



CORPORATE FINANCE
THE PROJECT

The big picture..

2

- You should find a group to work with **between 4-8 people**. You can make the judgment of optimal group size.
- If corporate finance is **best learned through application** and in real time, there is no better way to learn the subject than to try out everything we do in class on a real company in real time...
- You should consider this project a live lab experiment that you will be doing in class for the next 15 weeks. While I will try to apply the principles of corporate finance to the companies I have chosen, **you will be applying the same principles to your company.**

Picking your companies

3

- Each person picks a company. The company should be publicly traded and have at least one year of trading history and one set of annual financial statements. The company can be listed in any market.
- There should be a common theme in each group. The theme can be broadly defined. For instance, an entertainment group can include movie companies, television broadcasters and syndication companies. An automobile group can include auto companies, suppliers to auto companies and even an auto dealership. In putting together the group of companies, try to pick as diverse a mix of companies as possible (small and large, domestic and foreign, closely held and widely held....)
- Avoid the following
 - Financial service firms (banks, insurance companies & investment banks)
 - Money losing companies
 - Companies with large capital arms (GE and the auto companies)
 - Real estate investment trusts

II. Stockholder Analysis

5

- What is the breakdown of stockholders in your firm - insiders, individuals and institutional?
- Who is the marginal investor in this stock?

Webcast: <http://www.stern.nyu.edu/~adamodar/podcasts/Webcasts/holders.mp4>

Applies material from: Session 5



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

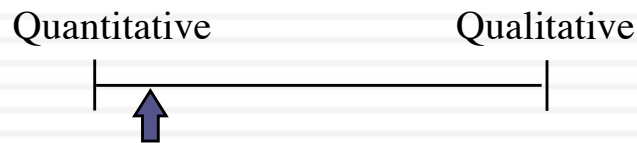
III. Risk and Return

6

- 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 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? 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?

Webcasts on (a) [Risk free rate](#) (b) [ERP](#) (c) [Regression Beta](#) (d) [Bottom up Beta](#) & (e) [Debt](#)

Applies material from: Sessions 6-11



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| Spreadsheets: | Risk&Ret.xls (if needed) |
| Useful Data Sets: | Betas by Industry |
| | Jensen's Alpha by Industry |
| | Cost of Debt/Capital by Industry |

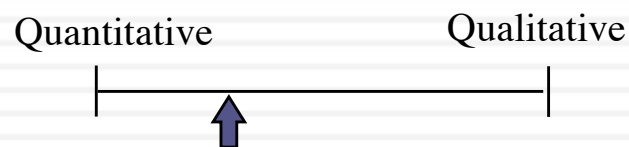
IV. Measuring Investment Returns

7

- Is there a typical project for this firm? If yes, what does 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?

Webcast on identifying [typical project](#) & [measuring accounting return](#).

Applies material from: Sessions 12-16



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

V. Capital Structure Choices

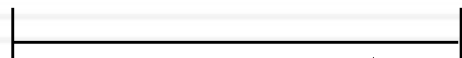
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- What are the different kinds or types of financing that this company has used to raise funds? Where do they fall in the continuum between debt and equity?
- How large, in qualitative or quantitative terms, are the advantages to this company from 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?

Webcast: <http://www.stern.nyu.edu/~adamodar/podcasts/Webcasts/tradeoffdebt.mp4>

Applies material from: Session 17

Quantitative Qualitative



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

VI. Optimal Capital Structure

9

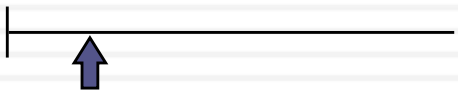
- Based upon the cost of capital approach, what is the optimal debt ratio for your firm?
- Bringing in reasonable constraints into the decision process, what would your recommended debt ratio be for this firm?
- Does your firm have too much or too little debt
 - ▣ relative to the sector?
 - ▣ relative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

Webcast: <http://www.stern.nyu.edu/~adamodar/podcasts/Webcasts/optdebt.mp4>

Applies material from: Sessions 18-19

Quantitative

Qualitative



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|-------------------|---|
| Spreadsheets: | capstru.xls; capstruo.xls |
| Useful Data Sets: | Earnings Variance by Industry Market Debt ratio Regression |

VII. Mechanics of Moving to the Optimal

10

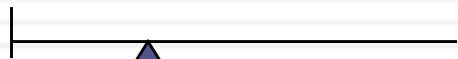
- If your firm's actual debt ratio is different from its "recommended" debt ratio, how should they get from the actual to the optimal? In particular,
 - ▣ should they do it gradually over time or should they do it right now?
 - ▣ should they alter their existing mix (by buying back stock or retiring debt) or should they take new projects with debt or equity?
- What type of financing should this firm use? In particular,
 - ▣ should it be short term or long term?
 - ▣ what currency should it be in?
 - ▣ what special features should the financing have?

Webcast: <http://www.stern.nyu.edu/~adamodar/podcasts/Webcasts/debt设计.mp4>

Applies material from: Sessions 20-21

Quantitative

Qualitative



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Spreadsheets:

macrodur.xls

Useful Data Sets:

Firm Value Sensitivity by Industry

VIII. Dividend Policy

11

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

Webcast: <http://www.stern.nyu.edu/~adamodar/podcasts/Webcasts/dividends.mp4>

Applies material from: Session 22



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

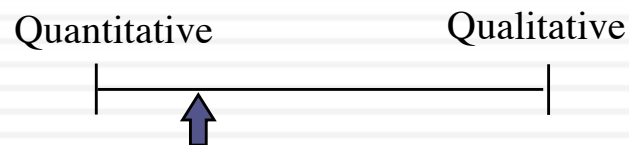
IX. A Framework for Analyzing Dividends

12

- How much cash 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?

Webcast: <http://www.stern.nyu.edu/~adamodar/podcasts/Webcasts/dividends.mp4>

Applies material from: Sessions 23-24



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

X. Valuation

13

- What growth pattern (Stable, 2-stage, 3-stage) would you pick for this firm? How long will high growth last?
- What is your estimate of value of equity in this firm? How does this compare to the market value?
- What is the “key variable” (risk, growth, leverage, profit margins...) driving this value?
- If you were hired to enhance value at this firm, what would be the path you would choose?

Webcast: <http://www.stern.nyu.edu/~adamodar/podcasts/Webcasts/valuation.mp4>

Applies material from: Session 25



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|-------------------|----------------------------------|
| Spreadsheets: | Choice of valuation spreadsheets |
| Useful Data Sets: | Betas by Industry |
| | Growth Fundamentals by Industry |
| | Cap Ex and Wkg Cap by Industry |

Project Time Frame

14

| <i>By this date</i> | <i>You should be done with</i> |
|---------------------|---|
| 1 (2/8) | Find a group |
| 2 (2/15) | Pick your firm; Get data; |
| 3 (2/22) | Corporate Governance; Stockholder Analysis |
| 5 (3/14) | Risk and Return |
| 6 (3/28) | Measuring Investment Returns |
| 8 (4/11) | Capital Structure Choices |
| 9 (4/18) | Optimal Capital Structure |
| 10 (5/1) | Mechanics of Moving to the Optimal |
| 12 (5/9) | Assess Dividend policy |
| 13 (5/11) | A Framework for Analyzing Dividend Policy |
| 13 (5/11) | Valuation |
| 5/11 | Project Due by the end of the day (5 pm) |