**SIA Module worksheet week 5**

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| Seminar **Questions** (to check and/or develop your relevant knowledge on investment appraisal) | **Answers** (write here in your own words & underline key concepts) | e.g. **Illustrate** from last year’s case study – find this data in the annual report of the target company or the exemplar assessment | NB - **Find** the equivalent data for the assessment case study you are tasked with analysing from available data |
| 1. What are the main pieces of financial information you need to find to start estimating free cash flow for a target company? | Target co. sales revenue, growth, EBITDA ($ & %), D&A, rate of corporation tax and working capital ratio/increase to identify the free cash flow (blue inputs required in model) | Which of these have you already identified in weeks 1 to 5 and which extra pieces can you find?  Rate of tax in US 21% in 2019/20  WC = current assets $566m less current liabilities $249m = $317m |  |
| 1. Why is predicting working capital investment more important in some sectors than others? | It tends to be more important in sectors that manufacture or buy and sell products, where there is longer between paying suppliers and receiving sales | Why is the investment in working capital from 2018 to 2019 so low?  In 2018 WC = $364m-223m = 141m (14% of sales) short cycle. In 2019 + 176m to 317m (24%) |  |
| 1. How can we work out a suitable enterprise value and hence equity value to pitch a successful bid price, using free cash flow? | Download and re-**use Levyne’s model** from Moodle, changing the dates and replacing the base data with figures from the target company annual report | Look back to week 4 to identify the sector PE ratio, multiply this by the average EPS for the last 2 +ve yrs for the target company and comment on the result? EPS in 2017 & 2018 1.15 & 0.88 ave = 1.02 x sector PE 34.29 x ave. no. of shares 3.2bn = $3.2bn equity value |  |
| 1. Define the following terms 2. Kd (b) Wd (c) We   (d) WACC  (e) Soft landing | See glossary | 1. Kd (20.5/493)x (1-.21) = 3% 2. Wd using market values = 6% 3. We (100-6) = 94% 4. WACC(.06x3)+(.94x8.5)= 8.17% |  |