721190S ADVANCED FIRM VALUATION (2014)

Prof. Eli Amir

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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 *income* 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	
		(Alillions	s 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	
Loug-Term Note Receivable		395		394	
Other Assets		856		704	
	5	19,873	\$	19.373	
LIABILITIES AND STOCKHOLDERS' EQUITY	N e scream				
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)	0	(2,059)		(1,866)	
Total Kimberly-Clark Corporation Stockholders' Equity		4,985		5,249	
Noncontrolling interests		302	_	280	
Total Stockholders' Equity		5,187		5,529	
	\$	19,873	\$	19,373	

See Notes to Consolidated Financial Statements.

$\label{thm:corporation} \textbf{KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES} \\ \textbf{CONSOLIDATED CASH FLOW STATEMENT}$

Depreciation and amortization		Year Ended December 31					
Operating Activities S 1,928 \$ 1,684 \$ 1,94 Depreciation and amortization 857 1,091 81 Asset impairments 171 58 — Stock-based compensation 67 48 55 Deferred income taxes 224 274 (12 Net losses (gains) on asset dispositions 35 (6) 22 Equity companies' earnings in excess of dividends paid (27) (23) (44 Decrease (increase) in operating working capital 119 (262) 22 Postretirement benefits 7 (574) (122) Other 7 (574) (122) Cash Provided by Operations 3,288 2,288 2,74 Investing Activities (1,093) (968) (96 Pocceds from maturity of note receivable — 220 — Proceeds from sales of investments 23 28 4 Investing Activities 95 141 248 Proceeds from disposition of property			2012	×	2011		2010
Net accome \$ 1,828 \$ 1.684 \$ 1.94 Depreciation and amortization 857 1.091 \$ 81 Asset impairments 171 58 \$ Stock-based compensation 67 48 \$ Deferred income taxes 224 274 (17 Net losses (gains) on asset dispositions 35 6 6 Equity companies' earnings in excess of dividends paid (27) (23) (24 Decrease (increase) in operating working capital 119 (362) 2 Postretirement benefits 7 (574) (122 Other 7 (20) 7 Cash Provided by Operations 3,288 2.288 2.74 Investing Activities 2 (1,093) (968) (968) (968) Proceeds from maturity of note receivable — 220 — Proceeds from sales of investments 23 28 4 Investments in time deposits 21 (112) (158) (131) Maturities of time deposits 95 141 24 Proceeds from disposition of property 9 51 2 Other (6) 5 1.0 Cash Used for Investing (1,184) (681) (78) Financing Activities 271 13 (28) Cash dividends paid (1,151) (1,099) (1,066) Net increase (decrease) in				(Milli	ons of dollars)		
Depreciation and amortization	Operating Activities						
Asset impairments		\$	1,828	\$	1,684	\$	1.943
Stock-based compensation	Depreciation and amortization		857		1,091		813
Deferred income taxes 224 274 (11 Net losses (gains) on asset dispositions 35 (6) 24 22 24 274 (11 Net losses (gains) on asset dispositions 35 (6) 24 24 274 (12 27 23 24 274 (12 27 23 24 274 (12 27 23 24 274 (12 27 27 27 27 27 27 27	Asset impairments		171		58		-
Net losses (gains) on asset dispositions 35	Stock-based compensation		67		48		52
Equity companies' earnings in excess of dividends paid (27) (23) (44) Decrease (increase) in operating working capital 119 (262) 22 Postretirement benefits 7 (574) (122) Other 7 (20) 77 Cash Provided by Operations 3,288 2,288 2,744 Investing Activities 2 288 2,744 Investing Activities - 220 - Proceeds from maturity of note receivable - 220 - Proceeds from sales of investments 23 28 4 Investing a legislation of time deposits (212) (158) (131) Maturities of time deposits 95 141 248 Proceeds from disposition of property 9 51 5 Other (6) 5 10 Cash Used for Investing (1,184) (681) (781) Financing Activities (1,184) (681) (781) Cash dividends paid (1,151) (1,099) (Deferred income taxes		224		274		(12)
Decrease (increase) in operating working capital 119 (262) 22 Postretirement benefits 7 (574) (122 Other 7 (20 77 (20	Net losses (gains) on asset dispositions		35		(6)		26
Postretirement benefits	Equity companies' earnings in excess of dividends paid		(27)		(23)		(48)
