BUS-123 Spring 2014 | Common Stock Valuation | Name: ________________
Instr: F. Paiano | Worksheet 1 | Chap 6 Handout

1) The price of Weegot, Burnt & Howe is currently \$32 per share. Their earnings per share (EPS) is \$2.25. Their 5-year average P/E is 18. If WBH's earnings per share are expected to grow at 5% next year, what would you expect their price to be next year?

2) WBH's cash flow per share (CFPS) is currently \$2.80 per share. Their 5-year average Price-to-Cash Flow per Share ratio is 14. If we expect their cash flow per share to grow by 6% next year, what would you expect their price to be next year?

3) Finally, WBH's sales per share (SPS) is currently \$3.20 per share. Their 5-year average Price-to-Sales per Share ratio is 13. If we expect their sales per share to grow by 8% next year, what would you expect their price to be next year?

4) Indiana Electric Company pays \$1.25 per year in dividends, has done so for many years, and we expect it to continue doing so well into the future. If our expected rate of return is 6%, how much would we be willing to pay for the stock? If the stock were selling for \$20, would we consider it a good investment? Which dividend discount model did you use?

5) Pritcher's Pretty Good Pretzels is paying $0.85 per year in dividends. Their dividend growth rate has been very constant at 4%. Our expected rate of return is 9%. At what price would we consider Pritcher's to be a good investment? Which dividend discount model did you use?

6) Jimba Jomba Jumba Juice is currently selling for $56 per share. The dividends for the next three years are expected to be $1.80 for 2013, $2.00 for 2014, and $2.25 for 2015. We forecast the price per share to be approximately $75 at the end of 2015. If we desire a rate of return of 10%, using the Discounted Cash Flow Model, would we consider this a good investment?

7) The price of Biotechnology Nanotechnology is currently $15 per share. The company pays no dividends. We expect the price three years from now to be $35 per share. If our desired rate of return is 12%, would this be a good buy? (Hint: What is the only model you can use with the given information? How will you use it?)