Practice Quiz Solutions

Module 15 – Market-Based Valuation

==Use the following information to answer Questions 1, 2, 3, and 4.==

The following table provides summary data for CVS and its competitors, Walgreens and Longs Drug Stores.

(in millions)	CVS	Walgreens	Longs Drug Stores
Company assumed value..........................	—	$44,483	$1,995
Equity assumed value	—	$43,604	$1,870
Net operating assets	$15,189	$11,983	$ 941
Book value of equity..........................	$ 9,918	$11,104	$ 816
Net nonoperating obligations (assets)	$ 5,271	$ 879	$ 125
Common shares outstanding....................	826 shares	991 shares	37.4 shares

1. Compute the price to net operating assets ratio for both Walgreens and Longs Drug Stores.

    a. Walgreens: 3.9   Longs: 1.5
    b. Walgreens: 4.6   Longs: 2.7
    c. Walgreens: 2.9   Longs: 1.3
    d. Walgreens: 3.7   Longs: 2.1

    Answer: d

    The price to net operating assets ratios for Walgreens and Longs Drug Stores are 3.7 and 2.1, respectively.

2. Use Walgreens and Longs Drug Stores as comparables, along with the price to NOA ratios from Question 1, and then estimate for CVS its company intrinsic value.

    a. $44,048
    b. $41,010
    c. $55,440
    d. $31,897

    Answer: a

    A simple average of the two ratios is 2.9. We could weight one of the two companies more heavily if we believe its ratio is more relevant for valuing CVS. CVS's estimated company intrinsic value is $44,048 million, using a 2.9 multiple on net operating assets of $15,189.

3. Use Walgreens and Longs Drug Stores as comparables, along with the price to NOA ratios from Question 1, and then estimate for CVS its equity intrinsic value per share.

    a. $52
    b. $63
    c. $47
    d. $36

    Answer: c

    CVS's estimated equity intrinsic value is $38,777, computed as company assumed intrinsic value of $44,048 (2.9, an average of the two price to NOA ratios, times net operating assets of $15,189) less net nonoperating obligations of $5,271. CVS's estimated equity intrinsic value per share is $47, computed as $38,777 / 826 shares.

4. Compute the PB ratio for both Walgreens and Longs Drug Stores.

    a. Walgreens: 4.2   Longs: 2.7
    b. Walgreens: 3.9   Longs: 2.3
    c. Walgreens: 2.6   Longs: 1.8
    d. Walgreens: 3.3   Longs: 3.1

    Answer: b

    The price to book value ratios for Walgreens and Longs Drug Stores are 3.9 and 2.3, respectively.

Use the following information to answer Questions 5, 6, 7, 8, and 9.

The following table provides summary data for CVS and its competitors, Walgreens and Longs Drug Stores.

(in millions)	CVS	Walgreens	Longs Drug Stores
Company assumed value.........................	—	$44,483	$1,995
Equity assumed value	—	$43,604	$1,870
NOPAT	$1,495	$ 2,085	$ 80.4
Net income......................................	$1,355	$ 2,041	$ 74.5
Net nonoperating obligations (assets)	$5,271	$ 879	$ 125
Common shares outstanding.....................	826 shares	991 shares	37.4 shares

5. Compute the price to NOPAT ratio for both Walgreens and Longs Drug Stores.
    a. Walgreens: 21.3   Longs: 24.8
    b. Walgreens: 27.6   Longs: 30.5
    c. Walgreens: 23.6   Longs: 32.7
    d. Walgreens: 35.1   Longs: 26.7

    Answer: a

    The price to NOPAT ratios for Walgreens and Long's Drug Stores are 21.3 and 24.8, respectively.

6. Use Walgreens and Longs Drug Stores as comparables, along with the price to NOPAT ratios from Question 5, and then estimate for CVS its company intrinsic value.
   a. $43,430
   b. $42,084
   c. $34,535
   d. $46,196

   Answer: c

   The simple average of the two ratios is 23.1. You could weight one of the two companies more heavily if you think its ratio is more relevant for valuing CVS. CVS's estimated intrinsic company value is $34,535 million, using a 23.1 multiple on NOPAT of $1,495.

7. Use Walgreens and Longs Drug Stores as comparables, along with the price to NOPAT ratios from Question 5, and then estimate for CVS its equity intrinsic value per share.

   a. $53
   b. $51
   c. $42
   d. $35

   Answer: d

   CVS's estimated intrinsic equity value is $29,264 computed as company assumed intrinsic value of $34,535 (23.1, an average of the two price to NOPAT ratios, times NOPAT of $1,495) less net nonoperating obligations of $5,271. CVS's estimated intrinsic price per share is $35 computed as $29,264 / 826 shares.

8. Compute the price to net income ratio for both Walgreens and Longs Drug Stores.

   a. Walgreens: 21.4   Longs: 25.1
   b. Walgreens: 23.6   Longs: 28.2
   c. Walgreens: 31.5   Longs: 32.1
   d. Walgreens: 19.5   Longs: 22.6

   Answer: a

   The price to net income ratios for Walgreens and Long's Drug Stores are 21.4 and 25.1, respectively.

9. Use **Walgreens** and **Longs Drug Stores** as comparables, along with the price to net income ratios from Question 8, and then estimate for **CVS** its equity intrinsic value per share.

   a. $38
   b. $42
   c. $52
   d. $35

   Answer: a

   The simple average of the two ratios is 23.2. You could weight one of the two companies more heavily if you think its ratio is more relevant for valuing **CVS**. **CVS**'s estimated intrinsic equity value is $31,436, using a 23.2 multiple on net income of $1,355. **CVS**'s estimated intrinsic price per share is $38, computed as $31,436 / 826 shares.