

721190S ADVANCED FIRM VALUATION (2014)

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In the exam, **dictionary or any other material are not allowed**. A calculator is allowed.

2nd Exam, 4.9.2014

Professor Livne's lectures:

Below you are provided with extracts from HMV's 2012 report concerning its operating leases. Other relevant information (all figures in £m):

1. NOA as at 30.4.2011: 109.1; NFO as at 30.4.2011: 167.9
2. NOA as at 28.4.2012: 39.0; NFO as at 28.4.2012: 173.4
3. OIAT for 2012 (tax rate = 26%):

Operating loss (EBIT)	(58.5)
Tax <i>income</i> as reported	1.7
Tax shield on net finance expense	(6.1) - 23.6 x 0.26
OIAT	(62.9)

Net financial expense *after tax* (NFEAT): 17.5.

5. Total Group operating loss (including discontinued operations)

	2012 £m	2011 £m
Total Group operating loss (including discontinued operations) is stated after charging (crediting):		
Depreciation of property, plant and equipment	21.4	39.7
Impairment charges	41.6	122.7
Amortisation of intangible assets	0.2	0.3
Cost of inventories recognised as expense	663.7	1,185.6
Write down of inventories	3.3	6.7
Operating lease rentals:		
Minimum rentals	88.9	161.2
Contingent rentals	1.2	2.3
Sublease rentals	(3.6)	(3.9)
Net operating lease rentals	86.5	159.6

The Group leases stores under non-cancellable operating lease agreements that are generally subject to periodic rent review. These agreements provide for either or both minimum rentals and percentage rentals based on sales performance.

Prof. Amir's lectures:

Kimberly-Clark is one of the largest corporations in the world for paper and other products. Attached is the Company's income statement, balance sheet, cash flow statement, and some notes, all taken from the Company's financial statements for the fiscal year ended 31 December 2012. Using this information answer all the following questions:

Question 3

In their study published in 1993, Lev and Thiagarajan suggest 12 indicators for assessing earnings quality. Compute these indicators for Kimberly Clark for fiscal 2012. Use the following assumptions:

- (a) Kimberly-Clark does not have any Research and Development (R&D) costs. Also, the industry to which Kimberly Clark belongs does not have any Research and Development Costs.
- (b) The external auditor's report is clean and standard.
- (c) The United States corporate tax rate is 35%.
- (d) Average net capital spending (CAPEX) for the industry to which Kimberly-Clark belongs is \$950 million in 2012 and \$925 million in 2011.
- (e) Kimberly-Clark has Order Backlog of \$15,000 million as of 31.12.2012, and \$14,500 million as of 31.12.2011.

Question 4

Assume that Kimberly-Clark's beta is 0.97, risk free rate is 4% and risk premium is 5%. Also, assume that the tax rate is 35%, the pre-tax cost of borrowing is 6% and Kimberly-Clark maintains fixed proportions of debt/equity equal to 60%/40% in terms of fair values.

- (a) Compute Free Cash Flows for fiscal 2012 and for fiscal 2011. State you assumptions.
- (b) Assuming zero growth, what is the fair value of equity per share as of 31 December 2012?

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	December 31	
	2012	2011
	(Millions of dollars)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,106	\$ 764
Accounts receivable, net	2,642	2,602
Inventories	2,348	2,356
Other current assets	493	561
Total Current Assets	6,589	6,283
Property, Plant and Equipment, Net	8,095	8,049
Investments in Equity Companies	355	338
Goodwill	3,337	3,340
Other Intangible Assets	246	265
Long-Term Note Receivable	395	394
Other Assets	856	704
	\$ 19,873	\$ 19,373
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt payable within one year	\$ 1,115	\$ 706
Trade accounts payable	2,443	2,388
Accrued expenses	2,244	2,026
Dividends payable	289	277
Total Current Liabilities	6,091	5,397
Long-Term Debt	5,070	5,426
Noncurrent Employee Benefits	1,992	1,460
Other Liabilities	884	1,014
Redeemable Preferred and Common Securities of Subsidiaries	549	547
Stockholders' Equity		
Kimberly-Clark Corporation Stockholders' Equity		
Preferred stock—no par value—authorized 20.0 million shares, none issued	—	—
Common stock—\$1.25 par value—authorized 1.2 billion shares; issued 428.6 million shares at December 31, 2012 and 2011	536	536
Additional paid-in capital	481	440
Common stock held in treasury, at cost—39.3 million and 32.9 million shares at December 31, 2012 and 2011	(2,796)	(2,105)
Retained earnings	8,823	8,244
Accumulated other comprehensive income (loss)	(2,059)	(1,866)
Total Kimberly-Clark Corporation Stockholders' Equity	4,985	5,249
Noncontrolling interests	302	280
Total Stockholders' Equity	5,287	5,529
	\$ 19,873	\$ 19,373

See Notes to Consolidated Financial Statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT

	Year Ended December 31		
	2012	2011	2010
	(Millions of dollars)		
Operating Activities			
Net income	\$ 1,828	\$ 1,684	\$ 1,943
Depreciation and amortization	857	1,091	813
Asset impairments	171	58	—
Stock-based compensation	67	48	52
Deferred income taxes	224	274	(12)
Net losses (gains) on asset dispositions	35	(6)	26
Equity companies' earnings in excess of dividends paid	(27)	(23)	(48)
Decrease (increase) in operating working capital	119	(262)	24
Postretirement benefits	7	(574)	(125)
Other	7	(2)	71
Cash Provided by Operations	3,288	2,288	2,744
Investing Activities			
Capital spending	(1,093)	(968)	(964)
Proceeds from maturity of note receivable	—	220	—
Proceeds from sales of investments	23	28	47
Investments in time deposits	(212)	(158)	(131)
Maturities of time deposits	95	141	248
Proceeds from disposition of property	9	51	9
Other	(6)	5	10
Cash Used for Investing	(1,184)	(681)	(781)
Financing Activities			
Cash dividends paid	(1,151)	(1,099)	(1,066)
Net increase (decrease) in short-term debt	271	13	(28)
Proceeds from issuance of long-term debt	315	839	515
Repayments of long-term debt	(492)	(107)	(506)
Redemption of redeemable preferred securities of subsidiary	—	(500)	—
Cash paid on redeemable preferred securities of subsidiary	(28)	(57)	(54)
Proceeds from exercise of stock options	565	435	131
Acquisition of common stock for the treasury	(1,284)	(1,246)	(803)
Other	2	(19)	(48)
Cash Used for Financing	(1,802)	(1,741)	(1,859)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	40	22	(26)
Increase (Decrease) in Cash and Cash Equivalents	342	(112)	78
Cash and Cash Equivalents - Beginning of Year	764	876	798
Cash and Cash Equivalents - End of Year	\$ 1,106	\$ 764	\$ 876