Spring 2023 Name:

# Quiz 1: Corporate Finance

Answer all questions and show necessary work. Please be brief. This is an open books, open notes exam.

1. Corporate Governance/Risk Basics section.
   *Each multiple-choice question is worth ½ point. Please pick only one answer for each question.*

a. Companies often pick intermediate objectives, such as maximizing revenues or market share, instead of maximizing value. If a firm chooses maximizing customer-count as its objective, which of the following would you expect to see it do?

i. Spend too much acquiring customers, Charge subscribers too little
ii. Spend too little acquiring customers, Charge subscribers too little
iii. Spend too much acquiring customers, Charge subscribers too much
iv. Spend too little acquiring customers, Charge subscribers too much

b. Assume that instead of giving shareholders primacy, a firm decides to give lenders primacy, and to put their interests first. Which of the following are the most likely consequences for corporate financial decisions?

i. Overinvest in risky projects; Pay too much in dividends
ii. Overinvest in risky projects; Pay too little in dividends
iii. Underinvest in risky projects; Pay too much in dividends
iv. Underinvest in risky projects; Pay too little in dividends

c. Family group companies often value control more than any other aspect of business. At such firms, which of the following would you expect to observe as actions?

i. If they are planning to list, more likely to list on foreign exchanges with more disclosure requirements
ii. Once listed, less dependence on internal capital (retained earnings) than on external capital for growth.
iii. If raising external capital, more dependence on debt rather than on equity issuance.
Iv. Pay more in dividends than similar, non-control driven companies
v. None of the above
vi. All of the above

d. ESG measurement services contend that ESG scores measure risk, and that companies that have higher ESG scores are less risky. Which of the following can be considered evidence in favor of this hypothesis?

i. Technology companies have higher ESG scores than manufacturing companies.
ii. High ESG score companies are more profitable than low ESG score companies
Iii. High ESG score companies trade at higher multiples of earnings than low ESG score companies
iv. High ESG score companies have lower bond ratings than low ESG score companies
v. None of the above

vi. All of the above

2. You have been asked to assess the cost of equity for a Yamamoto, a Japanese company that has expanded into Vietnam and South Korea in recent years and have been provided with the following information.

| | | Government Bond Rates | | Other Information | |
|---|---|---|---|---|---|
| Country | *Revenues In billions of Yen* | *Currency* | *Rate* | *Sovereign CDS* | *Equity Std/ Bond Std* |
| Japan | ¥500 | Yen | 1.00% | 0.25% | 1.20 |
| Vietnam | ¥200 | Dong | 6.00% | 3.50% | 1.20 |
| South Korea | ¥300 | Won | 3.00% | 1.00% | 1.20 |

You can assume that Yamamoto has a levered beta of 0.90, that the US equity risk premium of 6% is a mature market premium. **Estimate the cost of equity for Yamamoto in Japanese Yen**. (3 points)

3. Collinwood Inc. Is a company that operates in the forestry and real estate businesses, and you are trying to estimate its unlevered beta. You have been given the following information on the two businesses:

| | | Industry Averages | |
|---|---|---|---|
| | *EBITDA from business ($ mil)* | *Unlevered Beta* | *EV to EBITDA* |
| Forestry | $100 | 0.70 | 6.00 |
| Real Estate | $100 | 0.90 | 9.00 |

Estimate the **unlevered beta for Collinwood**. (2 points)

4. Carini Inc. is a publicly traded trucking company that is considering a major restructuring. At the moment, the company has 100 million shares outstanding, trading at $15/share, and $500 million in debt, and its current levered beta is 1.20. The company is planning on selling half the business for $ 1 billion and paying a special dividend with the entire proceeds. Estimate the **levered beta after the transaction**. (You can assume that the marginal tax rate is 25%) (3 points)