

Question 6

Use the following information concerning Johnson Machine Tools Ltd in Part a & b.

Johnson's income statement from the fiscal year that ended this past December is:

Revenue	\$995
Cost of sales	<u>652</u>
Gross profit	\$343
Selling, general, & administrative expenses	<u>135</u>
Operating profit (EBIT)	\$208
Interest expense	<u>48</u>
Earnings before tax	\$160
Tax	<u>64</u>
Profit	\$ 96

All dollar values are in millions. Depreciation and amortisation expenses last year were \$42 million, and the company has \$533 million of debt outstanding.

You are an analyst at a company that buys private companies, improves their operating performance, and sells them for a profit. Your boss has asked you to estimate the fair market value of the Johnson Machine Tools Ltd. Billy's Tools is a public company with business operations that are virtually identical to those at Johnson. The most recent income statement for Billy's Tools is as follows:

continued ...
