# LOOSE ENDS

# 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

# 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?
  - $ 200 million
  - $ 0
  - Some number in the middle

# Management Options

- Assume that you are a shareholder in a company, and that the stock is fairly valued at $10/share. The company decides to give its CEO ten million options, with the strike price of $10 (equal to the stock price). What effect will this have on your value/share?
  a) None, since the options are at the money
  b) Decline, since the options have time value and come out of your equity
  c) Impossible to tell, until the options get exercised (or not exercised) in the future