

Selected References

- Arditti, Fred, and John Pinkerton. 1978. The valuation and cost of capital of the levered firm with growth opportunities. *Journal of Finance* 33 (March): 54–73.
- Black, Fisher. 1980. The magic in earnings: Economic earnings verses accounting earnings. *Financial Analysts Journal* (November–December): 19–24.
- Black, Fisher, and M. Scholes. 1974. The effects of dividend yield and dividend policy on common stock prices and returns. *Journal of Financial Economics* 1 (May): 4–22.
- Brealey, Richard. 1969. *An Introduction to Risk and Return from Common Stocks*. Cambridge, Mass.: MIT Press.
- Copeland, T.E., Tim Koller, and Jack Murrin. 2001. *Valuation: Measuring and Managing the Value of Companies*, 3rd ed. Hoboken, NJ: John Wiley & Sons.
- Cottle, Sidney, Roger McMurray, and Frank E. Block. 1988. *Security Analysis*, 5th ed. New York: McGraw-Hill.
- Elton, Edwin, and Martin Gruber. 1968. The effect of share repurchases on the value of the firm. *Journal of Finance* 28 (May): 373–380.
- Elton, Edwin, and Martin Gruber. 1970. Marginal stockholder tax rates and the clientele effect. *Review of Economics and Statistics* 52 (February): 68–74.
- Elton, Edwin, and Martin Gruber. 1973. Asset selection with changing structure. *Journal of Financial and Quantitative Analysis* 8 (June): 459–473.

- Graham, B., D. Dodd, and S. Cottle. 1962. *Security Analysis Principles and Techniques*, 4th ed. New York: McGraw-Hill.
- Gordon, Myron J. 1962. *The Investment, Financing, and Valuation of the Corporation*. Homewood, Illinois: Irwin.
- Gordon, J., and Myron Gordon. 1997. The finite horizon expected return model. *Financial Analysts Journal* 53 (May-June): 52-61.
- Hamada, Robert S. 1971. The effect of the firm's capital structure on the systematic risk of common stocks. *Journal of Finance* 8 (May): 435-452.
- Miller, Merton. 1993. The Modigliani-Miller propositions after 30 years. In *The New Corporate Finance: Where Theory Meets Practice*. Edited by D. Chew. New York: McGraw-Hill.
- Miller, Merton, and Franco Modigliani. 1961. Dividend policy, growth, and valuation of shares. *Journal of Business* 34 (October): 411-433.
- Modigliani, Franco, and Merton Miller. 1958. The cost of capital, corporation finance, and the theory of investments. *American Economic Review* (June): 261-297.
- Modigliani, Franco, and Merton Miller. 1963. Corporate income taxes and the cost of capital: A correction. *American Economic Review* (June): 433-443.
- Myers, S. C. 1976. A framework for evaluating mergers. In *Modern Developments in Financial Development*. Edited by S. C. Myers. New York: Praeger.
- Niederhoffer, V., and P. Regan. 1972. Earnings changes, analysts forecasts, and stock prices. *Financial Analysts Journal* 28 (May-June): 65-71.
- Shiller, Robert J., and John Campbell. 1988. Stock prices, earning, and expected dividends. *Journal of Finance* 43: 661-676.
- Solt, Michael, and Meir Statman. 1989. Good companies, bad stocks. *Journal of Portfolio Management* 15 (Summer): 39-44.

Williams, John Burke. 1938. *The Theory of Investment Value*. Cambridge, Mass.: Harvard University Press.

Bloomberg Exercises

1. Select a stock of interest and study its size, capital structure (debt/equity ratio), WACC, growth rates, payout ratios, and return on equity. Screens to examine from its equity menu are as follows:
 1. DES Description.
 2. WACC Weight Average Cost of Capital.
 3. FA Tabs: Ratios and Credit or Enter: FA LEV.
 4. FA Tabs: Ratios and Growth.
 5. FA Tabs: Ratios and Profitability.
2. Select a stock of interest or the one you selected in Exercise 1 and use its FA screen to study its income statement. Use FA and "I/S" tab and "As Reported" tab. Click the Bloomberg graphic icon to view the income items together. Items in the income statement to consider are revenue, cost of products sold, selling and general administration expenses, operating income, income before taxes, profit after taxes, and basic *EPS*. Comment on what drives the profits of the company.
3. Select a stock of interest or one you already selected in one of the exercises and use its FA screen to study its revenues and operating income: FA and "I/S" tab and "Standardized" tab. Click the Bloomberg graphic icon for revenue and operating income to view the income items together. Examine the company's operating margin separately (click Operating Margin). Comment on what drives the profits of the company.
4. Select a stock of interest or one you already selected in one of the exercises and use its FA screen to study its capital structure: FA and "Ratios" tab and "Credit" tab. Click the Bloomberg graphic icon for debt-equity ratio, debt-to-total assets, and other leverage ratios. Click the item to bring up a definition and to see how the ratio is calculated.

