Quiz 1: Valuation

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

1. VietWorks, a Vietnamese steel company is considering acquiring Malay Steel, a Malaysian steel company. VietWorks has an 18% cost of equity and a 15% cost of capital, in Vietnamese Dong. Malay Steel has the same mix of debt and equity as Vietworks, and you have been provided the following information on the two countries:

	Vietnam	Malaysia
Country Risk Premium	5.00%	2.50%
Expected Inflation	6.00%	3.00%

If the cash flows for Malay Steel are after debt payments and in Malaysian Ringgit, **estimate the right rate to use discount those cashflow**. (2 points)

2. Schaden Inc., a German company with a mix of revenues in hotels and travel service, entirely from Germany, is acquiring Katalin Inc, a Hungarian company, also with a mix of revenues in hotels and travel service, entirely from Hungary. You have been given information on both businesses below:

	Schaden	Katalin	Unlevered beta	EV/Sales
Hotels	600	400	1.2	0.5
Travel Service	400	600	0.75	1.5

The information on the two countries is below:

Country	Germany	Hungary
Equity Risk Premium	5.00%	7.00%
Govt Bond Rate in Local Currency	2.00% (Euro)	4.50% (Forint)

Estimate the cost of equity for the combined company, after the merger, in Euros, assuming that both are entirely equity financed. (3 points)

3. You have been asked to compute the debt ratio for Wrexham, a publicly traded soccer club, with two classes of shares – 10 million class A shares, trading at \$20/share and 80 million class B shares, trading at \$10/share. The firm has just taken a \$500 million bank loan, at a 4% interest rate, and has guaranteed player contracts of \$80 million each year for the next six years. **Estimate the debt to capital ratio for the firm, if you consider contractual claims as debt**. (2 points)

4. You are trying to estimate the expected free cash flow from Flowmatics, a medical device manufacturer, and have been provided the following information (in millions)

	Most Recent year	*Information for next year*
Revenues	$1,500.00	1. Revenues are expected to grow 50% next year
- COGS	$900.00	2. EBITDA margin will be unchanged
EBITDA	$600.00	3. Total non-cash WC is 10% of revenues now and will remain 10% of revenues next yea
- DA	$200.00	
EBIT	$400.00	4. Depreciation will increase by 25% next year
- Interest Expenses	$100.00	5. The company expects to spend $400 million on capital expenditures & acquisitions.
Taxable Income	$300.00	
- Taxes	$60.00	
Net Income	$240.00	

Estimate the expected free cashflow to the firm next year. (3 points)