

FIN 4410 Team Case

Spring, 2018

Due Date: April 18, 2018

125 points

This project is phase two of a scholastic year-long project spanning FIN 4210 and FIN 4410. Students will be assigned to teams and analyze a company spanning semesters. The project has five purposes. First, to value a company using the methods taught in text and comparing them to Bloomberg and other “real world” valuation methodology. Second, to perform analysis using EXCEL. Third, to become proficient in using various data bases including: Bloomberg, the Federal Reserve (FRED at St. Louis) and Yahoo! Finance. Fourth, to foster teamwork (as opposed to divide and conquer). Fifth, to develop team presentation skills.

This project consists of three turned in components, a written report, accompanying EXCEL based calculations, and Power point slides. The written report should be in WORD (Times New Roman 12 pt. font, 1.5 spacing). It must explain your findings and include calculation results where necessary. In other words, the reader should not have to go to the spreadsheets to find the supporting data for any conclusions derived. The written report should be clear and concise, not a rambling discourse. The written report should be in the following format: Discussion of the topic for that section, followed immediately by a table/Excel output that you used in your discussion. Be sure to cite all references used to create your report at the point they are discussed as well as include a reference section with the full source citation. Concerning data sources, Bloomberg should be your primary data source and Yahoo finance a primary backup. If data is available for both sources use Bloomberg. However, whenever possible, your numbers should be your calculations. For example, it is not permissible to copy the ratios directly from Bloomberg, you must calculate them yourself.

In addition to a written report, each team will also present their findings to the class using Power point. Teams and companies will be a continuation from FIN 4210. The team presentations will be made towards the end of the semester. Each team member is expected to participate in the presentation. All team members should be prepared to answer any question about the case. Failure to answer correctly will result in a reduction in the team presentation points.

One key point about this project: Treat the project as if you are an analyst covering this stock. If you mention what other analysts are saying, you will be appropriately punished as I will not buy or sell on your recommendation (or lower your grade). The goal of this project is to analyze the company and come up with a 1-year price target. Be ready to DEFEND, DEFEND, DEFEND!

Note, I can be picky on your formatting/presentation. Make it professional. For example, in your ratio table (I assume you will have one), you should not display one ratio to eight decimal points and another to one decimal point.

1. Overall requirements

- 1.1.** All team members are required to download data and perform calculations.
- 1.2.** All team members are required to read AFP’s cost of capital survey (<http://www.afponline.org/>)

- 1.3. All team members will grade each other on their contribution to the project. A team member evaluation form is available on the class web site.
- 1.4. All data used in the calculations will be downloaded as of the data grabbing period.
- 1.5. All calculations are to be done in EXCEL and provided as supporting documentation.
- 1.6. The first paragraph (or two) should be an introduction of your company.
2. **(10 points) Ratio analysis** Calculate the ratios discussed in class for your company for the past 3 years. Conduct a time trend and peer group analysis. How is your company performing based on these ratios?
3. **(10 pts) Company growth** In contrast to the FIN 4210 project, this part of the project is forward looking. You have already examined your company, so now tell me what the growth rate in sales will be the next 3-5 years. What is the driver of the sales growth? This is the key component of much of the rest of your project, so make sure that you have a good handle on this. Using the average growth rate for the past five years is not a growth rate.
4. **(5 points) EFN** Using the growth rate you estimate, calculate the company's EFN for next year.
5. **(5 pts) CAPM Calculation of the Cost of Capital**
 - 5.1. Using Yahoo finance monthly returns for last 5 fiscal years for your company, and S&P 500 returns as the market index, calculate Beta for your company using regression in EXCEL. Compare it to the Betas disclosed by Bloomberg and Yahoo finance. Explain any differences.
 - 5.2. Calculate the firm's cost of equity using the CAPM using 3 sets of inputs:
 - 5.2.1. Risk-free rates for 1, 10 and 20 year.
 - 5.3. From the three costs of equity that you calculated using CAPM which will you use to value your company? Why? What is the market risk premium? Why?
6. **(5 pts) Costs of Other Components**
 - 6.1. Debt. Estimate the firm's cost of debt using bond quotes/YTMs from <http://finra-markets.morningstar.com/BondCenter/Default.jsp>. You can use the yields reported on the site. For bonds without a yield, but only a price, calculate the yield.
 - 6.2. Preferred Stock: If your firm has preferred stock, you are free to choose any method you desire to estimate the current market costs. Explain your choice.
7. **(5 pts) Calculate the market based WACC weights for your company.** Calculate the market value of debt. NASDBONDINFO has the current market price and the 10-k (EDGAR at www.sec.gov.) will have a breakdown of the par value outstanding. See the section from Autozone's 10-k below:

Note 1 – Financing

The Company's debt consisted of the following:

<i>In thousands</i>	August 31, 2013	August 25, 2012
3.875% Senior Notes due October 2012, effective interest rate of 6.33%	\$	\$ 300,000
4.375% Senior Notes due June 2013, effective interest rate of 5.65%	—	200,000
6.500% Senior Notes due January 2014, effective interest rate of 6.63%	500,000	500,000
3.750% Senior Notes due January 2015, effective interest rate of 5.89%	500,000	500,000
5.500% Senior Notes due November 2015, effective interest rate of 4.86%	300,000	300,000
6.950% Senior Notes due June 2016, effective interest rate of 7.09%	200,000	200,000
7.125% Senior Notes due August 2016, effective interest rate of 7.28%	250,000	250,000
4.000% Senior Notes due November 2020, effective interest rate of 4.43%	500,000	500,000
2.700% Senior Notes due April 2022, effective interest rate of 3.85%	300,000	300,000
2.875% Senior Notes due January 2023, effective interest rate of 3.21%	300,000	—
3.125% Senior Notes due July 2023, effective interest rate of 3.26%	500,000	—
Commercial paper, weighted average interest rate of 0.29% and 0.42% at August 31, 2013 and August 25, 2012, respectively	637,000	513,402
Unclassified, zero denominated borrowings, weighted average interest rate of 4.37% at August 25, 2012	—	4,781
Total debt	4,187,000	3,768,183
Less: Short-term borrowings	173,733	49,881
Long-term debt	\$ 4,013,267	\$ 3,718,302

8. **(5 pts) Calculate your firm's WACC.**
9. **(10 pts) Cash Flow Estimation.**

- 9.1. Estimate the annual Free Cash Flows of the firm for the next five (at least) years using your estimated growth rate.
- 9.2. Estimate the annual Free Cash to Equity of the firm for the next five (at least) years using your estimated growth rate.
- 9.3. Estimate Enterprise Value of the firm for the next five (at least) years using the data your estimated growth rate.

10. (15 pts) Firm Valuation

- 10.1. Calculate the value of the firm for the most recent year and the value one year from now using the inputs you calculated above and the following models. What is your estimated stock price next year with these models?

10.1.1. FCFF

10.1.2. FCFE

11. (10 pts) **Valuation ratios** Value the current firm value and the value one year from now using the following ratios:

11.1. EV/EBITDA

11.2. P/E

11.3. P/S

Key question: Will your multiples be constant this year and next year? Why or why not?

12. (10 point) What is your estimate of the stock price next year? Defend your valuation.

13. (35 pts) Team class presentation.