DCF VALUATIONS I

Equity Options: Non-cash expense?

Many equity research analysts add back employee option expenses to arrive at free cash flow, arguing that it is a non-cash expense. Do you agree?

a. Yes
b. No

Regulatory Impact on Value

- You have just completed valuing a bank and arrived at a value per share of $12/share, using a dividend discount model. However, the bank regulatory authorities have announced an increase in regulatory capital ratios for all banks. How will this affect your value per share
    a. Increase value per share
    b. Decrease value per share
    c. Have no impact on value per share
- Explain how it will affect your value
    a. Change current dividends per share
    b. Change expected growth rate in earnings
    c. Change expected future payout ratio
    d. Change risk/cost of equity

Expected Dilution?

- Assume that you value a high growth company and that you discount the cash flows to equity back at the cost of equity to arrive at an equity value of $ 100 million. The firm has 10 million shares outstanding but you expect it to have to issue more shares (2.5 million) over the next few years to cover growth needs. The value per share for this company is:
  a. $10/share (-$100/10)
  b. $ 8 /share (=100/12.5)
  c. Between $8 and $10
  d. More than $10
  e. Less than $8