Corporate Finance: Newsletter – March 6, 2000

Where we are in class…

Lecture Notes Packet (pdf)

Where you should be in the project…

Project

Pick a company & group
Get data from Bloomberg
Get latest Edgar filings (10-K, 14-DEF) and annual report
I. Corporate Governance Analysis
II. Stockholder Analysis
III. Risk and Return Analysis
IV. Measuring Investment Returns
V. Capital Structure Choices
VI. Optimal Capital Structure
VII. Mechanics of Moving to the Optimal
VIII. Dividend Policy
IX. A Framework for analysing Dividend Policy
X. Valuation

Applied Corporate Finance Book

Chapter 1
Chapter 2
Chapter 3
Chapter 4
Chapter 5
Chapter 6
Chapter 7
Chapter 8
Chapter 9
Chapter 10
Chapter 11
Chapter 12
Data Notes…

In the last three sessions, we have moved past the cost of equity to the cost of capital. To estimate the cost of debt using either an actual rating for your firm or estimating a synthetic rating. You can get the actual rating for your firm from http://www.bondsonline.com/bondquoteindex.html

To estimate a synthetic rating, you can use the interest coverage ratio and the ratings spreadsheet on my web site:

http://www.stern.nyu.edu/~adamodar/New_Home_Page/spreadsh.htm

Once you have a rating, you can estimate the default spread by going back to the first site:

http://www.bondsonline.com/corpindex.html

To estimate the market value of debt, you need to estimate the maturity of the debt and the operating lease commitments that your firm might have. You can get these from your firm's 10-K, which you can estimate by going to

http://www.sec.gov/edgarhp.htm

Finally, once you have your company's cost of capital, you can compute your firm's economic value added and compare it to what is typical for the sector:

http://www.stern.nyu.edu/~adamodar/New_Home_Page/data.html

Miscellaneous FAQs

My firm has no interest expenses. How do I estimate a bond rating?

If it has no interest expense, give it a AAA rating. It will make no difference to your cost of capital anyway.

My firm has no debt. What do I do?

Some firms have no debt. Do not look for trouble, where none exists.