

## Girona Textiles Manufacturing<sup>1</sup>

This company is facing a big conflict between the two shareholders, Martí Oliver and Josep Turull. Each of them holds 50% of the company shares. Because of this conflict they are trying to get a fair value of the firm in order that Martí Oliver can buy the part of Josep Turull. To do this they need an agreement about the value of the company.

Mr. Oliver has a valuation done by a consultant, using the book value method. By the other hand Mr. Turull has another valuation, using the discounted cash flow method.

The main problem to have a fair valuation are the difficulties to obtain forecasts for the profit and loss accounts of this company because the industry is facing big problems and a lot of firms are in restructuring process.

The net profit of the firm from 2001 to 2006 are:

	2001	2002	2003	2004	2005	2006
<b>Sales</b>	13.485.770	11.583.366	7.776.366	5.823.176	6.053.392	6.501.001
<b>Net profit</b>	485.119	134.968	23.408	-26.315	-820.306	466.277
<b>Depreciation</b>	1.094.135	1.751.698	1.307.523	647.691	617.182	360.000
<b>Cash flow</b>	1.579.254	1.886.666	1.330.931	621.376	-203.124	826.277

### Book value method

According to the last balance sheet the value of the firm is 1.682.465,39 euros.

### Discounted cash flow method

The company does not have forecasts for the coming years. Because of this reason the value of the firm has been calculated as a perpetuity considering that the cash flow for the year 2006 can last for ever, with an annual increase of 3%:

$$V_{2006} = \frac{CF_{2007}}{k-g} = \frac{CF_{2006}}{k-g} (1+g)$$

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<sup>1</sup> Case written by professor Oriol Amat, Departament d'Economia i Empresa, Universitat Pompeu Fabra, 2007.

where:  $CF_n$  = Free cash flow for year n.

$V_{2006}$  = Value of the firm at the end of 2006.

k = Discount rate (assumption = 8%).

g = Cash flow annual growth rate (assumption = 3%).

Free cash flow 2006	+826.277
+ Asset reinvestment 2006	-300.000
<b>= Free cash flow 2006</b>	<b>+526.277</b>

$$V_{2006} = \frac{CF_{2007}}{0,08-0,03} = \frac{CF_{2006}}{0,08-0,03} (1+0,03)$$

$$V_{2006} = \frac{CF_{2007}}{0,08-0,03} = \frac{+526.277}{0,08-0,03} (1+0,03)$$

$$V_{2006} = 10.841.306 \text{ euros}$$

### **PER method**

Using a multiplier of 14 with the last profit figure, the value of the firm is:

$$\text{Value} = \text{Last year profit} \times 14 = 466.277 \times 14 = 6.527.878 \text{ euros}$$

### **Assignment:**

According to the information provided the two shareholders are far from an agreement.

How would you suggest solving this valuation issue?