Side Panel Expand side panel Breadcrumb: Shareholder Value Added Homework

Name

Institute name

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Firm Value = PV free cash flows over the forecast period + Residual Value beyond forecast period + Firm’s marketable securities

Firm Value = 2811 + 3092.51 + 15

Firm Value = $ 5918.51 Million

PV free cash flows over the forcast period = Base Sale \* Sales Growth \* Cash Profit Margin \* After-tax cash income rate – New Capital Investment - Incremental working capital investment

PV free cash flows over the forcast period = 200 \* 0.2 \* 0.1 \* 0.4 \* 0.2 \* 0.1

= $ 2905.50933 Million

Equity Value = Firm value - Debts

Scenario 1:

Equity Value = 400 – 50 -15

Equity Value = $335 million

Scenario 2:

Equity Value = 600 – 50 - 15

Equity Value = $ 535 million

Q.4: Total cost including the fixed and variable cost during the competitive advantage = 65 + 657= $ 722 million

Cash received through scenario 1 = $ 400 million

Cash received through scenario 2 = $ 600 million

SVA is a technique to financial management which focuses on the generation of economic value for shareholders. It is measured by the shareholder's performance and funds (Shareholder Value Analysis (SVA) | Financial Management, (2016).

In the first scenario, the cash generated by shareholders equity is lower than its necessary cost. So at $ 40 the expenses of the company will not be covered.

While in scenario two the cash generated by the equity financing and the profit earned will cover all the expenses easily. So the company should sell its share price at 60 dollars. Otherwise, the company will rely on more debts.

References

Shareholder Value Analysis (SVA) | Financial Management. (2016). Learn Accounting: Notes, Procedures, Problems and Solutions. Retrieved 31 March 2019, from http://www.accountingnotes.net/company-management/shareholders/shareholder-value-analysis-sva-financial-management/10723