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CHAPTER

# Enterprise DCF Model

## Multiple Choice Questions

**1.** The explicit forecast period in the enterprise DCF model is typically less than ten years:
(a) True (b) False

**2.** In the DCF valuation process, non-operating loss is excluded while calculating EBIT:
(a) True (b) False

**3.** Cash flow from settlement of disputes is a non-operating cash flow:
(a) True (b) False

**4.** Other things being equal, lower the debt-equity ratio, lower is the return on equity for a given ROIC:
(a) True (b) False

**5.** Estimating the cost of preference is more difficult than estimating the cost of debt:
(a) True (b) False

**6.** The role of disruptive technology is part of strategic analysis of a company:
(a) True (b) False

**7.** In estimating the continuing value of a firm that has sustainable competitive advantage, it is usual to set the ROIC equal to WACC:
(a) True (b) False

**8.** Explicit forecast period is equal to the period when the company will have competitive advantage:
(a) True (b) False

**9.** The value driver formula assumes that the return on new invested capital during the continuing period will be equal to the WACC:
(a) True (b) False

**10.** The ultimate driver of value is sales:
(a) True (b) False

**11.** The going concern value of a company has to be higher than its liquidation value:
(a) True (b) False

**12.** In valuing a company, it would be reasonable to consider the most recent book values as a proxy for the market value of its non-operating assets:
(a) True (b) False

**13.** In company valuation, holdings in subsidiaries are usually valued at a discount:
(a) True (b) False

**14.** In practice, book value of debt cash flows is used to value convertible debentures:
(a) True (b) False

**15.** Discounted cash flow approach to valuing a firm does not involve:
(a) Analysing historical performance
(b) Forecasting performance
(c) Estimating the cost of capital
(d) Both (a) and (c)
(e) None of the above

**16.** If you add non-interest bearing current liabilities to operating working capital you will get:
(a) Net current assets
(b) Net working capital
(c) Gross current assets
(d) Operating working assets
(e) None of the above

**17.** In enterprise DCF valuation, ROIC is a better measure than Return on equity as it reflects operating performance as well as financial structure of the firm:
(a) True (b) False

**18.** In Enterprise DCF valuation, the most popular interest coverage ratio has in its numerator:
(a) EBIDTA
(b) Cash flow
(c) EBIT
(d) PBT
(e) None of the above

**19.** The ability of a company to replace its worn out equipments is high when its EBIDTA to interest ratio is high:
(a) True b. False

**20.** Revenue growth is a principal value driver. The other one is:
(a) PAT
(b) ROIC
(c) ROE
(d) Marginal income tax rate for the company
(e) None of the above

**21.** The ability of a company to earn superior returns may depend on:
(a) Product differentiation
(b) Sustainable competitive advantage
(c) Cost leadership
(d) Any or all the above
(e) None of the above

**22.** The forecast driver used for interest expenses of a company in DCF valuation is usually:
(a) Current marginal interest rate
(b) Average interest expenses for the past five years

(c) Prior year's total debt
(d) Prior year's total debt adjusted for repayments due within the next twelve months
(e) None of the above

**23.** In DCF valuation, for forecasting sundry creditors, its proportion to which of the following is typically considered:
(a) Sales
(b) COGS
(c) Receivables
(d) Deferred credit
(e) None of the above

**24.** Empirical evidence suggests that automobile industry earns a lower ROIC because of capital intensity:
(a) True (b) False

**25.** In the DCF analysis, the length of the explicit forecast period has no significant bearing on company value:
(a) True (b) False

**26.** During the continuing value period, working capital for a year as a percentage of sales for that year, is assumed to:
(a) Remain constant
(b) Grow at the same rate as that of the EBIT
(c) Grow at the same rate as that of net profit
(d) Either (b) or (c)
(e) None of the above

**27.** In which of the following the value of the 'organisational capital' is also taken into account?
(a) Liquidation value method
(b) Replacement cost method
(c) DCF valuation
(d) All the above
(e) None of the above

**28.** In valuation of which of the following a control premium is usually included?
(a) Excess real estate
(b) Quoted investments in subsidiary companies
(c) Unquoted investments in subsidiary companies
(d) All the above
(e) None of the above

**29.** Which of the following is a non-equity claim?
(a) Hybrid claim
(b) Preference capital
(c) Debt
(d) All the above
(e) None of the above

**30.** Which component of financing flow is considered negative debt?

(a) Redemption of debt
(b) Share buybacks
(c) Excess marketable securities
(d) Marketable securities
(e) None of the above

**31.** According to the value driver method( where r is the ROIC and k the WACC):

(a) $CV_t = \frac{NOPLAT_{t+1}}{k - g}$

(b) $CV_t = \frac{NOPLAT_{t+1}}{k}$

(c) $CV_t = \frac{NOPLAT_{t+1}(1 - g/r)}{k - g}$

(d) $CV_t = \frac{NOPLAT_{t+1}(1 - r/g)}{k - g}$

(e) None of the above