

**Financial Statement Analysis & Valuation, 5<sup>th</sup> Edition**  
by Easton, McAnally, Sommers, & Zhang

**Practice Quiz**

**Module 13 – Cash-Flow-Based Valuation**

1. Penn Company reports net operating profit after tax (NOPAT) of \$3,306 million in 2017. Its net operating assets at the beginning of 2017 are \$10,215 million and are \$11,137 million at the end of 2017.

What are Penn's free cash flows to the firm (FCFF) for 2017?

- a. \$3,305 million
  - b. \$2,441 million
  - c. \$2,384 million
  - d. \$5,176 million
2. Following are forecasts of Value-Mart Corporation's sales, net operating profit after tax (NOPAT), and net operating assets (NOA) as of January 31, 2017.

(in millions)	Reported	Horizon Period				Terminal Period
	2017	2018	2019	2020	2021	
Sales	\$51,271	\$57,526	\$64,544	\$72,418	\$81,253	\$82,878
NOPAT	2,694	2,876	3,227	3,621	4,063	4,144
NOA	22,429	25,121	28,185	31,624	35,482	36,191

Assuming a terminal period growth rate of 2%, discount rate (WACC) of 7%, shares outstanding of 874.1 million, and net nonoperating obligations (NNO) of \$8,224 million, estimate the value of a share of Value-Mart common stock using the discounted cash flow (DCF) model as of January 31, 2017.

- a. \$41.50
  - b. \$43.21
  - c. \$47.45
  - d. \$51.26
3. Following are forecasts of sales, net operating profit after tax (NOPAT), and net operating assets (NOA) as of December 31, 2017 for Stellar Stores, Inc.

(in millions)	Reported	Horizon Period				Terminal Period
	2017	2018	2019	2020	2021	
Sales	\$37,006	\$44,777	\$54,180	\$65,558	\$79,325	\$80,912
NOPAT	1,292	1,563	1,891	2,288	2,768	2,824
NOA	10,007	102	14,643	17,718	21,439	21,868

Assuming a terminal period growth rate of 2%, a discount rate (WACC) of 8%, common shares outstanding of 814.3 million, and net nonoperating obligations (NNO) of \$1,676 million, estimate the value of a share of Stellar common stock using the discounted cash flow (DCF) model as of December 31, 2017.

- a. \$23.59
- b. \$32.95
- c. \$25.23
- d. \$31.06

4. Assume the following is the balance sheet for 3M Company.

<b>Balance Sheet at December 31 (\$ millions)</b>	<b>2016</b>	<b>2015</b>
Assets		
Cash and cash equivalents	\$ 1,072	\$ 2,757
Accounts receivable, net	2,538	2,792
Inventories	2,162	1,897
Other current assets	<u>1,343</u>	<u>1,274</u>
Total current assets	7,115	8,720
Investments	272	227
Property, plant and equipment, net	5,593	5,711
Goodwill	3,473	2,655
Intangible assets, net	486	277
Prepaid pension and postretirement benefits	2,905	2,591
Other assets	<u>669</u>	<u>527</u>
Total assets	<u>\$20,513</u>	<u>\$20,708</u>
Liabilities and Stockholders' equity		
Current portion of long-term debt	\$ 1,072	\$ 2,094
Accounts payable	1,256	1,168
Accrued payroll	469	487
Accrued income taxes	989	867
Other current liabilities	<u>1,452</u>	<u>1,455</u>
Total current liabilities	5,238	6,071
Long-term debt	1,309	727
Other liabilities	<u>3,866</u>	<u>3,532</u>
Total liabilities	10,413	10,330
Stockholders' equity		
Common stock	9	9
Capital in excess of par value	267	287
Retained earnings	17,358	15,781
Treasury stock	(6,965)	(5,503)
Accumulated other comprehensive income	<u>(569)</u>	<u>(196)</u>
Stockholders' equity	<u>10,100</u>	<u>10,378</u>
Total liabilities and stockholders' equity	<u>\$20,513</u>	<u>\$20,708</u>

Compute net operating assets (NOA) for 2016.

- \$12,481 million
- \$13,465 million
- \$11,137 million
- \$16,075 million

5. Assume the following is the income statement for 3M Company.

Income Statement Year Ended December 31 (\$ millions)		2016
Net sales		
Operating expenses		\$21,167
Cost of sales		10,381
Selling, general and administrative expenses		4,535
Research, development and related expenses		<u>1,242</u>
Total		<u>16,158</u>
Operating income		5,009
Interest expense, net		<u>26</u>
Income before taxes and noncontrolling interest		4,983
Provision for income taxes		1,694
Noncontrolling interest		<u>55</u>
Net income		<u>\$ 3,234</u>

Compute net operating profit after tax (NOPAT) for 2016, assuming a federal and state statutory tax rate of 37%.

- a. \$3,315 million
- b. \$3,305 million
- c. \$5,009 million
- d. \$3,289 million

6. Assume the following is the balance sheet for Intel Corporation.

<b>Balance Sheet At December 31 (\$ millions)</b>	<b>2016</b>	<b>2015</b>
Assets		
Cash and cash equivalents	\$ 7,324	\$ 8,407
Short-term investments	5,448	8,765
Accounts receivable, net	3,914	2,999
Inventories	3,126	2,621
Deferred tax assets	1,149	979
Other current assets	<u>233</u>	<u>287</u>
Total current assets	\$21,194	\$24,058
Property, plant and equipment, net	17,111	15,768
Marketable equity securities	537	656
Other long-term investments	4,135	2,563
Goodwill	3,873	3,719
Deferred taxes and other assets	<u>1,464</u>	<u>1,379</u>
Total assets	<u>\$48,314</u>	<u>\$48,143</u>
Liabilities and Stockholders' equity		
Current portion of long-term debt	\$ 313	\$ 201
Accounts payable	2,249	1,943
Accrued compensation	2,110	1,858
Accrued advertising	1,160	894
Deferred income on shipments to distributors	632	592
Other accrued liabilities	810	1,355
Income taxes payable	<u>1,960</u>	<u>1,163</u>
Total current liabilities	9,234	8,006
Long-term debt	2,106	703
Deferred tax liabilities	703	855
Other long-term liabilities	89	0
Stockholders' equity		
Preferred stock	--	--
Common stock	6,245	6,143
Accumulated other comprehensive income	127	148
Retained earnings	<u>29,810</u>	<u>32,288</u>
Stockholders' equity	<u>36,182</u>	<u>38,579</u>
Total liabilities and stockholders' equity	<u>\$48,314</u>	<u>\$48,143</u>

Compute Intel's net nonoperating assets (NNO) for year-end 2016.

- \$ (7,701) million
- \$ 3,879 million
- \$ 19,863 million
- \$(15,025) million