5. Select a stock of interest or one you already selected in one of the exercises and use its FA screen to study its balance sheet items. Use FA and "B/S" tab and "Standardized" tab. Click the Bloomberg graphic icon for different items to compare. Click the item to bring up a definition and to see how the item is calculated. Some possible comparisons to consider are as follows:
 1. Total current assets, total long-term assets, and total assets.
 2. Long-term investments, long-term receivables, and total long-term assets.
 3. Total current liabilities, total long-term liabilities, and total liabilities.
 4. Long-term borrowing, other-long-term liabilities, and total long-term liabilities.
 5. Total assets, total liabilities, and total equity.
6. Select a company and do a comparative analysis of it with its peers using the Bloomberg RV screen. Tabs to consider are as follows:
 1. "Comp Sheets" tab and "Balance Sheets" tab.
 2. "Comp Sheets" tab and "Profitability" tab.
7. Select a company and do comparative analysis of it with its peers using the Bloomberg RV screen. Use the custom tab to enter names of items for your comparison. You may want to save your custom screens. Consider the following screens to customize:
 1. Leverage: Debt-to-assets, common-equity-to-assets, and debt-to-equity.
 2. Income-Statement: Sales growth and earnings growth.
8. Bloomberg has a number of earnings screens that provide history, consensus forecast, surprises, and Zach earnings forecast. Study some of the following earnings screens for a company of interest:
 1. EEO Current Consensus.
 2. EEB Best Consensus Detail.
 3. ERN Earnings History.
 4. EE Earnings and Estimates.
 5. EM Earnings Trends.
 6. EE SURP Earnings Surprises.

7. EE Z: Zach's Earnings Estimates.

9. Select a stock of interest or one you already selected in one of the exercises and its DVD screen to study trends in the company's dividend payments.
10. Bloomberg's measure of sustainable growth is the company's retention ratio times its return on equity. Do a relative analysis of company's sustainable growth using the RV screen. Customize your screen by creating columns for sustainable growth, the retention ratio, and the return on equity.
11. Bloomberg information on corporate actions such as acquisitions and limited partnership deals can be accessed on the CACS screen found on the company's equity menu. Select a company of interest that you know has been active in acquisitions and divestitures and use CACS to search for its previous activities.
12. Value several stocks of interest using the DDM model using a three-stage growth model, constant-growth model, and two-stage model: Ticker <Equity> <Enter>; DDM. For a guide, see Bloomberg exhibit box: "Bloomberg DDM Screen" and Bloomberg Web [Exhibit 11.5](#) (text Web site).
 1. For several of your stocks, examine the impact on the stock's value when you change the discount rate, the growth rate for the growth years, and the growth rate for the mature stage.
 2. Given the current prices of your stocks, compare their IRR's to their required returns. Comment on what stocks you believe would be good investments and which would be bad.
13. Excel Exercise: Create an Excel spreadsheet for determining the intrinsic value of a stock you analyzed in Exercise 12 using the DDM model (for a guide, see Bloomberg Web [Exhibit 11.5](#) (text Web site) and Bloomberg exhibit box: "Bloomberg DDM").
14. The Bloomberg MA screen allows you to analyze previous mergers and acquisitions. Select a stock of interest (enter company name in "Company Search" on the MA screen) and review one of its completed acquisitions. On the MA Deal screen, analyze the deal using the following tabs: "Summary," "Timeline," "Parties," "Structure," "Approvals," "Financials," and "Arbitrage." Study the impact the acquisition had on the stock price of the acquiring firm and the target firm. Use the GP graphs for each

company and set the time period to include time before and after the announcement and acquisition. For a guide, see Bloomberg Web [Exhibit 11.6](#) (text Web site).

15. The Bloomberg MA screen allows you to analyze and track possible and pending deals. Select one of the proposed or pending deals identified on the MA screen and study the current proposal.