as from Year 2 to Year 3, what is the Year 0 value of operations, in millions?

Year: 1 2 3

Free cash flow: -\$20 \$42 \$45

a. \$586

b. \$617

c. \$648

d. \$680

e. \$714