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## Review Classmates: Module 1 Assignment

Review by July 20, 11:59 PM PDT

|  |  |
| --- | --- |
| **Reviews** | 2 left to complete |

V.F Corporation Vs NIKE Inc. Analysis



by Deryl Honny

Submitted on July 13, 2016

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Question 1

Explain why maximizing current stockholder wealth is a reasonable objective for the corporation *(1 paragraph maximum).*

Stockholder wealth is reflective on a corporation's stock price which indicates a discounted sum of all future cashflows reflected by all the effects of decisions taken by a company. If stockholders are effectively the owners of the company, then it makes sense that maximizing value for them is the essence of their investment to take care of the opportunity cost forgone in the decision to invest in the company and not another company.

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #1 below.

* 10 pts - 10 points: A reasonable answer that is based on the arguments that we discussed in the lectures
* 5 pts - 5 points: Incomplete answer or a correct answer that is too long (longer than 1 paragraph)

Question 2

A company’s board of directors must choose between two alternative compensation packages for top executives. Package 1 includes a fixed salary and an yearly bonus that depends on profits on that year. For example, the CEO gets paid a bonus if profits are higher than a certain target. Package 2 includes a fixed salary, and a certain amount of stock in the company. Which package is likely to be better from the point of view of shareholder value maximization? *(1 paragraph maximum).*

Package 2 is likely to maximise shareholder value. Creating value for shareholders automatically creates value for the CEO. decisions from the CEO in package 2 will be well thought out to maximize value as the interest of both shareholders and CEO becomes symbiotic instead of package 1 which drives on instant gratification decisions to maximize current profit at the expense of future growth.

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #2 below.

* 10 pts - 10 points: Correctly identified the package that is most likely to lead to shareholder value maximization and a reasonable explanation based on the arguments we discussed in the lectures
* 5 pts - 5 points: Chose the wrong compensation package but justifying the choice with a reasonable argument, or for a correct answer that is too long (longer than 1 paragraph)
* 2 pts - 2 points: Correctly identified the package but included no explanation

Question 3

Questions 3-9 will ask you to compute, compare, and analyze financial ratios for [Nike Inc](https://d396qusza40orc.cloudfront.net/corporatefinance/resources/NIKE%20Inc%20NYSE%20NKE%20Financials.xls) and [V.F. Corporation.](https://d396qusza40orc.cloudfront.net/corporatefinance/resources/V%20F%20Corporation%20NYSE%20VFC%20Financials.xls) The data you need are in the linked spreadsheets.

Here is some information about the companies from Capital IQ :

NIKE, Inc., together with its subsidiaries, designs, develops, markets, and sells athletic footwear, apparel, equipment, and accessories for men, women, and kids worldwide. NIKE, Inc. was founded in 1964 and is headquartered in Beaverton, Oregon.

V.F. Corporation was founded in 1899 and is headquartered in Greensboro, North Carolina. V.F. Corporation designs, manufactures, markets, and distributes branded lifestyle apparel, footwear, and accessories in the United States and Europe.

Compute the main liquidity ratios for both Nike and V.F.Corporation (current ratios, quick ratios, and cash ratios). Do this for the last 3 years available. For Nike they will be May 2015, May 2014 and May 2013. For V.F.Corporation they will be July 2015 (latest-twelve months), January 2015, and December 2013.

**Current Ratio 1 2 3**  
**V.F Corporation 2.48 2.58 1.71**  
**NIKE Inc 3.44 2.72 2.52**  
  
**Quick Acid Ratio**  
**VF Corporation 1.36 1.396 0.76**  
**NIKE Inc 2.29 1.71 1.5**  
  
**Cash Ratio**  
**V F Corporation 0.5 0.6 0.27**  
**NIKE Inc. 1.51 1.02 0.95**

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #3 below.

* 10 pts - 10 points: Correct liquidity ratios for all years and both companies
* 5 pts - 5 points: Answer is partially correct, for example not calculating the ratios for all years, or making a mistake on one of the ratios.

Question 4

Compute the main balance sheet leverage ratios for both Nike and V.F.Corporation (Debt/(Debt + Equity), and Liabilities/Assets). You only need to do this using the most recently available data so as to reflect the current valuation of the companies.

