**Corporate finance and financial management**

**Business case DCF/FCFF valuation**

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A financial analyst provides you the following information for GATOR Gmbh.

It is not listed but GATOR Gmbh wants to increase the equity capital to finance positive NPV projects and stabilize leverage.

The business plan that is expected is show below:

**Period 1: the FCFF are given by a 3 years business plan.**

**FCFF1= 4 millions USD.**

**FCFF2 = 6 millions USD.**

**FCFF3= 7 millions USD**

**Period 2: the FCFF are expected to grow by 8% per year during 4 years.**

**Period 3: the growth rate is decreasing by 1% a year before joigning the regular growth period**

**Period 4: Regular growth and the long-term nominal growth rate equals 3%.**

The market is liquid and the quality of the quality of the information is good

The BETA equity is 1.4 (estimation using a sample of comparable listed firms)

The T.BILL rate is 2.5% and the Market Return equals 9%.

Assume that the YTD IS 5% before taxes.

The Firm targets a leverage ratio (in market value) of 40% (D/D+E)

Tax rate: 35%.

The book value of the net debt at the valuation date is 60 millions USD.

**Calculate the Market Price you could propose for this operation**

**Assuming the terminal growth rate is equal to 3% and the objective of the firm is to have a payout ratio of 75%, what ROE should you reach during the last stage.**

**Do you create value during the last stage? Explain clearly your assumptions, method and results.**