Other 7 (2) 7 Cash Provided by Operations 3,288 2,288 2,744 Investing Activities Unsesting Activities Capital spending (1,093) (968) (968) Proceeds from maturity of note receivable — 220 — Proceeds from sales of investments 23 28 4 Investments in time deposits (212) (158) (131) Maturities of time deposits 95 141 244 Proceeds from disposition of property 9 51 25 Other (6) 5 10 Cash Used for Investing (1,184) (681) (78) Financing Activities 71 13 (28 Cash dividends paid (1,181) (1,099) (1,066) Net increase (decrease) in short-term debt 271 13 (28 Proceeds from issuance of long-term debt (492) (107) (500) Repayments of long-term debt (492) (107) (500)	Decrease (increase) in operating working capital		119		(262)		24
Cash Provided by Operations 3,288 2,288 2,744 Investing Activities Capital spending (1,093) (968) (1077) (500) - (968) (968) (968) (968) (968) (977) (500) - - (960) -	Postretirement benefits		7		(574)		(125)
Investing Activities Capital spending Cl,093 C968 C968 Proceeds from maturity of note receivable — 220 — Proceeds from sales of investments 23 28 44 Investments in time deposits C112 C158 C133 Maturities of time deposits 95 141 248 Proceeds from disposition of property 9 51 15 Other C66 5 10 Cash Used for Investing C1,184 C681 C788 Financing Activities Cash dividends paid C1,151 C1,099 C1,066 Net increase (decrease) in short-term debt 271 13 C28 Proceeds from issuance of long-term debt 271 13 C28 Proceeds from experience debt C492 C107 C500 Redemption of redeemable preferred securities of subsidiary — (500) — (500) Cash paid on redeemable preferred securities of subsidiary C28 C57 C54 Proceeds from exercise of stock options 565 435 131 Acquisition of common stock for the treasury C1,284 C1,246 (800 Cash Used for Financing C1,802 C1,741 C1,855 Effect of Exchange Rate Changes on Cash and Cash Equivalents 342 C112 78 Cash and Cash Equivalents - Beginning of Year 764 876 795 Cash and Cash Equivalents - Beginning of Year 764 876 795 Cash and Cash Equivalents - Beginning of Year 764 876 795 Cash and Cash Equivalents - Beginning of Year 764 876 795 Cash and Cash Equivalents - Beginning of Year 764 876 795 Cash Used for Financing C1,800	Other		7		(2)		71
Capital spending (1,093) (968) (968) 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 (1,184) (1,099) (1,060) Net increase (decrease) in short-term debt 271 13 (28 Proceeds from issuance of long-term debt 315 839 515 Red-myments of long-term debt (492) (107) (500 Red-emption of redeemable preferred securities of subsidiary (Cash Provided by Operations	-	3,288		2,288		2,744
Proceeds from maturity of note receivable — 220 — Proceeds from sales of investments 23 28 4 Investments in time deposits (212) (158) (133) Maturities of time deposits 95 141 248 Proceeds from disposition of property 9 51 29 Other (6) 5 10 Cash Used for Investing (1,184) (681) (781 Financing Activities (1,184) (681) (781 Financing Science (decrease) in short-term debt 271 13 (281 Proceeds from issuance of long-term debt (492) (107) (506) Redemption of redeemable preferred securities of subsidiary (28) (57) (542 Redemption of redeemable preferred securi	Investing Activities						
Proceeds from sales of investments 23 28 47	Capital spending		(1,093)		(968)		(964)
Proceeds from sales of investments 23 28 47	Proceeds from maturity of note receivable		_		220		
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 781 11 12 12 Cash dividends paid (1,151) (1,099) (1,060 12 13 12 14 12 14 12 14 12 14 15 15 16 17 15 16 17 15 16 17 16 16 17 17 13 12 </td <td></td> <td></td> <td>23</td> <td></td> <td>28</td> <td></td> <td>47</td>			23		28		47
Proceeds from disposition of property 9 51 9 Other (6) 5 10 Cash Used for Investing (1,184) (681) (781) Financing Activities Financing Activities (1,151) (1,099) (1,066) Net increase (decrease) in short-term debt 271 13 (281) 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 565 435 133 Acquisition of common stock for the treasury (1,284) (1,246) (803) Other 2 (19) (48 Cash Used for Financing (1,802) (1,741) (1,855) Effect of Exchange Rate Changes on Cash and Cash Equivalents 40 22 (262) Increase (Decrease) in Cash and Cash Equivalents	Investments in time deposits		(212)		(158)		(131)
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 (281) 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) (1,855) Effect of Exchange Rate Changes on Cash and Cash Equivalents 40 22 (261) Increase (Decrease) in Cash and Cash Equivalents 342 (112) 78 Cash and Cash Equivalents - Beginn	Maturities of time deposits		95		141		248
