Session 18: Post Class tests

1. You are trying to value Zimco Telecom Inc., a money losing company that reported EBITDA of -$80 million in the most recent year on revenues of $ 1 billion. You expect revenues to grow 6% a year for the next 5 years and the EBITDA/Revenue margin to improve to 8% by year 5. If healthy telecom companies trade at a multiple of 6 times EBITDA and you choose to apply this multiple to the fifth year's expected EBITDA, estimate the value of equity per share today. (You have a cost of capital of 12% for the next 5 years, a cash balance of $ 50 million, debt outstanding of $200 million and 12 million shares outstanding today.)
    a. $0.00
    b. $10.19
    c. $17.87
    d. $41.03
    e. None of the above
2. You are a venture capitalist, who is interested in investing in Lam Media, a social media company. You expect revenues to be $600 million in 3 years and believe that you can sell the company for three times revenues at the end of year 3. The cost of capital for the company is 15%, it has no cash or debt and there is a 20% chance that the firm will not make it (in which case you will get nothing for the assets). What is your estimate of the value of equity in the company today (in millions)?
    a. $ 236.7
    b. $ 946.8
    c. $1183.5
    d. $1440.0
    e. $1800.0
3. You have run a regression of EV/EBITDA multiples across all companies in the market and arrived at the following:

    $$EV/EBITDA = 5+80*(\text{Growth rate}_{\text{Revenues}})-20*(\text{Cost of capital})-12*(\text{Effective tax rate})$$

    Astor Inc. is a publicly traded company with EBITDA of $100 million and enterprise value of $ 480 million; it has an expected growth rate in revenues of 6% for the next 5 years and a cost of capital of 10%. Assuming that this stock is fairly priced, what is Astor's effective tax rate?
    a. 0%
    b. 15%
    c. 25%
    d. 40%
    e. 50%
4. The best multiple to use in valuing a company is the one that yields
    a. The lowest value for the company
    b. The highest value for the company
    c. The current stock price
    d. A value closest to the intrinsic value
    e. None of the above

5. For growth companies, an intrinsic valuation will always yield a lower value than a relative valuation.
    a. True
    b. False