

Sample Questions for Valuation Fundamentals

I. Single Answer Multiple Choice Questions

Four answers are provided for each of the following assessment questions. However, only one is the BEST answer for each question. Please select the best answer (A, B, C or D).

1. Which of the following activities can increase cash flow from investing activities?
 - A. Purchasing production equipment with cash.
 - B. Selling products and receiving cash.
 - C. Paying out cash dividends.
 - D. Selling an office building and receiving cash.

2. ABC Company has a debt-to-equity ratio of 25% and a marginal tax rate of 25%. The average unlevered β of comparable companies is 1.1. The levered β of the company should be:
 - A. 0.89.
 - B. 1.16.
 - C. 1.27.
 - D. 1.31.

3. On Dec 31, 2013, ABC Company purchased equipment for RMB55 million. Using the straight-line method, the equipment has 10 years of depreciable life and no salvage value. Using sum-of-the-years-digits method for tax computation, the equipment has 10 years of depreciable life and no salvage value. The income tax rate was 25%. Given the above information, which of the following is correct?
 - A. Deferred tax assets increase by RMB1.125 million.
 - B. Deferred tax assets increase by RMB4.5 million.
 - C. Deferred tax liabilities increase by RMB1.125 million.
 - D. Deferred tax liabilities increase by RMB4.5 million.

4. Given the following information:

	Company A	Company B	Company C	Company D
Stock price (\$)	9.8	11.2	7.6	12.6
Common shares outstanding (in thousands)	22,539	13,710	29,781	14,046
Cash and non-core assets (dollars in thousands)	2,301	5,912	4,729	3,987
Debt (dollars in thousands)	55,361	49,782	23,499	45,763
EBIT (dollars in thousands)	25,486	14,366	17,149	22,928

Which of the following is closest to the four companies' average EV/EBIT multiple?

- A. 8.1.
 B. 12.6.
 C. 12.1.
 D. 10.1.
5. Given the following information about XYZ Company:

	2009	2010
Revenue	3,600	4,000
COGS (depreciation & amortization excluded)	1,840	2,000
Selling expenses (depreciation & amortization excluded)	175	200
Administrative expenses (depreciation & amortization excluded)	365	400
Depreciation	430	500
Amortization	190	200
EBIT	600	700
Net interest expense	20	40
Pre-tax income	580	660
Income tax expenses	145	165
Net income	435	495
Capex	500	600
OWC	500	550
Income tax rate	25%	25%

The company's unlevered free cash flow in 2010 should be:

- A. 750.
- B. 475.
- C. 553.
- D. 575.

6. At the end of 2013, ABC Company had 480 million shares of common stock outstanding, and the share price was \$13. In 2013, the unadjusted net profit was \$160 million and the company's income tax rate was 25%. The company had a one-time pre-tax restructuring loss of \$30 million. After normalizing for non-operating items, the company's P/E multiple should be:

- A. 31.6.
- B. 32.8.
- C. 34.2.
- D. 45.4.

II. Multiple Answer Multiple Choice Questions

Four possible answers are provided for each of the following assessment questions. However, TWO or more answers are suitable for each question. Please select the best answers pertaining to the question. No credit will be given for partially correct answers.

1. As the concentration ratio of an industry increases, XYZ Company has more bargaining power with its suppliers and customers. Which of the following agree with the above statement?
 - A. The company's accounts receivable turnover increases.
 - B. The company's accounts payable turnover increases.
 - C. The company's turnover of advances from customers increases.
 - D. The company's prepaid accounts turnover increases.

2. Which of the following display the correct relationship between a valuation method and its applicable terminal value multiple?
 - A. UFCF discount method — EV/EBIT multiple.
 - B. FCFE discount method — EV/EBITDA multiple.
 - C. DDM — P/B multiple.
 - D. EVA discount method — P/E multiple.

III. True or False Questions

Please decide whether the following statements are true or false. Please mark “T” or “F” in the appropriate circle. “T” represents a true statement, and “F” represents a false statement.

1. When using the unlevered free cash flow discount model, we could calculate the terminal value by using the following formula: net profit for the final year of the projected period \times appropriate P/E multiple.
2. When valuing a company using the DCF model, we could calculate the terminal value by using two methods: the exit multiple method and the Gordon growth method.

Answers:

I. Single Answer Multiple Choice Questions

1. D
2. D
3. C
4. C
5. D
6. C

II. Multiple Answer Multiple Choice Questions

1. AD
2. AC

III. True or False Questions

1. F
2. T