

FIN 533 Homework
Due Tuesday, Nov 10, 2009

Dynamic Communication is a US industrial company with several electronics divisions. The company has just released its 2009 annual report. Dynamic Communications plans to introduce its dPhone to the market in time for Christmas. With a retail price of \$99, it is expected to gain significant market share. Thus, earnings and dividends are expected to grow by 20% in the upcoming year, 15% the next year, and 10% the following year. At that time, Dynamic's management believes that the company will grow at a competitive rate of 6% per year. Capital expenditures, depreciation, and working capital are all expected to increase proportionately with FCFE. If the required rate of return for Dynamic Communications is 16%, determine the value of a share using the FCFE approach.

Dynamic Communications
Balance Sheets

	2008	2009		2008	2009
Cash	\$83	\$149	Current liabilities	\$220	\$228
Accounts receivable	265	295	Long-term debt	1,800	1,650
Inventory	<u>285</u>	<u>275</u>			
	\$633	\$719			
Net plant and equipment	3,223	3,190	Shareholders equity	1,836	2,031
Total assets	<u>\$3,856</u>	<u>\$3,909</u>		<u>\$3,856</u>	<u>\$3,909</u>

Dynamic Communications
Income Statement

	2009
Revenues	\$3,425
Depreciation	483
Other operating costs	<u>2,379</u>
EBIT	\$563
Interest	<u>104</u>
Earnings before taxes	\$459
Taxes (40%)	<u>184</u>
Net income	<u>\$275</u>
Common stock dividends	\$80
Common shares outstanding	100