Cash Used for Investing (1,184) (681) (781) Financing Activities (1,151) (1,099) (1,066) 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 (492) (107) (500) Repayments of long-term debt (492) (107) (500) 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 (200) Increase (Decrease) in Cash and Cash Equivalents 342 (112) 78 Cash and Cash Equivalents - Beginning of Year <td>Proceeds from disposition of property</td> <td></td> <td>9</td> <td></td> <td>51</td> <td></td> <td>9</td>	Proceeds from disposition of property		9		51		9
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) - (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) (1.855) Effect of Exchange Rate Changes on Cash and Cash Equivalents 342 (112) 78 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Beginning of Year 764 876 798 Cash and Cash Equivalents - Reginnin	Other		(6)		5		10
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) (1.855 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 Used for Investing		(1,184)	-	(681)		(781)
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) (500 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	Financing Activities						
Proceeds from issuance of long-term debt 315 839 515 Repayments of long-term debt (492) (107) (500) 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) (1,885) 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 dividends paid		(1,151)		(1,099)		(1,066)
Proceeds from issuance of long-term debt 315 839 515 Repayments of long-term debt (492) (107) (500) 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) (1,885) 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	Net increase (decrease) in short-term debt		271		13		(28)
Redemption of redeemable preferred securities of subsidiary Cash paid on redeemable preferred securities of subsidiary Proceeds from exercise of stock options Acquisition of common stock for the treasury Other Cash Used for Financing (1,802) Effect of Exchange Rate Changes on Cash and Cash Equivalents Total Increase (Decrease) in Cash and Cash Equivalents Cash and Cash Equivalents - Beginning of Year (500) — (54) (54) (1,284) (1,246) (1,802) (1,741) (1,855) (1,802) (1,741) (1,855) (26) (36) (37) (48) (48) (48) (48) (48) (48) (57) (48) (68) (68) (68) (78) (78) (78) (78) (78)	Proceeds from issuance of long-term debt		315		839		515
Cash paid on redeemable preferred securities of subsidiary (28) (57) (54) Proceeds from exercise of stock options 565 435 133 Acquisition of common stock for the treasury (1,284) (1,246) (803 Other 2 (19) (48 Cash Used for Financing (1,802) (1,741) (1.855 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	Repayments of long-term debt		(492)		(107)		(506)
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) (1.855 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	Redemption of redeemable preferred securities of subsidiary				(500)		_
Acquisition of common stock for the treasury (1,284) (1,246) (803) Other 2 (19) (48) Cash Used for Financing (1,802) (1,741) (1.855) Effect of Exchange Rate Changes on Cash and Cash Equivalents 40 22 (20 Increase (Decrease) in Cash and Cash Equivalents 342 (112) 78 Cash and Cash Equivalents - Beginning of Year 764 876 798	Cash paid on redeemable preferred securities of subsidiary		(28)		(57)		(54)
Other 2 (19) (48 Cash Used for Financing (1,802) (1,741) (1,855) 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	Proceeds from exercise of stock options		565		435		131
Cash Used for Financing (1,802) (1,741) (1.855) 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	Acquisition of common stock for the treasury		(1,284)		(1,246)		(803)
Effect of Exchange Rate Changes on Cash and Cash Equivalents4022(26Increase (Decrease) in Cash and Cash Equivalents342(112)78Cash and Cash Equivalents - Beginning of Year764876798					(19)		(48)
Effect of Exchange Rate Changes on Cash and Cash Equivalents4022(26Increase (Decrease) in Cash and Cash Equivalents342(112)78Cash and Cash Equivalents - Beginning of Year764876798	Cash Used for Financing	((1,802)	19-	(1,741)		(1.859)
Increase (Decrease) in Cash and Cash Equivalents 342 (112) 78 Cash and Cash Equivalents - Beginning of Year 764 876 798	_						(26)
Cash and Cash Equivalents - Beginning of Year 764 876 798	-	S ==		-		-	78
	_						798
		S	1.106	\$		\$	876