

MF 127: Corporate Finance
Sections 2&3
Professor Strahan
Company Report

Team Formation and Choice of Company Due: February 5, 2008
Project Write-up Due: April 24, 2008

In very general terms, your assignment is to write a critical evaluation of the management of a firm of your choice, focusing on three areas: the firm's investment policies, the firm's financial policies, and the firm's corporate governance policies. The objective of this assignment is to think like a management consultant who must determine whether or not the company is well-run and, if it is not well-run, what can be done to correct the problems.

This is a group project, with up to five (5) members. Group projects are sometimes difficult to manage. For example, some team members may not work as hard as others. Learning how to confront and overcome these kinds of problems is a part of this assignment. If you are having difficulty getting onto a team, let me know and I will put you on one. You **must** let me know what team you are, and what company you will be analyzing, by February 5.

Here is an outline of your report:

I. Introduction:

Your report should begin with a *brief* introduction that describes the firm's business and how the firm has performed during the course of the semester. Tell me what happened to its stock price during the semester. Explain any large stock price moves.

The body of your report should evaluate the investment, financial and corporate governance policies of the company.

II. Investment Policy:

First, describe qualitatively the firm's current and planned investments. Do you think the plan is value enhancing or value destroying? (i.e. do you think the investment policies are all positive NPV or not.) Second, provide a quantitative analysis that demonstrates your grasp of DCF analysis. This means you need to build an estimate of the cost of capital, provide cash flow forecasts, and then value those cash flows. In past years some groups have valued a specific investment plan outlined in the Annual Report about future investments and some have tried to analyze a recent acquisition by the firm. If there is not sufficient information for you to analyze a specific investment, you may provide a valuation of the whole firm.

You need to explain and defend the assumptions underlying both your cash flow figures and your estimate of the discount rate!!

You will need your company's most recent Annual Report, which is available from the Securities & Exchange Commission (SEC), or from the company itself. The SEC's name for the Annual Report is the "10-K"; quarterly financial statements (unaudited) are filed with the SEC in the "10-Q".

III. Financial Policy:

Describe the firm's capital structure, dividend payout policies, and stock repurchase policies. How much cash is the firm holding? Evaluate these policies. Do you think this firm has too much or too little debt? Does the firm hold too much or too little cash on its balance sheet? Explain. Often a good approach is to compare your firm with other firms in the same industry. Be as quantitative as you can based on available information. For example, compute the PV of tax savings for this firm for different levels of debt, using whatever simplifying assumptions that you need, but please make it clear what these assumptions are. Discuss offsetting costs associated with increasing the debt of this firm.

How will the firm finance the investment plans discussed above in section II? Discuss whether or not you think the financial plan is a sound one.

IV. Corporate Governance Policy:

Describe the ownership structure of the firm's stock. How much of the stock is owned by management? How much by large investors? Institutional investors? Describe the composition of the firm's Board of Directors. Are the Board members qualified for their position? (Short biographies of Board members appear in the Proxy Statement.) Do you think the Board is likely to oversee management effectively and ensure that they act in the interests of shareholders? Describe the compensation of the CEO. Given the combination of ownership, the Board, and the CEO's compensation, evaluate this firm's corporate governance policies overall. What changes would you recommend, if any? (Information on the Board of Directors, ownership of the firm's stock, and management compensation that you use should come from the most recent Proxy Statement.)

Here are some useful sources to help in your research:

Business Press:

The Wall Street Journal, The Economist, Business Week, and The Financial Times are all good. There are many others you can draw on as well.

Websites:

You may be able to find recent financial statements and the Annual Report on company websites. The Annual Report (10-K) and proxy statement for all public companies are available on line at the SEC (<http://www.sec.gov/edgar.shtml>), however this website is pretty clumsy and hard to use. A somewhat easier way to find these is using Thomson Research, which is available through the O'Neill Library.

CNN and Yahoo have good financial websites with data on stock prices.

Illegitimate resources:

Your analysis of the company must be original. You may read the opinions of other experts in doing research on your company, but you must give credit for any ideas in the report that are not your own! Please feel free to consult with me about your project, however.

Formatting instructions:

10 Pages of text **maximum**, not including exhibits;

Well-constructed exhibits based on Excel spreadsheets are often a useful to show me how you have done your analysis

No smaller than 10 point font;

Double spaced.