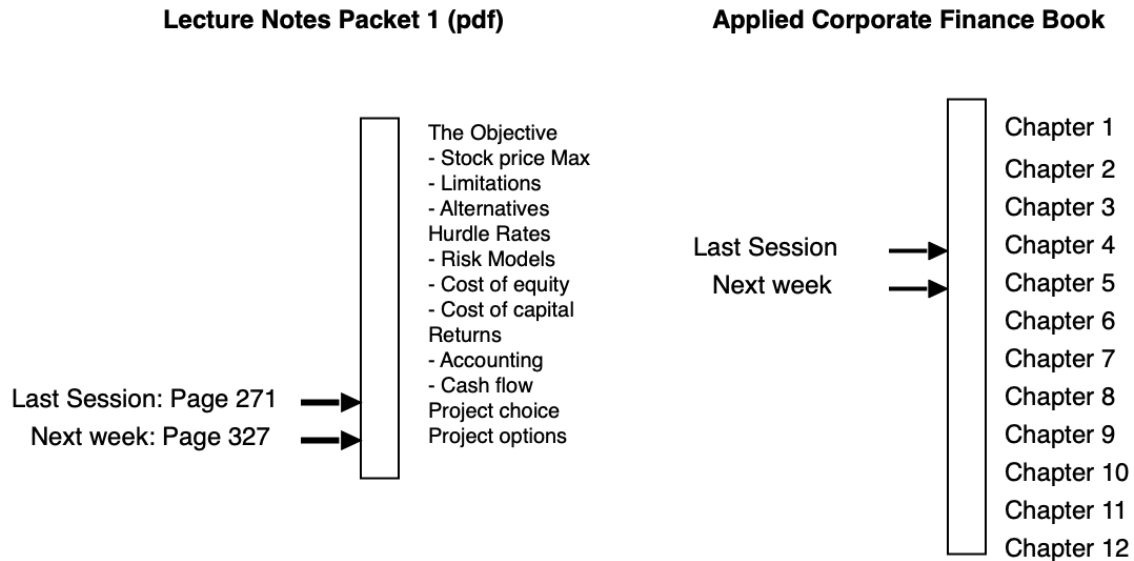
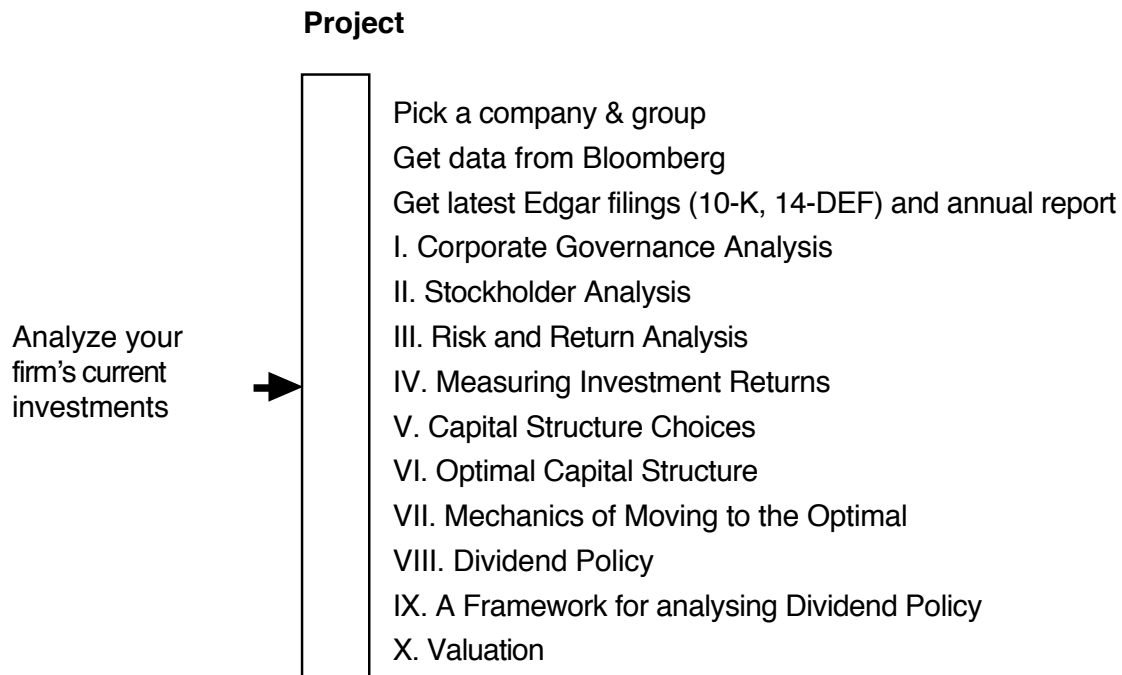


Corporate Finance: Newsletter – March 25, 2023

Where we are in class...



Where you should be in the project...



Data Notes...

While you have a pause in the action, please review where you are in the project. You need to have a cost of capital for your firm and you should have computed the economic

value added for your firm. To compare your company's return spread to that of the sector, you can use my EVA dataset on my web site:

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

When you do measure your company's return on equity or capital, don't be surprised by weird looking numbers that don't conform to your priors. The return on equity (capital) is an accounting number, and to the extent that both the numerator (earnings) and denominator (book value) can be skewed by accounting decisions. To provide just one illustration, big buybacks and write offs can make book value of equity and even capital negative. If that happens, the accounting returns become meaningless and you have to look for other clues to project quality.

Miscellaneous FAQs

When is the next quiz and what will it cover?

The next quiz is on Monday, April 3, and it will cover the cost of capital calculation and the investment return section of the notes (from page 150 or so to the end of part I). We should be done with this by the next two sessions and you can start working through practice problems, whenever you get a chance. In the book, the relevant chapters are the last part of chapter 4, chapter 5 and chapter 6.

What do I do if a 10-K comes out in the next week or two for my firm?

I would suggest that you update your analysis. In fact, I would strongly recommend that when you build spreadsheets for your firm, you set up a separate input page, where you can update numbers and have them reflected in the entire analysis.