



LOOSE ENDS



The value of cash

- An analyst looking at a company with a significant cash balance argues that the market will punish the company for holding cash because the cash earns a return that is lower than the company's overall cost of capital. Is this true or false?
 - a. True
 - b. False

Cross holdings

- ❑ Company A owns 60% of company B and the financial statements are consolidated. If these financial statements are used to estimate cash flows & value, how much of company B is incorporated in this value?
- ❑ None of company B
- ❑ 60% of company B
- ❑ 100% of company B
- ❑ 40% of company B
- ❑ Company A owns 10% of company B. If you use company A's financial statements to estimate cash flows & value, how much of company B is incorporated in this value?
- ❑ None of company B
- ❑ 10% of company B
- ❑ 100% of company B

Other Assets?

- Let's assume that you have discounted FCFF at the cost of capital to arrive at a present value for the operating assets of the company. Scanning the balance sheet, you see other "valuable" assets that the company has. With each one, specify whether you would add it on to the present value or ignore it (and why)?
 - a. Value of headquarters building in New York city
 - b. Vacant land owned by the company in New York city
 - c. Patents
 - d. Brand name (Accounting estimate of value)
 - e. Goodwill
 - f. Fine art collection (acquired by current CEO, using corporate money)

The cost of complexity

- You are investor, looking at two firms that look exactly identical on financial criteria – same operating income, same growth, same risk and same return on capital. Company A is in a single business and has transparent financials. Company B is a complex firm, in multiple businesses, with opaque financials/ holding structure. Which firm, if any, would you value more highly?
 - ▣ Company A: It is simpler to value
 - ▣ Company B: It is more diversified
 - ▣ Neither: They have the same financials and should have the same value