A TYPICAL PROJECT

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Why do we care?

- **Structure investment analysis**: Knowing what a typical project looks like allows you to structure your investment analysis and key in on the “drivers” of project success and failure.

- **Choose financing**: The financing for a project should reflect the project’s characteristics:
  - Amount of debt
  - Duration
  - Cash flows
  - Other characteristics

- **Determine dividends**: A company’s capacity to pay dividends or return cash to stockholders will be determined by the nature of its projects
The simplest case: A single project company

- The easiest case to analyze is a company with a single project.
- Example: TollCorp Inc. is a company started exclusively to build a single toll road in Mumbai, connecting the heart of the city to suburbs.

Project description
- Long term, with large infrastructure investments up front
- Once investment is made, cash flows will depend upon number of cars on the toll road and tolls charged
- The cashflows will entirely be in rupees
- At the end of the project life, the project will be sold to the government at an preset multiple of revenues in the last year.
A slightly more complicated example: A single business company with homogeneous projects

- There are companies that operate in a single business, with projects that are very similar to each other.

- **Example:** Buffalo Wild Wings is a fast-growing restaurant company. Each project is another restaurant, of roughly the same size, though the costs can vary by location.
  - The restaurant sites are leased, typically for the same number of years, albeit with different lease expenses.
  - The revenues at the restaurants are roughly similar, with differences reflecting the competition in the vicinity.
  - At the end of the lease life, there is typically little to salvage.
Life gets more complicated: Same business, but projects become diverse

- As companies get larger and more ambitious, the projects taken can become more diverse because the company is either exploring ways to expand in an existing market or going into new markets.

- Example: For much of its history, Walmart has grown its business in the US with homogeneous investments. Now, as Walmart expands overseas, it is discovering that differences in regulation, real estate practices and legal systems can change the nature of a project investment.
The really messy examples: Multi business companies

- If a company is a multi business company, the projects in each business can be vary widely in terms of characteristics. In this case, you should try to describe typical projects by business.

- **Example**: Disney, with its mix of theme park, movie and TV businesses sees very different projects across businesses in terms of
  - Duration
  - Cash flow patterns
  - Currencies
  - Risks
The acquisitive company: Acquisitions are projects too

- Some companies choose to grow through acquisitions (or at least some of their growth systematically) through acquisitions.
- An acquisition is a project. If you have a company that grows through acquisitions, here are some of the things to look for:
  - Large, infrequent acquisitions versus Small, frequent acquisitions
  - Financing of the acquisitions (Cash, Stock or Debt)
  - Dependence on side benefits (Control, Synergy)
Some final advice: Where to find information

- **Experience with the product/service**: If you have used a company’s products or services, you can start thinking about how those products and services came into being.

- **Financial statements**: There will be information about investments taken during the course of a year in financial statements, though it is scattered through the report.

- **News reports**: News stories often reveal how much a project cost and what the plans are for the future, at least at the time of the investment.