



## **CAREER CLUSTER**

Finance

## **CAREER PATHWAY**

Corporate (Banking) Finance

## **INSTRUCTIONAL AREA**

Financial Analysis

# **CORPORATE FINANCE EVENT**

## **PARTICIPANT INSTRUCTIONS**

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 30 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

## **GENERAL PERFORMANCE INDICATORS**

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- Communications skills – the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills – the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills – the ability to take a concept from an idea and make it real
- Priorities/time management – the ability to determine priorities and manage time commitments
- Economic competencies

## **SPECIFIC PERFORMANCE INDICATORS**

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- Calculate stock-related values (e.g., the value of a constant growth stock, the expected value of future dividends, the expected rate of return, etc.).
- Explain valuation models used in finance.
- Calculate the cost of common stock.
- Analyze a company's financial situation.
- Calculate business value.

## **CASE STUDY SITUATION**

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At the end of 2018, CONROY'S CANDIES INC., had shareholder's equity of \$13.8 million. In 2019, the company has had net income of \$5.2 million and paid out half this amount in dividends, resulting in shareholder's equity at the end of 2019 of \$16.4 million.

Also, in 2019, CONROY'S CANDIES registered a gross profit margin of 75% on sales of \$16 million.

Shares of CONROY'S CANDIES are currently trading at \$18.20. There are 4 million shares outstanding. Other candy-making firms currently have an average forward P/E ratio of 12.

## **YOUR CHALLENGE**

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Your investment group has been looking at CONROY'S CANDIES for a while to determine a buy in time. You feel now might be that time, but you must convince your partner. You will explain the different methods used to analyze capital investments (e.g., payback period, discounted breakeven, net present value, accounting rate of return, internal rate of return).

You will start by calculating the 2019 ROE (using average shareholder's equity). Then you will calculate the cost of goods sold (again) for 2019.

Your partner will also be interested in the market value of equity and the P/E ratio for 2019. Finally, if CONROY'S CANDIES forward P/E ratio is the same as the industry average, what is the expected EPS for 2020?

You will compile this information and present this to your partner in a meeting to be held in their office.

## SOLUTION

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The average shareholders' equity is  $(13.8 + 16.4)/2 = \$15.1$  million.

The return on equity (ROE) =  $NI / \text{Average SE} = 5.2 / 15.1 = 34.4\%$

Gross Profit Margin =  $(S - \text{CGS}) / S$ , so we have  $0.75 = (16 - \text{CGS}) / 16$ . Therefore,  $\text{CGS} = 16 - (16 \times 0.75) = 4$ .

The company's income statement would show \$4 million for the cost of goods sold.

The market value of equity is simply the market price of a share times the number of shares outstanding.  
 $\text{MVE} = \$18.20/\text{share} \times 4 \text{ million shares} = \$72.8 \text{ million}$ .

The P/E ratio can be found with the net income and MVE figures, but it is usually calculated using per share amounts. The earnings per share,  $\text{EPS} = \$5.2 \text{ million} / 4 \text{ million shares} = \$1.30$  per share.

Therefore,  $\text{P/E} = \text{Price} / \text{EPS} = \$18.20 / \$1.30 = 14.0$

Re-arranging the P/E ratio equation, we find  $\text{EPS} = P / (\text{P/E ratio})$ . To find the expected EPS (EEPS) for 2020 with this equation, we must use the Forward P/E ratio:  $\text{EEPS} = P / (\text{Forward P/E ratio}) = \$18.20 / 12.0 = \$1.52$  (rounded to the nearest cent). Thus, if CONROY'S CANDIES has the same Forward P/E as the industry, it is expected to earn \$1.52 per share in 2020.

The P/E ratio is the share price divided by the EPS. It is the most commonly used relative valuation model. Relative valuation is the valuation compared to other firms in the industry. Additional valuations include the market to book ratio (similar to P/E except the denominator is the book value per share).

Other valuations are the price to cash flow; market value to EBIT; and market value to EBITDA

## EVALUATION INSTRUCTIONS

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The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

### Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event director and the other judges to ensure complete and common understanding for judging consistency.

<b>Level of Evaluation</b>	<b>Interpretation Level</b>
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 <sup>th</sup> percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 <sup>th</sup> percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 <sup>th</sup> percentile of business personnel performing this performance indicator.



**CORPORATE FINANCE  
2021**

**JUDGE'S EVALUATION FORM**  
Association Event 1

Participant: \_\_\_\_\_

**INSTRUCTIONAL AREA**  
Financial Analysis

ID Number: \_\_\_\_\_

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
<b>PERFORMANCE INDICATORS</b>						
1.	Calculate stock-related values?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Explain valuation models used in finance?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Calculate the cost of common stock?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Analyze a company's financial situation?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Calculate business value?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
<b>PRESENTATION</b>						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and response to judge's questions	0-1-2	3-4-5	6-7-8	9-10	
<b>TOTAL SCORE</b>						