

Quiz 3: Valuation

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

1. Grimaldi Fashion is a fashion apparel company with strong brand name recognition. It expects to generate an after-tax operating margin of 20% next year, while maintaining its sales to capital ratio at 1.50. If the company is a mature company, growing at 3% a year, with a cost of capital of 9%, estimate the “intrinsic” enterprise value to sales ratio for the company. (3 points)

2. Jiffy Inc. is a toy manufacturer, with a market capitalization of \$ 3 billion and revenues of \$1.5 billion. You have been provided with its most updated consolidated balance sheet (with all dollar values in millions).

<i>Assets</i>		<i>Liabilities</i>	
Fixed Assets	\$1,200.00	Debt	\$1,000.00
Cash	\$200.00	Equity	\$900.00
Non-cash current assets	\$300.00	Minority Interests	\$400.00
Minority Holdings	\$600.00		
Total Assets	\$2,300.00	Total Liab & Equity	\$2,300.00

You can assume that debt, minority holdings and minority interests are all marked to market (market = book value). Estimate the “consistent” EV to Sales ratio for the firm. (2 points)

3. Ziegler Inc. is a company in both auto manufacturing and auto retail businesses, and you have been given the following information on its constituent parts:

	FCFF next year (\$ mil)	Cost of capital	Expected Growth	Debt	Cash
Auto Manufacturing	\$600.00	8%	2%	\$1,000.00	\$1,500.00
Auto Retail	\$300.00	10%	2%	\$3,000.00	\$750.00
G&A	-\$140.00	9%	2%		

Using a sum of the parts approach, estimate the value of equity in Ziegler today. (2 pts)

4. You are the CEO of an all-equity funded industrial waste company that is expected to generate \$60 million in FCFF next year, growing at 3% in perpetuity, with a cost of equity (and capital) of 9%. The CEO is planning to use a portion of his substantial wealth to buy out the equity in the company and take it private, because he feels he can make significant cost cuts and increase the FCFF next year. If this acquisition will leave the CEO's own investment portfolio less diversified, with a correlation of 80% with the market, how much will the FCFF have to increase next year for this deal to make sense to the CEO. (The riskfree rate is 3% and the ERP is 6%). (3 points)