Quiz 1: Valuation

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

1. Munger Inc. is all equity-funded, US-based household products company that generates all its revenues in the US currently and has a beta of 0.90 and a US $ cost of equity of 6%. It is considering acquiring Megaya Inc, an Indonesian household products company with all of its revenues in Indonesia. The expected inflation rate in Indonesia is 5% and the country risk premium for Indonesia is 2.5%. **Estimate the cost of equity that Munger should use** to discount Megaya's cashflows, if those **cash flows will be in Indonesian Rupiah**? (The US T.Bond rate is 1.5%, the inflation rate in the US is 1% and you can assume that the acquisition will be all-equity funded, as well.) (2 points)

2. Noya Inc. is a Peru-based company that operates in three countries, Brazil, Peru and the United States. You have collected the following information on revenues in each country in US dollars and the government bond rates in each country:

	Revenues (millions US $)	Govt Bond Rate (in $)	Govt Bond rate (local currency)
Brazil	$ 200.00	4.50%	12.00%
Peru	$ 600.00	4.00%	7.50%
United States	$ 400.00	1.50%	1.50%

a. Assuming that the local currency default spread for Peru is equal to its default spread in US$, estimate the risk free rate in Peruvian Sul. (1 point)

b. The ERP for the US (and other mature markets) is 5%. If equity markets in Latin America are 1.25 times more risky than government bonds, estimate the equity risk premium for Noya Inc. (2 points)

3. Sleepy Inc. is a hotel company that is currently only in the hotel business and has no debt, a market capitalization of \$1,200 million and a beta of 0.75. It is considering borrowing \$600 million and expanding into the travel services business, which has an unlevered beta of 1.20. Estimate Sleepy's equity beta (levered beta) after the expansion. (The marginal tax rate for all companies is 25%) (2 points)

4. You have been asked to estimate the expected free cash flow to the firm for Overlook Inc, and have been given the following financials:

	Most Recent Year		Most Recent year	Previous Year
EBITDA	$150	Capital Expenditures	$50	$40
- DA (Depreciation & Amort)	$30	Cash	$30	$15
EBIT	$120	Total Working Capital	$100	$90
- Interest Expense	$20			
EBT	$100			
Taxes	$20			
Net Income	$80			

Estimate the **free cash flow to the firm** in the most recent year. (3 points)