**Topic 14 Knowledge Check**

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| Points: | 22 |

Started on Jun 27 at 10:31

Your Submission:

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1. Bookmark question for later

Which of the following is NOT one of the ways to value a firm that was covered in this topic?

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| * + Replacement cost   + Comparable multiples   + Discounted cash flows (DCF)   + All of these are methods   + None of these are methods |
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1. Bookmark question for later

You have worked hard for the past 3 years to get your start-up venture off the ground. You now may have the chance to harvest your business by selling out to BigBoy Company. On your income statement, you have Sales of $10 million, EBITDA of $2.5 million, and earnings of $1.5 million. Through negotiation, you have agreed on a P/EBITDA ratio of 5. How much is your firm worth?

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| * + $2.5 million   + $7.5 million   + $12.5 million   + $50 million   + Not enough data to tell |
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1. Bookmark question for later

The cost method is best for firms with a lot of intangible assets.

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| TrueFalse |
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1. Bookmark question for later

The difference between FCFF and FCFE is that FCFE takes out interest expense and adjusts for long-term debt changes.

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| TrueFalse |
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1. Bookmark question for later

JackerCracks is trying to value their firm. Their forecast of EBIT (in millions of dollars) for the next three years is $15, 21, 28. Assume depreciation is $3 million per year, CAPEX will be $2 million each year, and net working capital will not change. After the third year free cash flows will be constant at $30 million per year, You compute a WACC of 15%. Assume a corporate tax rate of 38%. What is the value of JackerCracks using a DCF approach?

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| * + $283.24   + $333.45   + $163.13   + $103.58   + $485.99 |
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1. Bookmark question for later

The DCF method serves as a good review for all of the following except?

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| * + Free cash flow measures   + Time value of money   + Cost of capital   + Capital budgeting   + All of these choices |
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1. Bookmark question for later

During the dot.com bubble, which comparable multiple became popular because many IPOs did not have positive earnings?

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| * + M/B   + P/EBITDA   + P/E   + None of these choices   + P/S |
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1. Bookmark question for later

Which type of firm would the replacement cost method be most appropriate for?

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| * + 50-year old firm with many patents   + A holding company that primarily holds real estate assets   + Young, tech start-up   + Coca-Cola (with brand image and trade secret) |
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1. Bookmark question for later

What is the equation for FCFF?

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| * + EBIT(1-t) - Depreciation – CAPEX – Increase in NWC   + EBIT(1-t) + Depreciation + CAPEX – Increase in NWC   + EBIT(1-t) + Depreciation – CAPEX – Increase in NWC   + EBIT(1-t) + Depreciation + CAPEX + Increase in NWC   + None of these choices |
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1. Bookmark question for later

In the DCF approach, we use some kind of FCF measure in the denominator.

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| TrueFalse |
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1. Bookmark question for later

What is the name of the reciprocal of the P/E ratio (P/E flipped upside down, E/P) called?

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| * + Price yield   + Epi Ratio   + P/E   + Earnings yield   + None of these choices |
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1. Bookmark question for later

It is better to use book values in the cost method than to estimate market values.

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| TrueFalse |
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1. Bookmark question for later

DCF is typically used for young, entrepreneurial firms.

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| TrueFalse |
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1. Bookmark question for later

The last cash flow in the DCF approach which typically uses a model such as the Gordon Growth model to estimate all of the future cash flows beyond a certain point is called?

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| * + Maturity value   + Terminal value   + End value   + Estimation period value |
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1. Bookmark question for later

Bullzai Inc. is seeking to sell the company, but it is a private company with no sales of stock to determine its market value. It has earnings of $1,200,000 on 350,000 shares. Endothon Company is a direct competitor and of equal size and profitability. Its stock sells for $21 per share and has earnings per share of $3.80. What is the value of Bullzai?

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| * + 6,632,000   + 1,330,000   + 7,350,000   + 7,000,000 |
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1. Bookmark question for later

Orange Zest Cafe is seeking to buy Wild Parsley Grill. Wild Parsley is a private company. Wild Parsley Grill had an EPS of $2.80 last year and has 125,000 shares outstanding. Orange Zest stock sells for $43 and has an EPS of $5. Orange is larger than Wild Parsley but sees both companies as operating in similar markets. What is the value of Wild Parsley?

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| * + 3,010,000   + 1,920,000   + 2,800,000   + 5,375,000 |
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1. Bookmark question for later

What would be a source of information to determine replacement cost?

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| * + Accumulated depreciation expense   + Statement of cash flows   + Stock price   + Building appraisal |
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1. Bookmark question for later

What is the company valuation given the following?

Cash flows:  Yr 1 $80,000, Yr 2 $100,000, Yr 3 $95,000, Yr 4 $80,000,  Discount rate 7%

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| * + 355,000   + 300,690   + 242,090   + 61,032 |
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1. Bookmark question for later

What is the discounted cash flow of the company with the following cash flows?

Cash flows:  Yr 1 $100,000, Yr 2 $150,000, Yr 3 $150,000, and future forecasted annual cash flows $100,000. Discount rate is 5%.

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| * + 2,360,868   + 1,727,675   + 2,400,000   + 2,088,543 |
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1. Bookmark question for later

If two companies have earnings of $2,000,000, and Company X has a multiple of 1.2 and Company Z has a multiple of 2.0, what can be estimated about the value of each company?

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| * + The value of Company Z is higher.   + The value is the same.   + The value of Company X is higher.   + The relative value cannot be determined. |
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1. Bookmark question for later

Calculate the free cash flow given the following information:

* + - Net working capital increases by 20,000
    - Tax rate is .40
    - EBIT is 250,000
    - Capital expenditures are 10,000
    - Depreciation is 15,000

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| * + 135,000   + 200,000   + 175,000   + 115,000 |
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1. Bookmark question for later

If a company has a constant growth rate estimated at 5% and a free cash flow of $150,000, what is its estimated valuation (terminal value)?

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| * + 3,000,000   + 1,500,000   + 7,500   + 2,500,000 |

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