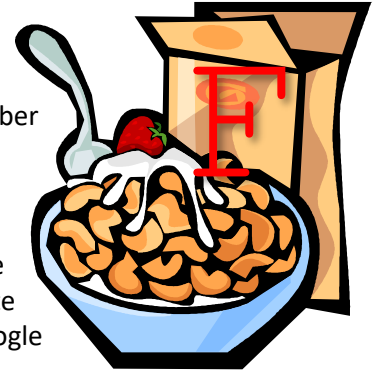


# FRuity FLakes CEREAl CoMpany

You are the owner of a small local business, Fruity Flakes Cereal Company. You are thinking about expanding your operations and boosting your advertising, but need to raise some money to do it. Instead of borrowing the money, you decide to sell some stock in your company for the first time. You don't really know how much your business might be worth, so you decide to do some number crunching.



## **STEP 1: RESEARCH YOUR COMPETITORS**

First, you do a little financial research about your competitors. Use Google Finance or Yahoo! Finance to look up Kellogg and General Mills. Complete the table below with the appropriate financial information from the Google information.

Competitor Name	KELLOGG COMPANY	GENERAL MILLS, INC.	
Ticker Symbol			
Today's Stock Price			
Highest Stock Price in the Past Year			
Lowest Stock Price in the Past Year			
Shares Traded Today			
Shares Traded on an Average Day			
Market Cap (in Billions) <sup>A</sup>			
P/E Ratio <sup>B</sup>			<b>AVERAGE</b>
EPS <sup>C</sup>			

A. What is Market Cap? How is it calculated?

B. What is the P/E Ratio? How is it calculated?

C. What is EPS? How is it calculated?

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## **STEP 2: CALCULATE THE VALUE OF YOUR BUSINESS**

Now that you've looked at how much your competitors are worth, you're ready to value your own company. You can use the average P/E ratio of your competitors and multiply it by your company's net income. This will give you how much your business is theoretically worth.

Average P/E Ratio of Competitors	×	Fruity Flakes Net Income	=	Fruity Flakes Business Value
		\$1,000,000		

(from first page)

## **STEP 3: FIGURE OUT HOW MANY SHARES TO DIVIDE YOUR COMPANY INTO**

You just calculated how much your whole business is worth. If you only had ONE share of stock in your company, this would be your stock price (a pretty big number). Since you want to sell stock to other people, you'll need to divide up your business into smaller slices. Since your competitors are both trading for around \$50 per share, you decide that this is a pretty good target for your stock price too. Figure out how many shares of stock you'll need to end up with a stock price of exactly \$50.

Fruity Flakes Business Value	÷	Share Price You Want	=	Fruity Flakes Total Shares
		\$50		

(from table above)

## **STEP 4: HOW MUCH OF YOUR BUSINESS WILL YOU HAVE TO SELL?**

Now you know how much your business is worth and how many shares you want to split it up into to have an initial stock price of \$50 per share.

A. How many shares will you need to sell to raise \$2,000,000?

B. What percentage of your business does this represent?

C. So, how much of Fruity Flakes Cereal Company will you end up owning after you sell the stock?

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**STEP 5: ESSAY** (100 word minimum, handwritten below)

*NOTE: THIS SHOULD BE YOUR OWN ORIGINAL WORK*

MAKE AN ARGUMENT EITHER FOR OR AGAINST THIS METHOD OF VALUING YOUR CEREAL COMPANY.  
DOES IT MAKE SENSE? ARE THERE PROBLEMS WITH IT? CAN YOU THINK OF OTHER WAYS? EXPLAIN.