Figure 31.13: Motorola: A Status Quo Valuation Return on Capital Reinvestment Rate Current Cashflow to Firm 12.18% 52.99% EBIT(1-t): 3,110 **Expected Growth** 1,522 - Nt CpX in EBIT (1-t) - Cha WC 126 Stable Growth .5299*.1218 = .0645 = FCFF 1,462 g = 5%; Beta = 1.00; 6.45% Reinvestment Rate = 52.99% D/(D+E) = 6.86%; RÓC=12.18 Reinvestment Rate=41.07% Terminal Value 10 = 2631/(.0958 - .05) = 5741Firm Value: 41587 EBIT(1-t) \$3,311 \$3,524 \$3,752 \$3,994 \$4,251 4464 + Cash: 9244 \$2,116 \$2,253 - Reinvestment \$1,754 \$1,867 \$1,988 1833 - Debt: 5426 \$1,556 \$1.657 \$1,764 \$1,878 \$1,999 FCFF 2631 =Equity 45,405 283 -Options Value/Share \$20.97 Discount at Cost of Capital (WACC) = 10.85% (0.93) + 4.23% (0.07) = 10.39%Cost of Equity Cost of Debt Weights (6%+ 0.50%)(1-.35) 10.85% E = 93.14% D = 6.86% = 4.23% Riskfree Rate: Government Bond **Risk Premium** Rate = 6%Beta 4% X + 1.21 Unlevered Beta for Firm's D/E Historical US Country Risk Premium Sectors: 1.18 Ratio: 7.36% Premium 0% 4%

Figure 31.14: Motorola: A Restructured Valuation Return on Capital Reinvestment Rate Current Cashflow to Firm 17.22% 52.99% EBIT(1-t): 3,110 **Expected Growth** 1,522 - Nt CpX in EBIT (1-t) - Cha WC 126 Stable Growth .5299*.1722 = .0912 = FCFF 1,462 g = 5%; Beta = 1.00; 9.12% Reinvestment Rate = 52.99% D/(D+E) = 10% ; ROC='Reinvestment Rate=41. Terminal Value₅= 2978/(.0947-.05) = Firm Value: 47812 EBIT(1-t) \$3,394 \$3,703 \$4,041 \$4,410 \$4,813 + Cash: 9244 2 \$1,962 \$2,142 \$2,337 \$2,550 - Reinvestment \$1,798 - Debt: 5426 \$1.595 \$1,741 \$1,900 \$2,073 \$2,262 FCFF =Equity 51630 -Options 283 Value/Share \$23.86 Discount at Cost of Capital (WACC) = 10.96% (0.9) + 4.71% (0.1) = 10.33%Cost of Equity Cost of Debt Weights (6%+ 1.25%)(1-.35) 10.96% E = 90% D = 10%€ 4.71% Riskfree Rate: Government Bond **Risk Premium** Rate = 6%Beta 4% X 1.24 + Unlevered Beta for Firm's D/E Historical US Country Risk

Ratio: 11.11%

Premium

4%

Premium

0%

Sectors: 1.18

Table 31.8: The Value Enhancement Chain

More control Payoff quickly

Less control

Payoff in long term

	Quick Fixes	Odds on	Long Term
Existing Investments	 a. Divest assets/projects with Divestiture Value > Continuing Value. b. Terminate projects with Liquidation Value > Continuing Value. c. Eliminate operating expenses that generate no revenues and no growth. d. Take advantage of tax law to increase cash flow. 	inventory and accounts receivable, or by increasing accounts payable. 2. Reduce capital maintenance expenditures on assets in place. 3. Reduce marginal tax rate.	maximize the product of profit margins and turnover ratio.2. Move to more efficient technology for operations
Expected Growth	<u>-</u>	Increase reinvestment rate or marginal return on capital or both in firm's existing businesses.	marginal return on capital or
Length of High Growth Period	If any of the firm's products or services can be patented and protected, do so.	Use economies of scale or cost advantages to create higher return on capital.	-
Cost of Financing	a. Use swaps and derivatives to match debt more closely to firm's assets.b. Recapitalize to move the firm towards its optimal debt ratio.	use innovative securities to reflect the types of assets being financed.	Reduce the operating risk of the firm, by making products less discretionary to customers.

