



LOOSE ENDS II



Debt and Value

- You have just completed a firm valuation (discounting cash flows to the firm at the cost of capital) of a publicly traded company and arrived at a value of \$100 million. The firm has debt outstanding, with a face value of \$100 million and a market value of \$ 80 million. What is the value of equity in this firm?
 - ▣ \$ 20 million
 - ▣ \$ 0
 - ▣ Some number in the middle

Management Options

- Assume that you have valued equity in a firm to be worth \$ 1 billion, by discounting free cash flows to equity at the cost of equity. The firm has 100 million shares outstanding. What is the value per share?
- Now assume that the firm grants 10 million options to its CEO, with a strike price set equal to \$ 10. What is the value per share?
 - ❑ \$ 9.09 (1000/110)
 - ❑ \$ 10 (The options have no exercise value)
 - ❑ Between \$9.09 and \$ 10
 - ❑ Something else