

Revenue	\$1,764
Cost of sales	<u>1,168</u>
Gross profit	\$ 596
Selling, general, & administrative expenses	<u>211</u>
Operating profit (EBIT)	\$ 385
Interest expense	<u>12</u>
Earnings before tax	\$ 373
Tax	<u>147</u>
Profit	\$ 226

All dollar values are in millions. Billy's had depreciation and amortisation expenses of \$71 million last year and 200 million shares and \$600 million of debt outstanding as of the end of the year. Its share is currently trading at \$12.25 per share.

Required

- Part (a)** Using the P/E multiple, what is the value of Johnson's shares? What is the total value of Johnson Machine Tools Ltd?
- Part(b)** Using the enterprise (company) value/EBITDA multiple, what is the total value of Johnson Machine Tools Ltd? What is the value of Johnson's shares?

Question 7

Victoria Home Brew forecasts that if it sells each bottle of HBrew for \$20, then the demand for the product will be 15,000 bottles per year, whereas sales will be 90 percent as high if the price is raised 10 percent. Victoria's variable cost per bottle is \$10, and the total fixed cash cost for the year is \$100,000. Depreciation and amortisation charges are \$20,000, and the company is in the 30 percent tax rate. The company anticipates an increased working capital need of \$3,000 for the year.

Required

- Part (a)** What will be the effect of a price increase on the company's FCF for the year?
Present your solution in statement format.
- Part (b)** Sensitivity analysis and scenario analysis are similar. Describe which is a more realistic method of analysing different scenario impacts on a project.

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