



Corporate Finance The Project

Aswath Damodaran

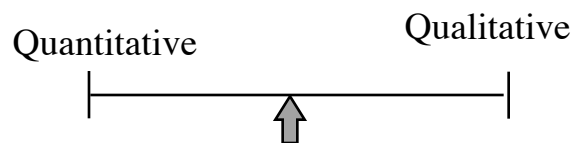
Picking your companies

- 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

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

Applies material from: Session 5



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

IV. Measuring Investment Returns

- 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?

Applies material from: Sessions 13-15

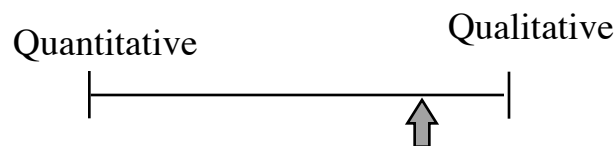


Spreadsheets:	capbudg.xls
Useful Data Sets:	ROE and Equity EVA by Sector ROC and EVA by Sector

V. 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: Sessions 16-17

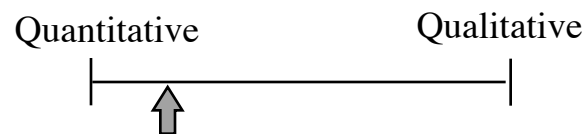


Spreadsheets:	-
Useful Data Sets:	Debt Ratios by Industry Trade-off Variables by Industry

VI. Optimal Capital Structure

- 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: Sessions 17-18

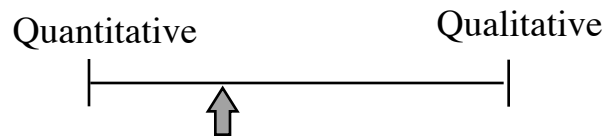


Spreadsheets:	capstru.xls; capstruo.xls
Useful Data Sets:	Earnings Variance by Industry Market Debt ratio Regression

VII. Mechanics of Moving to the Optimal

- 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?

Applies material from: Sessions 19-20

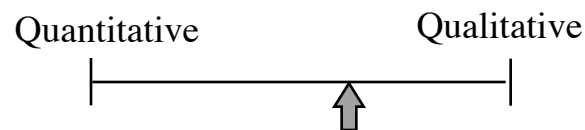


Spreadsheets:	macrodur.xls
Useful Data Sets:	Firm Value Sensitivity by Industry

VIII. Dividend Policy

- 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)?

Applies material from: Sessions 21-22

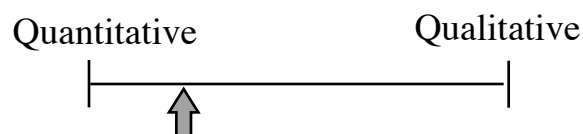


Spreadsheets:	-
Useful Data Sets:	Yields/Payout by Industry Tradeoff Variables by Industry

IX. A Framework for Analyzing Dividends

- 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?

Applies material from: Sessions 23

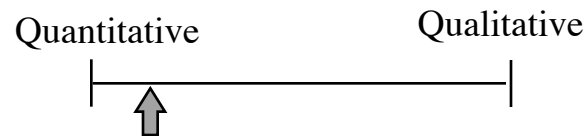


Spreadsheets:	dividends.xls
Useful Data Sets:	Cap Ex Ratios by Industry
	Working Capital Ratios By Industry
	Debt Ratios by Industry

X. Valuation

- What type of cash flow (dividends, FCFE or FCFF) would you choose to discount for this firm?
- 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?

Applies material from: Sessions 24-25



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

<i>By this date</i>	<i>You should be done with</i>
2 (2/6)	Picking the firms for the project; Get data;
3 (2/13)	Corporate Governance; Stockholder Analysis
5 (2/27)	Risk and Return
6 (3/6)	Measuring Investment Returns
8 (3/27)	Capital structure Choices
9 (4/3)	Optimal Capital Structure
10 (4/10)	Mechanics of Moving to the Optimal
12 (4/17)	Dividend Policy
13 (4/24)	A Framework for Analyzing Dividend Policy
14 (5/1)	Valuation
5/4	Project Due by the end of the day (5 pm)