The management of ABC Corp realizes it needs to expand to grow. It wants an outside firm to determine its value so management can determine an asking price for the business or find ways to expand. Management has received offers to sell but rejected all because it felt the prices were too low. If the consultant’s report indicate a value close to the earlier prices, it is likely that management will pursue strategy to grow the business. ABC Corp contracted with your group to value the business and gave you the balance sheet and income statements for year end 2010 and projections through 2014. The proforma financial statements are provided below. ABC’s Corp assets are projected to increase, but at declining rates, during the planning period. The planning period for this study is the 2011-2014 time frame.

ABC Corp Balance Sheet in Millions

Actual **Projected**

**Assets 2010 2011 2012 2013 2014**

**Cash** 170.0 173.0 175.0 176.0 177.0

Marketable Securities 163.0 170.0 180.0 184.0 188.0

A/R 185.0 200.0 210.0 216.0 221.0

Inventories 270.0 300.0 320.0 331.0 343.0

Total Current Assets 788.0 843.0 885.0 907.0 929.0

Net fixed assets 379.0 410.0 441.0 458.0 476.0

Total Assets 1,167.0 1,253.0 1,3260 1,365.0 1,405.0

**Liabilities and Equity**

A/P 170.0 173.0 175.0 176.0 177.0

Short Term Notes 123.0 140.0 160.0 168.0 176.0

Accruals 143.0 150.0 155.0 158.0 161.0s

Total Current Liabilities 436.0 463.0 490.0 502.0 514.0

Long Term Notes 224.0 240.0 260.0 268.0 276.0

Preferred Stock 62.0 70.0 80.0 84.0 88.0

Common Stock 300.0 300.0 300.0 300.0 300.0

Retained Earnings 145.0 180.0 196.0 211.0 277.0

Common Equity 445.0 480.0 496.0 511.0 527.0

**Total Liabilities & Equity** 1,167.0 1,253.0 1,326.0 1,365.0 1,405.0

ABC Income Statement (Dollars in millions)

Actual **Projected**

**2010 2011 2012 2013 2014**

Net Sales 1,330.5 1,521.5 1,715.4 1,849.1 1,944.7

Cost (except Depr.) 1,138.5 1,313.9 1,562.7 1,691.9 1,789.1

Depreciation 38.0 41.0 44.0 46.1 48.1

Total Operating costs 1,176.5 1,354.9 1,606.7 1,738.0 1,837.2

EBIT 154.0 166.6 108.7 111.1 107.5

Less: Net Interest 18.3 20.4 21.0 22.1 24.47

Earnings before Taxes 135.7 146.2 87.7 89.1 83.1

Taxes (40%) 54.3 58.3 35.1 35.6 33.2

Net Income before preferred

Dividends 81.4 87.9 52.6 53.5 49.9

Preferred Dividends 6.0 7.0 7.4 8.0 8.3

Net income available for

Common dividends 75.4 80.9 45.2 45.5 41.6

Common Dividends 34.2 34.2

Addition to R/E 75.4 80.8 45.2 11.3 7.4

Number of shares 100.0 100.0 100.0 100.0 100.0

Dividends per share 0.342 0.342

Since you are the consultants, you need to explain the results of your study and your methodology for determining the value of operations in 2014. Be specific. You need to include a worksheet that shows the backup for determining this value. The worksheet should be similar to the one on page 517 in the text. You also need to explain why the value of the company in 2014 is different from total assets for the same year. The growth rate (g) is 2%

Calculate the annual % increase in assets for each year beginning in 2011. Determine the average annual growth rate in assets for the 4 year period from 2010 to 2014. Why the difference?

The management of ABC Corp after your presentation decides the only way to significantly increase its value is with an acquisition. In fact, management has been considering this for some time but wanted to wait until the consultants presented their report on the company’s value. ABC Corporation has found two privately held companies it is considering acquiring. Neither company pays dividends.

The first "target" is in a mature industry. The target is held by two brothers who each have 5 million shares of stock. This company has a free cash flow of 20 million and its WACC is 11%. The free cash flow is estimated to grow at a constant rate of 5%. The company has 100 million of marketable securities, 200 million of debt, %50 million of preferred stock and book equity of $210 million.

The second target is in a growing industry. This company borrowed $40 million to finance its expansion; has no other debt or preferred stock but does have 10 million shares of stock outstanding. It pays no dividend and has no marketable securities.

The questions are: There are actually 10 questions, but I only need these two answered.

1) determine the annual growth rate in assets for each of the years and what these rates indicate to your group.

2) calculate the company's free cash flow (FCF) for each year in the planning period.

So, I don't know how to do this, or where to start??