

## Session 14B: Post class test solutions

**1. b. 29.2%**

Market in year 10 = \$10 billion  $(1.10)^{10} = \$25.94$  billion

Techstar Revenues in year 10 = \$25.94 (.05) = \$1.29 billion

CAGR over next 10 years =  $(1.29/0.1)^{1/10} - 1 = 29.2\%$

**2. b. -\$50 million**

Expected operating loss next year = -\$25 million

Expected change in revenue next year = \$100 million

Reinvestment next year = \$100 million/4 = \$25 million

Expected FCFF next year = -\$25 million - \$25 million = -\$50 million

**3. b. \$7.06 million**

$PV = \$10 / (1.15 * 1.12 * 1.1) = \$7.06$  million

**4. c. \$210 million**

Expected value = \$250 (.8) + \$50(.2) = \$210 million

**5. b. 33.33%**

Let X be the probability of change

$$15(X) + 30(1-X) = 20$$

Solving for X,  $X = 1/3$  or 33.33%