

Session 10A: Post Class tests

1. DBK Bank paid out \$ 80 million in dividends on net income of \$100 million in the most recent year. The book value of equity for the firm is \$800 million. Assuming that the bank maintains its current payout ratio and return on equity in perpetuity, what is the expected growth in earnings per share in perpetuity?
 - a. 8%
 - b. 2%
 - c. 5%
 - d. 2.5%
 - e. None of the above
2. Viaconda Inc. is a tourism company that reported \$10 million in net income on a book value of equity of \$110 million in the most recent year; the company generated \$ 1 million in after-tax interest income on a cash balance of \$20 million. The company also reported net capital expenditures of \$4 million, an increase in working capital of \$ 2 million and an increase in total debt of \$3 million during the year. Assuming that it maintains its current non-cash ROE and equity reinvestment rate, estimate the expected growth in non-cash net income in the future.
 - a. 3.33%
 - b. 6.67%
 - c. 3.33%
 - d. 6.00%
 - e. None of the above
3. Pokemon Inc. is a toy manufacturer that reported after-tax operating income of \$50 million in the most recent year. At the start of the year, the company reported book value of equity of \$400 million, book value of debt of \$250 million and a cash balance of \$150 million. The company also reported capital expenditures of \$75 million, depreciation of \$ 30 million and a decrease in non-cash working capital of \$5 million. Assuming that it plans to maintain its current return on invested capital and reinvestment rate, what is the expected growth in operating income?
 - a. 6.15%
 - b. 8.00%
 - c. 13.33%
 - d. 10.00%
 - e. None of the above
4. Nevis Enterprises reported a return on invested capital of 15% in the most recent year and a reinvestment rate of 60%. The firm expects its return on capital to rise to 18% over the next 5 years on both existing investments and new investments. What will the compounded average annual expected growth rate be over the five years?
 - a. 10.8%
 - b. 9%
 - c. 14.51%
 - d. 12.71%

- e. None of the above
5. You are forecasting the operating earnings for TalkMedia, a young, high growth social media company.

	Last year	1	2	3	4
Revenues	\$100	\$200	\$320	\$450	\$600
Operating Margin	-10%	-5%	0%	5%	10%
Operating Income	-\$10.00	-\$10.00	\$0.00	\$22.50	\$60.00

The firm currently has invested capital of \$50 million. If the sales-to-capital ratio is 2.00, what will the pre-tax return on capital be in year 4?

- a. 120%
- b. -20%
- c. +20%
- d. 10%
- e. None of the above