Case equity-valuation
Raptor Company plc.

Answers

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WACC

Required rate of return equity = 5.5% + 1.2 x 5.0% = 11.5%
Interest paid = 6.5%
Interest paid after taxes = 4.2% rounded off (= 6.5% x 0.65)

Answer

WACC = 0.40 x 11.5% + 0.60 x 6.5% x (1-0.35) = **7.1%**

- Bèta Raptor: = 1.2
- Target D/TV ratio = 60%
- Yield government bond: = 5.5%
- Income taxes: = 35%
- Interest yield: = 6.5%
- Market risk premium: = 5.0%

CASH IS KING

Amount x Euro 1 million	t_{+1}	t_{+2}	t_{+3}	t_{+4}	t_{+5}
Operational result	**8.07**	**8.84**	**9.77**	**10.04**	**10.07**
Taxes 35%	2.83	3.09	3.42	3.51	3.52
NOPLAT	**5.24**	**5.74**	**6.35**	**6.53**	**6.55**
Depreciation	0.49	0.59	0.50	0.35	0.44
Gross cash flow	**5.73**	**6.33**	**6.85**	**6.88**	**6.99**
Investment in tangible assets*	-0.49	-0.59	-0.50	-0.35	-0.44
Investment in net working capital	-2.18	-1.10	-1.28	-0.59	-3.26
Operating free cash flow	**3.06**	**4.64**	**5.07**	**5.94**	**3.29**
Discount rate (WACC = 7.1%)	**0.93**	**0.87**	**0.81**	**0.76**	**0.71**
Discounted free cash flow	**2.85**	**4.04**	**4.11**	**4.51**	**2.34**

*** = Forecasted investments in tangible assets is equal to depreciation since book value real estate remains constant at 1.10.**

EQUITY VALUE

Amount x Euro 1 million	t_{+1}	t_{+2}	t_{+3}	t_{+4}	t_{+5}
Discounted free cash flow	**2.85**	**4.04**	**4.11**	**4.51**	**2.34**
Sum discounted cash flows		**17.85**			
Discounted cash flow after forecast period		**65.50*** +			
Discounted cash flow per January 1 of year t_{+1}			**83.35**		
Value interest paying debt per December 31 of year t_{-1}			**20.17 -/-**		
Market value of equity per January 1 of year t_{+1}			**63.18**		
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* **Dual complex (depreciation equals investment) and no growth assumed** **=>**

NOPLATt_{+6} (equals t_{+5})	**6.55**
Depreciation	**0.44 +**
Investment	**0.44 -/-**
Free cash flow t_{+6}	**6.55** **=>**

perpetuity calculation => [(6.55 / 0.071) x (1 / 1.071^5)] = 65.50.