**Debt/(Equity+Debt)**  
**V.F. Corporation 0.08**  
**NIKE Inc 0.014**  
  
**Liabilities/Assets**  
**V.F Corporation 0.13**  
**NIKE Inc. 0.09**

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #4 below.

* 10 pts - 10 points: Correct leverage ratios for both companies.
* 5 pts - 5 points: Answer is partially correct, for example not calculating all the leverage ratios, or making a mistake on one of the ratios.

Question 5

Compute the main profitability ratios for both Nike and V.F.Corporation (Asset turnover, profit margin, and ROA). Do this for the last 3 years available.

1 2 3  
Assets Turnover  
V.F Corporation 1.11 1.23 1.26  
NIKE Inc. 1.44 1.5 1.42  
  
Profit Margin  
V.F. Corporation 0.11 0.12 0.12  
NIKE Inc. 0.10 0.10 0.11  
  
Return on Assets  
V.F Corporation 0.13 0.15 0.15  
NIKE Inc. 0.14 0.15 0.15

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #5 below.

* 10 pts - 10 points: Correct profitability ratios for all years and both companies.
* 5 pts - 5 points: Answer is partially correct, for example not calculating the ratios for all years, or making a mistake on one of the ratios.

Question 6

Compute the cash profitability ratio for both Nike and V.F.Corporation. Do this for the last 3 years available.

1 2 3  
Cash Profitability Ratio  
V.F Corporation 0.15 0.17 0.12  
NIKE Inc. 0.17 0.16 0.22

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #6 below.

* 10 pts - 10 points: Correct cash profitability ratios for all years and both companies.
* 5 pts - 5 points: Answer is partially correct, for example not calculating the ratios for all years, or making a mistake on one of the ratios.

Question 7

Analyze the cash flow statement of both Nike and V.F.Corporation in the last 3 years. Are the companies investing to grow the business? Are they raising cash from investors or are they returning cash to investors?

Both VF Corporation and NIKE Inc are investing to grow the business. NIKE Inc in its latest financials sold off some investments in Marketable Securities neutralizing the extent of its Capital Expenditure investment. other than that , NIKE's investment steadily grew for the last three years. V.F Corporation's investment in the growth on the other hand is steadily declining at a slow rate from $350.3 to $324.  
  
Whereas NIKE is returning cash to investors by way of repurchase of common stock, VF is effectively returning cash to investors in the form of repurchase of stock and dividend payment whiles refinancing debt.

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #9 below.

* 10 pts - 10 points: Correct analysis of the cash flow statement for both companies.
* 5 pts - 5 points: Answer is partially correct, for example making a mistake on the analysis of investment cash flows.

Question 8

Compute the main valuation ratios for Nike and V.F.Corporation (Value/OPAT and Market/Book). You only need to do this using the most recently available data so as to reflect the current valuation of the companies.

Value/ OPAT  
VF Corporation 23.95  
NIKE Inc 31.92  
  
Market/ Book  
VF Corporation 3.7  
NIKE Inc 4.84

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #9 below.

* 10 pts - 10 points: Correct valuation ratios for both companies.
* 5 pts - 5 points: Answer that is partially correct, for example not calculating all the valuation ratios, or making a mistake on one of the ratios.

Question 9

Discuss the implications of your results. How do the two companies compare to each other? What have you learned from the comparison of financial ratios for these two companies? (2 paragraphs maximum)

From the ratios computed NIKE Inc, is more liquid than VF Corporation in terms of ability to meets short term obligations with short term assets although both are equally profitable as indicated by Return of Assets of $0.15 each. VF corporation has higher leverage than NIKE. Both NIKE and VF Corporation invested in operations and repaid investors with stock repurchase , dividends whiles servicing debt.  
  
The current price trend of $74.67 for VF corporation and $111.73 for NIKE Inc is bound to continue irrespective of both companies churning same ROA. The valuation ratios indicate both have a great portion of their profit in the future although NIKE is valued more with $31.92 as against $23.95 for VF Corporation in the future

See the Review Criteria section of the Instructions tab for details, then allocate points for Question #9 below.

* 20 pts - 20 points: Well justified comparison of both companies that is based on the results of questions 3 to 8.
* 10 pts - 10 points: Reasonable but incomplete answer, for example not discussing one of the aspects such as valuation or profitability.

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### Comments

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