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# Corporate Finance The Project

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## What this project involves...

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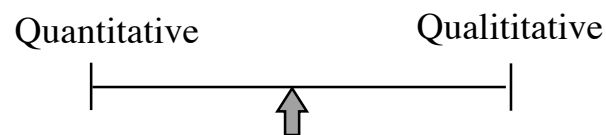
- You should consider this project a live lab experiment that you will be doing in class for the next few sessions. While I will try to apply the principles of corporate finance to the companies I have chosen - Disney, Bookscape... etc. - you will be applying the same principles to your company.
- Many of the numbers will be worked out in class as you go through the material.
- After the course is over, you should write a corporate financial analysis of your company, using the numbers that you have generated in class.

# I. Stockholder Analysis

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- Who is the average investor in this stock? (Individual or pension fund, taxable or tax-exempt, small or large, domestic or foreign)
- Who is the marginal investor in this stock?

**Applies material from: Session 1**

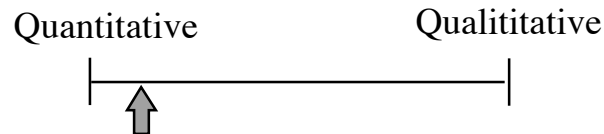


Spreadsheets:	-
Useful Data Sets:	Insider Holdings by Industry Institutional Holdings by Industry

## II. Risk and Return

- What is the risk profile of your company? (How much overall risk is there in this firm? Where is this risk coming from (market, firm, industry or currency)? How is the risk profile changing?)
- What is the performance profile of an investment in this company? What return would you have earned investing in this company's stock? Would you have under or out performed the market? How much of the performance can be attributed to management?
- How risky is this company's equity? Why? What is its cost of equity?
- How risky is this company's debt? What is its cost of debt?
- What is this company's current cost of capital?

**Applies material from: Sessions 1-2**



Spreadsheets:

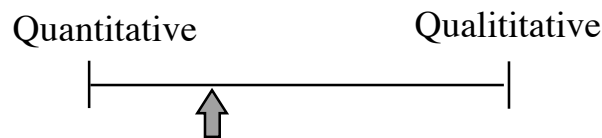
Useful Data Sets:      Betas by Industry  
                                    Jensen's Alpha by Industry  
                                    Cost of Debt/Capital by Industry

### III. Measuring Investment Returns

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- Is there a typical project for this firm? If yes, what would it look like in terms of life(long term or short term), investment needs and cash flow patterns?
- How good are the projects that the company has on its books currently?
- Are the projects in the future likely to look like the projects in the past? Why or why not?

**Applies material from: Session 2**

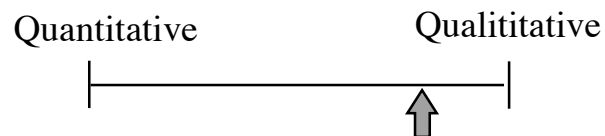


Spreadsheets:	capbudg.xls
Useful Data Sets:	ROE and Equity EVA by Sector ROC and EVA by Sector

## IV. Capital Structure Choices

- What are the different kinds or types of financing that this company has used to raise funds? Where do they fall in the continuum between debt and equity?
- How large, in qualitative or quantitative terms, are the advantages to this company from using debt?
- How large, in qualitative or quantitative terms, are the disadvantages to this company from using debt?
- From the qualitative trade off, does this firm look like it has too much or too little debt?

**Applies material from: Session 3**



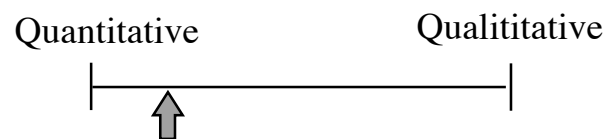
Spreadsheets:	-
Useful Data Sets:	Debt Ratios by Industry Trade-off Variables by Industry

## V. Optimal Capital Structure

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- Based upon the cost of capital approach, what is the optimal debt ratio for your firm?
- Bringing in reasonable constraints into the decision process, what would your recommended debt ratio be for this firm?
- Does your firm have too much or too little debt
  - relative to the sector?
  - relative to the market?

**Applies material from: Session 3 & 4**



Spreadsheets:	capstr.xls; capstro.xls
Useful Data Sets:	Earnings Variance by Industry Market Debt ratio Regression



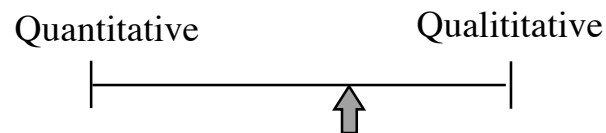


## VII. Dividend Policy

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- How has this company returned cash to its owners? Has it paid dividends, bought back stock or spun off assets?
- Given this firm's characteristics today, how would you recommend that they return cash to stockholders (assuming that they have excess cash)?

**Applies material from: Session 5**



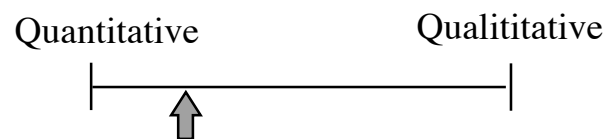
Spreadsheets:	-
Useful Data Sets:	Yields/Payout by Industry Tradeoff Variables by Industry

## VIII. A Framework for Analyzing Dividends

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- How much could this firm have returned to its stockholders over the last few years? How much did it actually return?
- Given this dividend policy and the current cash balance of this firm, would you push the firm to change its dividend policy (return more or less cash to its owners)?
- How does this firm's dividend policy compare to those of its peer group and to the rest of the market?

**Applies material from: Session 5**



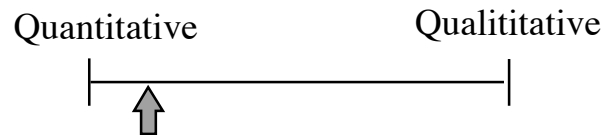
Spreadsheets:	dividends.xls
Useful Data Sets:	Cap Ex Ratios by Industry
	Working Capital Ratios By Industry
	Debt Ratios by Industry

## IX. Valuation (Optional)

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- How fast do you expect operating income to grow at this firm in the immediate future?
- How long do you think it will be before your firm reaches stable growth?
- What is your estimate of value of equity in this firm? How does this compare to the market value?

**Applies material from: Session 5**



Spreadsheets:	fcffginzu.xls
Useful Data Sets:	Betas by Industry
	Growth Fundamentals by Industry
	Cap Ex and Wkg Cap by Industry