

Module 15 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Solutions to Practice Quiz

LO: 1

1. Answer: d

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

LO: 1

2. 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.

LO: 1

3. 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.

LO: 1

4. Answer: b

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

LO: 2

5. Answer: a

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

LO: 2

6. 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.

LO: 2

7. 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.

LO: 2

8. Answer: a

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

LO: 2

9. 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.