

EXAM FOR CONTINUOUS ASSESSEMENT

Corporate Investment Appraisal

Master in Finance

2018-2019

8 January 2019

Duration: 1:30 hours

Parte I – Evaluating managerial performance

Industria de Diseno Textil SA, known as Inditex SA, is a Spain-based company primarily engaged in the textile industry. The Company's activities include the design, confection, manufacturing, distribution and retail of men, women and children apparel, footwear and fashion accessories, as well as home furnishings and household textile products. The Company's business is divided into three segments: Zara, which provides various fashion and home items under the Zara brand name; Bershka, offering clothes under the Bershka brand name, which aims at teenagers, and Other, which retails apparel under Stradivarius, Oysho, Pull&Bear and Massimo Dutti brand names, among others. The Company operates worldwide through numerous subsidiaries and the data used below is the consolidation of those subsidiaries.

	2017	2016
Total Revenue	25 336	23 311
Cost of Sales	(11 076)	(10 032)
Personnel Costs	(3 961)	(3 643)
Rental Expense	(2 358)	(2 221)
Other operating services and supplies	(2 625)	(2 312)
Amortisation and depreciation	(966)	(832)
Impairment losses	(114)	(36)
Other net operating income (losses)	79	(214)
Operating Expense	(21 021)	(19 290)
Operating profit	4 315	4 021
Interest Expense	(10)	(8)
Profit before taxes	4 305	4 013
Other extra items	46	65
Net Income Before Taxes	4 351	4 078
Provision for Income Taxes	(979)	(917)
Consolidated net income	3 372	3 161
Income attributable to non-controlling interests	(5)	(4)
Net income attributable to the parent	3 367	3 157

	2017	2016
Assets (€ Millions)		
Inventories	2 685	2 549
Raw Materials	101	96
WIP	28	33
Finished Goods	2 556	2 420
Trade Receivables	778	861
Tax Receivable	110	107
Financial Assets	11	87
Short term investments	1 472	2 037
Equivalents to cash	3 006	2 309
Cash	1 925	1 807
Other Current Assets	160	141
Total Current Assets	10 147	9 898
Goodwill	207	196
Deferred Tax	744	722
Construction in Progress, Gross	387	321
Other LT Assets, Total	8 746	8 484
Fixed assets	10 084	9 723
Total Assets	20 231	19 621
Liabilities (€ Millions)		
Short term financial debt	12	125
Total Accounts Payable	3 577	3 471
Salaries	354	377
Tax Payable	151	230
Other non-trade current liabilities	1 079	1 248
Current Liabilities	5 173	5 451
Long term financial debt	4	0
Deferred taxes	268	257
LT Provisions	259	242
Other Liability	1 005	920
Non-Current Liabilities	1 536	1 419
Total Liabilities	6 709	6 870
Shareholders' Equity (€ Millions)		
Capital	94	94
Share Premium	20	20
Own Shares	(77)	(87)
Reserves	246	251
Adjustment - Exchange	(533)	(240)
Retained Earnings	13 747	12 675
Total Equity attributable to parent	13 497	12 713
Minority interests	25	38
Total equity	13 522	12 751
Total Liabilities & Shareholders' Equity	20 231	19 621

Questions:

- 1) Calculate the working capital requirements (WCR) (3 points)
- 2) Analyze the operational efficiency of the trade cycle using the 3 core items of the WCR (2 points)
- 3) Calculate and analyze the liquidity position using the Net Liquid Balance and the current ratio (2 points)
- 4) Calculate and analyze the operating profitability using the equation operating margin x capital turnover (2 points)
- 5) Would you recommend investing in this company based on the previous analysis? Explain why.(1 point)

Part II – Capital Budgeting

Question 1 – The cost of capital for the projects in the table below is 10%. Which of the following investments would you advise to invest and explain why? (3,5 points)

	IRR	0	1	2	3	4
A	24,6%	-1 000	298	298	298	1 000
B	23,0%	-1 050	100	200	500	1 300

Question 2 – What is the required return of the company described below (3,5 points)

The total market value of the equity is €6 million and the total value of debt is €4 million. You know the unlevered beta of equivalent companies to be 0.6. The expected risk premium on the market is 6%. The yield of treasury bonds is 3%. Interest rate of the company has a spread of 1% over the risk free rate.

Part III - Fill and deliver to your teacher

(Total is 3 points)

0,6 points each questions answered correctly (discounts 0,2 if incorrect)

Name: _____

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1. Cash outflows for payment of cash dividends is a component of:

- A. Cash flows from operating activities
- B. Cash flows from financing activities
- C. Cash flows from investing activities

2. Basic earnings per share is calculated as:

- A. $[\text{Net Income} - \text{Dividends}] / \text{Weighted Avg \# of shares outstanding}$
- B. $[\text{Net Income} - \text{Preferred Dividends}] / \text{Weighted Avg \# of common shares outstanding}$
- C. $[\text{Net Income}] / [\text{Common shares outstanding}]$

3. A firm has a net income of 200, an increase in accounts receivables of 30, depreciation of 55 and a decrease in accounts payable of 25. Its operating cash flow is _____.

- A. 200
- B. 230
- C. 285

4. The dividend pay-out ratio is equal to

- A. The dividend yield plus the capital gains yield.
- B. Dividends per share divided by earnings per share.
- C. Dividends per share divided by current price per share.

5. According to the concept of financial signaling, management behavior results in new debt issues being regarded as " _____ news" by investors.

<input type="checkbox"/>	A. good
<input type="checkbox"/>	B. bad
<input type="checkbox"/>	C. risk-neutral