Term Paper

OVERVIEW

You are the head of financial analysis for Truly Voracious Holdings, a company with no assets other than lots of money, and an unlimited appetite. You have been told to analyze a potential acquisition.

Please analyze and discuss the company and its industry, from the perspective of a potential shareholder.

Your final product will be a report that shows your various analyses, discusses the pros and cons, and ultimately recommends either going ahead with the takeover, or not. (Please see discussion of Content, below.)

You will be rewarded by your senior manager based on the logic of your conclusion, and how well supported it is.

GUIDELINES

- This is an individual assignment.
- You must choose one of the companies from the attached list.
- You must use the most recent, publicly available information and financial statements. This information should be readily available online, as well as or from industry reference books, such as Dun & Bradstreet, Moody's or Value Line. Refer to the Bobst Library for additional resources.

CONTENT

The following items are **required** to be incorporated into your report, each in a section of its own.

1. Present a **high-level overview** of your target company and its industry. Focus on the key drivers of success (i.e., shareholder value maximization), including products, markets, and competition. (5% of Term Paper grade)
   *The purpose of this section is only to provide **context for your financial analysis**. It may not exceed 1-2 pages.*

2. Perform a detailed **ratio analysis** of your target company, *specifically from the perspective of a shareholder.* (30% of Term Paper grade)

   - Perform both trend (company historical) and benchmarking (industry) analyses. Present 2 or more ratios for each of the five types of ratio, showing the three most recent years for your target company, and the industry average for at least the most recent of those years. You do NOT need to calculate the ratios, if you can find them elsewhere.

- Explain the <u>implications</u> of these ratios on the company, and comment critically on the <u>direction</u> of the trends, and <u>why</u> the company's ratios may differ from the industry average. ***This is the most important element of the ratio analysis.*** Cite specific examples from the analysis above to support your comments. For instance, "The company's liquidity seems adequate, as both the Current Ratio and Quick Ratio have been relatively steady over the last three years, and are currently slightly above industry averages of 2.4 and 1.3, respectively."

3. Develop **projected Income Statements** for each of the next <u>three years</u>. (25% of Term Paper grade)
   - Project annual revenues based on any reasonable sales forecast, but **explain** your thinking. For example, "I expect sales to grow 1.4% per year, compared to the average growth over the last three years of 1.2% per annum, due to the recent expansion into Sweden and Norway."
   - Project the major Expense lines, <u>based on what should be driving the expenses</u>. For example: "Cost of Goods Sold is expected to rise at the same rate as the increase in Sales." "Administrative Expense is expected to grow at the overall rate of inflation, which I project to be 1% per year." "Income Tax is expected to remain at the same rate as the previous year of 36.2% of Pre-Tax Income."

   Your explanations of the revenue and expense drivers are the most important element of the income statement projection.

4. Use the Dividend Growth model to calculate a **valuation for the company's stock**. (15% of Term Paper grade)
   - Assume the dividend will grow at the *average rate of change* in your projected Net Income over the next three years.
   - Assume the required return is 3% <u>higher</u> than the dividend growth rate. Thus, if the calculated growth rate of Net Income over the next three years is 6.2%, then assume a required return of 9.2%
   - Compare your calculated valuation to the company's <u>current</u> stock price, and comment on any significant variation.
   - Using your assumed dividend growth rate from above, calculate the market's expected return based on the company's <u>current</u> stock price.

5. Finally, make a **specific investment recommendation** regarding the acquisition of the target's <u>bonds</u>, <u>stock</u>, <u>neither</u>, or <u>both</u> (20% of Term Paper grade)
   - You should <u>primarily base this on the financial analyses</u> you've done. ***Please give your reasons, with specific references to all the above analyses***.
   - For example, "The company's profitability ratios handily exceed the industry average, and the company's liquidity seems adequate, based on its Current Ratio of …Therefore, I recommend acquisition of the company's bonds. However, the projected Income Statements show declining profitability, and the current stock price is 12% higher than the valuation of the Dividend Growth model…Therefore, I do not recommend acquiring the company's stock at the current price"

An additional 5% of Term Paper grade is for Presentation (professionally written, lack of typos; use of supporting tables and graphs, as appropriate; etc.)

You must also submit the Term Paper Checklist document, as your acknowledgement that you have reviewed your paper to ensure all requirements have been met.

ADMINISTRATIVE ITEMS
- Please keep the paper **finance-oriented.**
- The paper can be a **maximum** of 20 pages long, *including* tables, charts, graphs, and appendices.
- Please double-space, using Arial 12-pt. font, to make the paper more manageable.
- You may include an Executive Summary of your report on the first page (*optional*).
- Please include any tables, charts and graphs you wish. You must include a bibliography stating your sources. *Everything except the Bibliography is included in the 20 page maximum.*
- Please upload your completed term project *via NYU LMS* to the **Term Paper** assignment by the posted due date and time. Please name your file "**Lastname, Firstname Term Paper**".
- Your paper must be in either PDF or Word format.

Good luck!

List of Target Companies

Apple

Best Buy

Caterpillar

Cisco Systems

Clorox

Costco

CVS Health

Ford

Harley-Davidson

IBM

Intel

Lockheed Martin

Macy's

McDonald's

Microsoft

Nike

Nordstrom

Southwest Airlines

Starbucks

Target

Gap

Verizon

Walmart