

Valuation: Measuring and Managing the Value of Companies

Calculating and Interpreting Results

Chapter 13 Problems

1. You are valuing a DistressCo, a company struggling to hold share. The company currently generates \$120 million in revenue, but is expected to shrink to \$100 million next year. Cost of sales currently equals \$90 million and depreciation equals \$18 million. Working capital equals \$36 million and equipment equals \$120 million. Using this data, construct operating profit and invested capital for the current year. You decide to build an “as-is” valuation of DistressCo. To do this, you forecast each ratio (such as cost of sales to revenues) at its current level. Based on this forecast method, what are operating profits and invested capital expected to be next year? What are two critical operating assumptions (identify one for profits, and one for capital) embedded in this forecast method?
2. You decide to value a steady-state company using probability-weighted scenario analysis. In Scenario 1, NOPLAT is expected to grow at 6 percent and ROIC equals 16 percent. In Scenario 2, NOPLAT is expected to grow at 2 percent and ROIC equals 8 percent. Next year’s NOPLAT is expected to equal \$100 million and the weighted average cost of capital is 10 percent. Using the key value driver formula introduced in Chapter 2, what is the enterprise value in each scenario? If each scenario is equally likely, what is the enterprise value for the company?
3. A colleague recommends a short cut to value the company in Question 2. Rather than compute each scenario separately, he recommends averaging each input, such that growth equals 4 percent and ROIC equals 12 percent. Will this lead to the same enterprise value found in Question 2? Which method is correct? Why?
4. Using an Internet search tool, find Procter & Gamble’s investor relations website. Under “Financial Reporting,” you will find the company’s 2009 annual report. In the annual report’s section titled “Management’s Discussion and Analysis,” you will find growth by segment. How many segments does Procter & Gamble report? Using 2009 as a proxy, does each segment have the same organic growth characteristics? Set organic growth equal to sum of volume excluding acquisitions, price, mix and other. Based on growth by segment, can P&G be valued as a whole, or should individual segments be valued separately?

5. Using an Internet search tool, find Procter & Gamble's investor relations website. Under "Financial Reporting," you will find the company's 2009 annual report. In Note 11 of the 2009 annual report, you will find financials by segment. What are the operating margins by segment? Based on operating margin by segment, can P&G be valued as a whole, or should individual segments be valued separately?