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Lesson 10 of 10: Lesson 1-9 Module 1 Review

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## Review Classmates: Module 1 Assignment

Review by July 20, 11:59 PM PDT

|  |  |
| --- | --- |
| **Reviews** | 1 left to complete |

corporation’s purpose



by ahui jose

Submitted on July 17, 2016

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

Stock prices should show all future current corporate decision including all future cash flow. Then, it remain a good objective that lead the firm to short-termism. All this thing contribute to maximize current stockholder wealth. but this way can lead to potential conflicts between stockholder and social responsibility.

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)

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).*

Bonus-based compensation will endure executive to have a higher wages, salary after having increased current profits. This will lead to short-termism. Unfortunately, this action of maximizing current profits are not profitable for shareholders in the long term. That is why stock-based compensation may help mitigate, ameliorate this problem.

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

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.

Liquidity ratios for Nike and V.F

|  |  |  |  |
| --- | --- | --- | --- |
|  | NIKE |  |  |
|  |  |  |  |
| May, 2013 | May, 2014 | May,2015 |  |
| Current ratio | 3.4 | 2.7 | 2.5 |
|  |  |  |  |
| Quick ratio | 2.3 | 2.2 | 1.5 |
|  |  |  |  |
| Cash ratio | 1.5 | 1.0 | 0.9 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | V.F. CORPORATION |  |  |
| Dec, 2013 | Jan, 2015 | July, 2015 |  |
| Current ratio | 2.5 | 2.6 | 1.7 |
|  |  |  |  |
| Quick ratio | 1.4 | 1.4 | 0.8 |
| Cash ratio | 0.5 | 0.6 | 0.3 |

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.**

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.

Solvency (leverage) ratios for NIKE and V.F

|  |  |
| --- | --- |
| V.F. Corporation / data for mid-2015) |  |
|  |  |
| Debt / (Debt + Equity) | 0.08 |
|  |  |
| Liabilities / Asset | 0.13 |

|  |  |
| --- | --- |
| NIKE ( data for mid- 2015) |  |
|  |  |
| Debt / (Debt + Equity) | 0.01 |
|  |  |
| Liabilities / Asset | 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.**

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.

Profitability ratios for NIKE and V.F

|  |  |  |  |
| --- | --- | --- | --- |
| NIKE |  |  |  |
|  | May, 2013 | May, 2014 | May, 2015 |
|  |  |  |  |
| Asset turnover | 1.4 | 1.5 | 1.4 |
|  |  |  |  |
| Profit margin | 0.10 | 0.10 | 0.11 |
|  |  |  |  |
| ROA | 0.14 | 0.15 | 0.15 |
|  |  |  |  |
| OPAT | 2433 | 2829 | 3243 |

|  |  |  |  |
| --- | --- | --- | --- |
| V.F CORPORATION |  |  |  |
|  | Dec,2013 | Jan, 2015 | July, 2015 |
| Asset turnover | 1.1 | 1.2 | 1.3 |
|  |  |  |  |
| Profit margin | 0.11 | 0.12 | 0.12 |
|  |  |  |  |
| ROA | 0.13 | 0.15 | 0.15 |
| OPAT | 1305 | 1529 | 1532 |

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.

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

Cash profitability ratios for NIKE and V.F

|  |  |  |  |
| --- | --- | --- | --- |
| NIKE |  |  |  |
|  | May, 2013 | May, 2014 | July, 2015 |
|  |  |  |  |
| CFOA | 0.17 | 0.16 | 0.22 |

|  |  |  |  |
| --- | --- | --- | --- |
| V.F CORPORATION |  |  |  |
|  | Dec, 2013 | Jan, 2015 | July, 2015 |
|  |  |  |  |
| CFOA | 0.15 | 0.17 | 0.12 |

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.**

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?

Cash flow statement analysis for NIKE and V.F

|  |  |  |  |
| --- | --- | --- | --- |
| NIKE |  |  |  |
|  | May, 2013 | May,2014 | May, 2015 |
|  |  |  |  |
| Cash flow operating | 3032 | 3013 | 4680 |
|  |  |  |  |
| Cash flow Investing | -940 | -1207 | -175 |
|  |  |  |  |
| Cash flow Financial | -1045 | -2914 | -2790 |
|  |  |  |  |
| Stock Repurchase | -1674 | -2628 | -2534 |
|  |  |  |  |
| Net Change in Cash | 1083 | -1117 | 1632 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | V.F. CORPORATION |  |  |
|  | Dec, 2013 | Jan, 2015 | July, 2015 |
|  |  |  |  |
| Cash flow operating | 1506 | 1698 | 1192 |
|  |  |  |  |
| Cash flow Investing | -350 | -329 | -324 |
|  |  |  |  |
| Cash flow financial | -984 | - 1107 | -586 |
| Stock Repurchase | -282 | -728 | -732 |
|  |  |  |  |
| Net change in cash | 179 | 195 | 184 |

Both NIKE and V.F. CORPORATION are generating positive cash flow from operating. They are investing in the business and returning cash to investors.

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.

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.

Valuation ratios for NIKE and V.F

|  |  |
| --- | --- |
| NIKE (data for mid-2015) |  |
|  |  |
| Value / OPAT | 32.21 |
|  |  |
| Market / Book | 4.84 |

|  |  |
| --- | --- |
| V.F. CORPORATION (data for mid-2015) |  |
|  |  |
| Value / OPAT | 23.9 |
|  |  |
| Market / Book | 3.7 |

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.**

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)

NIKE and V.F. CORPORATION are profitable. They both have adequate liquidity but NIKE has great favorable circumstances in the future. This is why many investors have confidence in NIKE.

Therefore, both have also low leverage.

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.**

Submit Review

### Comments

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