

6.05 Company Analysis Past and Present

Question 1

A demand analysis of a company's product should *most likely* consider:

- A. company capacity and cost structure.
- B. industry concentration in input markets.
- C. product differentiation among competitors.

Question 2

A company is developing a product for planned launch in 20X8. An analyst collects the company's 20X7 actual financial data and creates 20X8 forecasts for two scenarios:

| (in € millions) | 20X7 | 20X8 | 20X8 |
|------------------|-------|------------------|-------------------------|
| | | Product launches | Product does not launch |
| Sales | 1,000 | 1,500 | 1,200 |
| Operating income | 100 | 200 | 140 |

The company's degree of operating leverage in 20X8 will *most likely* be:

- A. greater if the new product launches in 20X8.
- B. the same regardless of whether the new product launches.
- C. greater if the new product does not launch in 20X8.

Question 3

Which of the following metrics should *most appropriately* be considered in top-down revenue analysis for a restaurant company? The company's:

- A. market share.
- B. number of restaurants.
- C. average revenue per seat.

Question 4

Which of the following companies is *most likely* to have pricing power? A:

- A. low-cost producer in the competitive textile market.
- B. consumer goods producer with a popular brand name.
- C. global manufacturer of low-cost personal computer accessories.

Question 5

Which of the following statements *best* describes an aspect of spreadsheet modeling for company analysis?

- A. A more complex model leads to more accurate analysis.
- B. A complex model can lead to a false sense of confidence.
- C. A standardized model should be applied to all companies.

Question 6

Which of the following is *most likely* a source of capital for a company?

- A. Asset disposal
- B. Cash and investments
- C. Positive net working capital

Question 7

A nonbank company increases the amount of debt in its capital structure. All else equal, this will *most likely* affect the company's:

- A. contribution margin.
- B. degree of financial leverage.
- C. degree of operating leverage.

Question 8

Which of the following *best* demonstrates pricing power?

- A. Gaining market share
- B. Expanding operating margin
- C. Consistently growing revenue

Question 9

A consumer bank expands its offerings to include brokerage and asset management services. As these offerings expand, the bank's profit margin improves. This is *best* described as:

- A. economies of scale.
- B. economies of scope.
- C. degrees of financial leverage.

Question 10

An analyst collects the following data for a company:

| (\$ millions) | 20X3 | 20X4 |
|-----------------------|------|------|
| Sales | 600 | 900 |
| COGS | 350 | 600 |
| Fixed operating costs | 90 | 100 |
| Interest expense | 80 | 90 |
| Tax expense | 20 | 25 |

The company's degree of financial leverage is *closest* to:

- A. 0.50
- B. 0.83
- C. 1.67

Question 11

A firm has reported negative net working capital for each of the past four quarters. Based only on this, an analyst can *most appropriately* infer that the firm is:

- A. not profiting from its marginal output.
- B. shortening its cash conversion cycle.
- C. relying on suppliers as a source of financing.

Question 12

When conducting a company analysis, which of the following factors is *least useful* for analyzing supply?

- A. Product differentiation across the industry
- B. Anticipated expansion of industry capacity
- C. Price competition among resource providers

Question 13

Which of the following *best* approximates contribution margin?

- A. Gross margin
- B. EBITDA margin
- C. Operating margin

Question 14

An analyst collects the following information on a company and its industry peers:

| | Company | Peer average |
|------------------------------|---------|--------------|
| Net margin | 4% | 6% |
| Asset turnover | 1.2 | 1.4 |
| Equity multiplier | 2.5 | 1.5 |
| Degree of operating leverage | 1.2 | 1.4 |
| Degree of financial leverage | 2 | 1.2 |
| Required return on equity | 9% | 7% |
| Cost of debt | 6% | 5% |

Based only on this information, the *most appropriate* conclusion is that the company:

- A. has a better credit rating than peers.
- B. maintains a conservative capital structure.
- C. generates returns that exceed equity investors' requirements.

Question 15

A clothing manufacturer has two business segments:

- Its retail segment designs and manufactures clothes that it sells to retailers.
- Its merchant segment manufactures clothing for other designers and earns commissions when the designers sell to retailers.

Which of the following *best* describes the customer base for the company's merchant segment?

- A. Designers
- B. Designers and retailers
- C. Designers, retailers, and clothing consumers

Question 16

A company purchases a piece of equipment that reduces its need for temporary labor, thus increasing its fixed costs as a percentage of total costs. All else equal, the company's degree of operating leverage will *most likely*:

- A. decrease.
- B. remain the same.
- C. increase.

Question 17

Which of the following should *most appropriately* be included in a business model analysis?

- A. The company's market share in the industry
- B. Potential losses from lawsuits against the company
- C. Demographic changes in the company's addressable market

Question 18

Which of the following *best* demonstrates pricing power?

- A. Gaining market share
- B. Expanding operating margin
- C. Consistently growing revenue