Session 2: Post class test solutions

1. **e. A discounted cash flow valuation of the company with no growth** By estimating earnings and cash flows, with limited or no growth, you can value just the existing assets.
2. **d. Companies that reinvest more and earn a high return on capital on those investments will have a higher value for growth assets**. Growth alone or reinvestment alone are not sufficient for growth to have value. It is the combination of high reinvestment and high returns on capital that create value in growth assets.
3. **c. Companies that derive the bulk of their value from assets in place and have positive earnings will borrow more**. Since borrowing gives rise to contractually set payments (interest), money making companies have an advantage, but companies with growth assets have to reinvest those earnings to generate future growth, and are less likely to borrow than mature companies.
4. **c. Mostly growth assets, primarily equity funded, no/low dividends.** Young firms tend to get the bulk of their value from growth assets, don't have the earnings to service debt and need to reinvest their earnings to facilitate growth and thus cannot afford to pay dividends.
6. **e. Mostly assets in place, more debt funded, high dividends**. Mature firms get the bulk of their value from assets in place, usually have earnings to sustain debt and can afford to return more cash to stockholders.