CORPORATE VALUATION NEWSLETTER NUMBER 1 ON DATE 7 DECEMBER 2012

QUESTIONS FROM STUDENTS

1. Do we need to study all the Aswath Damodaran's slides ? From file packet1b.pdf (discount cash flow valuation) all the slides from 1 up to 182 with the exception of slides: 23 (no competing models, we cover just CAPM), 28-54 (country risk premium), 90, 94-95. From file packet2b.pdf (multiple evaluation) from page 1 up to page 158
2. Where are Dr. Batacchi's slides ? http://campus.unibo.it/cgi/lista?annoAccademico=2012&codiceFacolta=0056&codiceCorso=0905&codMateria=32244-378983&nav=i#top_documents
3. May I keep the dictionary during the test ? Yes, of course, you will not even have the time to open it but if you like to be at ease psychologically you are welcome. Bring also an English grammar so that if in doubt you can check the spelling. The test will last 60 minutes by the way so that it will completely useless.
4. Can you suggest a book in Italian ? No. The course and the test are in English and the question has no logic and the student has no clue in posing such a question.
5. I am an Erasmus student and I do not know if I will need to study also the Prof. Tanega material for the 14th December 2012 test reserved to the Erasmus students ? Of course, the fact that you have the test on December 14th is a kind of courtesy we have towards you as foreign guests but it does not change the cards on the table. Erasmus students are not supposed to have any kind of different treatment relative to Italian students. Tests are held officially in January and February 2013 because the topics are so demanding that students are supposed to study at least 2 months.
6. Where is the Prof. Tanega's material ? Wait for the course, if you want to have the test before the course it is not our responsibility … you can always come in January and February 2013 if you like so that you will have attended the course and got the material.
7. Exercises and quizzes at the test will be the same we saw during the course either on the newsletter ? Possibly.
8. It is true that test will be open text open notes ? Yes

EXCERCISES

1. You have been asked to assess the implied risk premium on the Timbuktu Stock Exchange (TSE). The index is trading at 1050, and the dividend yield is 3%. The current long term bond rate is 6.5%, and the expected long term nominal growth rate in the economy is 6%. Estimate the implied risk premium for equities.

2. You have been provided the following information on CEL Inc, a manufacturer of highend stereo systems. In the most recent year, which was a bad one, the company made only $ 40 million in net income. It expects next year to be more normal. The book value of equity at the company is $ 1 billion, and the average return on equity over the previous 10 years

(assumed to be a normal period) was 10%.

The company expects to make $ 80 million in new capital expenditures next year. It expects depreciation, which was $ 60 million this year, to grow 10% next year.

The company had revenues of $ 1.5 billion this year, and it maintained a non-cash working capital investment of 10% of revenues. It expects revenues to increase 20% next year and working capital to decline to 9.5% of revenues.

The firm expects to maintain its existing debt policy (in market value terms). The market value of equity is $ 1.5 billion and the book value of equity is 500 million. The debt outstanding (in both book and market terms) is $ 500 million. Estimate the FCFE next year.

3. Cello Inc. is a manufacturer of pianos. It earned an after-tax return on capital of 10% last year and expects to maintain this next year. If the current years after-tax operating income is $ 100 million and the firm reinvests 50% of this income back, estimate the free cash flow to the firm next year.(After-tax Operating Income = EBIT (1-t)]

4. You are trying to estimate the expected free cash flow next year for Brown Forman, a leading U.S. wine and spirits producer. In 1996, Brown Forman had after-tax operating income [EBIT(1-t)] of $ 235 million; it had a book value of equity of $ 730 million and book value of debt of $ 210 million. Assume that you expect after-tax operating income to grow 10% in 1997, and no change in the firm’s after-tax return on capital. Estimate the free cash flow to the firm in 1997.