**Module 13 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang**

**Solutions to Practice Quiz**

LO: 2
1. Answer: c

FCFF = NOPAT – increase in NOA
= $3,306 million – ($11,137 million – $10,215 million)
= $2,384 million

LO: 2
2. Answer: d

| Value-Mart | Current | Forecast Horizon | | | | Terminal |
|---|---|---|---|---|---|---|
| ($millions) | 2013 | 2014 | 2015 | 2016 | 2017 | Year |
| 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 |
| | | | | | | |
| DCF Model | | | | | | |
| Increase in NOA | | $ 2,692 | $ 3,064 | $ 3,439 | $ 3,858 | $ 709 |
| FCFF (NOPAT - Increase in NOA) | | (184) | (163) | (182) | (205) | 3,435 |
| Discount factor [1 / (1 × $r_w$)$^t$ ] | | 0.93458 | 0.87344 | 0.81630 | 0.76290 | |
| Present value of horizon FCFF | | (172) | (142) | (149) | (156) | |
| Cum present value of horizon FCFF | $ (619) | | | | | |
| Present value of terminal FCFF | 52,411 | | | | | |
| Total firm value | 53,030 | | | | | |
| Less NNO | 8,224 | | | | | |
| Firm equity value | $44,806 | | | | | |
| Shares outstanding (millions) | 874.1 | | | | | |
| Stock price per share | $ 51.26 | | | | | |

LO: 2
3. Answer: d

| Stellar Store, Inc. ($ millions) | Current 2013 | Forecast Horizon 2014 | 2015 | 2016 | 2017 | Terminal Year |
|---|---|---|---|---|---|---|
| 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 | 12,102 | 14,643 | 17,718 | 21,439 | 21,868 |
| DCF Model | | | | | | |
| Increase in NOA | | $ 2,095 | $ 2,541 | $ 3,075 | $ 3,721 | $ 429 |
| FCFF (NOPAT - Increase in NOA) | | (532) | (650) | (787) | (953) | 2,395 |
| Discount factor $[1 / (1 \times r_w)^t]$ | | 0.92593 | 0.85734 | 0.79383 | 0.73503 | |
| Present value of horizon FCFF | | (493) | (557) | (625) | (700) | |
| Cum present value of horizon FCFF | $(2,375) | | | | | |
| Present value of terminal FCFF | 29,340 | | | | | |
| Total firm value | 26,965 | | | | | |
| Less NNO | 1,676 | | | | | |
| Firm equity value | $25,289 | | | | | |
| Shares outstanding (millions) | 814.3 | | | | | |
| Stock price per share | $ 31.06 | | | | | |

LO: 2
4. Answer: b

($millions)
NOPAT = $5,009 – ($1,694 + [$26 x 36.3%])
= $3,306

LO: 2
5. Answer: d

2005 NOA = $48,314 – 7,324 – $3,990 – $1,458 – $4,135 – $2,249 – 2,110 – $1,160 – $632 – $810 – $1,960 – $703 – $89
= $21,694 million