



CAREER CLUSTER

Finance

CAREER PATHWAY

Corporate Finance

INSTRUCTIONAL AREA

Financial Analysis

BUSINESS FINANCE SERIES EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the 21st Century Skills, Performance Indicators and Event Situation. You will have up to 10 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 10 minutes to make your presentation to the judge (you may have more than one judge).
- You will be evaluated on how well you demonstrate the 21st Century Skills and meet the performance indicators of this event.
- Turn in all of your notes and event materials when you have completed the event.

21st CENTURY SKILLS

- Critical Thinking – Reason effectively and use systems thinking.
- Problem Solving – Make judgments and decisions and solve problems.
- Communication – Communicate clearly.
- Creativity and Innovation – Show evidence of creativity.

PERFORMANCE INDICATORS

- Explain the role of finance in business.
- Explain the role of capital markets in business finance.
- Discuss the nature of corporate bonds.
- Explain types of investments.
- Calculate stock-related values.

EVENT SITUATION

You are to assume the role of a financial analyst for BOTTLE DISTRIBUTORS INC. Your manager (judge) wants you to analyze stocks and bonds as well as calculate the expected rate of return.

BOTTLE DISTRIBUTORS INC. is considering issuing stock to raise capital for a new manufacturing plant. BOTTLE DISTRIBUTORS INC.'s internal rate of return is 11%. See the table below for items associated with the company's stock:

BOTTLE DISTRIBUTORS INC.	
Current year dividend per share	\$2.00
Growth of dividend	6%
Current stock price	\$50

Your manager (judge) wants you to:

- Explain the role of capital markets.
- Compare the benefits and detriments associated with a stock offering versus issuing bonds.
- Calculate the present value of the stock using the Gordon Growth Model and the expected rate of return, which is found using components of the Gordon Growth Model.

Gordon Growth Model formula: $P_0 = D_0 \times \frac{(1+g)}{r-g}$

P = current stock price

P_0 = present value of the stock

D_0 = most recent dividend amount

D_1 = expected dividend next year

r = required rate of return

g = expected growth of the dividend

You will present information to your manager (judge) in a role-play to take place in the manager's (judge's) office. The manager (judge) will begin the role-play by greeting you and asking to hear your analysis. After you have presented the information and have answered the manager's (judge's) questions, the manager (judge) will conclude the role-play by thanking you for your work.

JUDGE INSTRUCTIONS

DIRECTIONS, PROCEDURES AND JUDGE ROLE

In preparation for this event, you should review the following information with your event manager and other judges:

1. Participant Instructions, 21st Century Skills and Performance Indicators
2. Event Situation
3. Judge Role-Play Characterization
Allow the participants to present their ideas without interruption, unless you are asked to respond. Participants may conduct a slightly different type of meeting and/or discussion with you each time; however, it is important that the information you provide and the questions you ask be uniform for every participant.
4. Judge Evaluation Instructions and Judge Evaluation Form
Please use a critical and consistent eye in rating each participant.

JUDGE ROLE-PLAY CHARACTERIZATION

You are to assume the role of a manager in the finance department at BOTTLE DISTRIBUTORS INC. You want a financial analyst (participant) to analyze stocks and bonds as well as calculate the expected rate of return.

BOTTLE DISTRIBUTORS INC. is considering issuing stock to raise capital for a new manufacturing plant. BOTTLE DISTRIBUTORS INC.'s internal rate of return is 11%. See the table below for items associated with the company's stock:

BOTTLE DISTRIBUTORS INC.	
Current year dividend per share	\$2.00
Growth of dividend	6%
Current stock price	\$50

You want the financial analyst (participant) to:

- Explain the role of capital markets.
- Compare the benefits and detriments associated with a stock offering versus issuing bonds.
- Calculate the present value of the stock using the Gordon Growth Model and the expected rate of return, which is found using components of the Gordon Growth Model.

Gordon Growth Model formula: $P_0 = D_0 \times \frac{(1+g)}{r-g}$

P = current stock price

P_0 = present value of the stock

D_0 = most recent dividend amount

D_1 = expected dividend next year

r = required rate of return

g = expected growth of the dividend

The participant will present information to you in a role-play to take place in your office. You will begin the role-play by greeting the participant and asking to hear about his/her ideas.

During the course of the role-play, you are to ask the following questions of each participant:

1. What other ways can we acquire funds to build the new plant?
2. What is your final recommendation?

Once the financial analyst (participant) has presented the information and has answered your questions, you will conclude the role-play by thanking the financial analyst (participant) for the work.

You are not to make any comments after the event is over except to thank the participant.

SOLUTION

Role of Capital Markets

Capital markets play a crucial role in business finance by providing a platform where businesses can raise long-term funds for their operations and growth. Here are the key roles and functions of capital markets in business finance (note – competitors may only address a few of these):

1. Capital markets may be used by organizations to raise capital. Businesses may issue stock or bonds to raise capital for a variety of business reasons, such as a new facility.
 - Equity financing is the issuing of common stock or preferred stock to investors.
 - Debt financing involves issuing bonds to investors who purchase the bonds and receive periodic interest payments for the life of the bond. The principal amount is returned to the investors at the maturity date.
 - Capital markets allow for a broad investor base, which provides an opportunity for more investors to purchase the stock.
2. Capital markets provide a fair value of a company's stock through the buying and selling activities of investors. These trading activities that determine the value of a company's stock is often called price discovery.
3. Utilizing the capital markets provides organizations with a variety of means by which to fund their businesses. An organization may borrow funds from a traditional bank, issue stock or issue debt to diversify risk and cost associated with raising capital.
4. Hedging, options, futures, and other financial instruments help with diversification, raising capital, or managing investment risk.
5. Transparency is a benefit of the capital markets to both investors and competitors of the issuing organization. Organizations are required to adhere to a variety of regulations, including full disclosure of information that may influence a stakeholder.

Comparison of Stock vs. Bonds:

Issue Stock	Issue Bonds
No repayment obligation	Repayment obligation
No interest paid to investors	Interest paid to investors
Dilution of ownership	No dilution of ownership
Disclosure requirements	No additional disclosure requirements
Improved creditworthiness	Covenants and restrictions possible
No tax deduction	Tax deduction for interest expense
Cost of equity*	Often lower cost than issuing stock

*the cost of equity includes costs to get the stock ready for issuance, dividends, and expected stockholder returns.

Calculation solutions:

$$\text{Present value of the stock: } P_0 = 2.00 \times \frac{(1 + .06)}{.11 - .06} = \$42.4$$

Based on this calculate, the stock is overvalued in the marketplace by \$7.60. Current stock price is \$50 per share, but the present value is only \$42.40 (\$50-42.4 = 7.60 overvalued).

Expected rate of return:

first find the dividend expected for the next year then calculate the expected rate of return.

- Next year dividend is found by: $D_1 = D_0 \times (1 + g)$ so $D_1 = 2.00 \times (1 + .06) = \2.12 rounded
- Expected rate of return is found by: $r = \frac{D_1}{P} + g$ $r = \frac{2.12}{\$50} + .06 = .1024$ (or 10.24%)

The expected rate of return is just below the company's desired rate of 11%.

EVALUATION INSTRUCTIONS

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.

Level of Evaluation	Interpretation Level
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 th 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 th 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 th percentile of business personnel performing this performance indicator.



**BUSINESS FINANCE SERIES
2025**

**JUDGE'S EVALUATION FORM
DISTRICT EVENT 2**

Participant: _____

**INSTRUCTIONAL AREA:
Financial Analysis**

ID Number: _____

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Explain the role of finance in business?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Explain the role of capital markets in business finance?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Discuss the nature of corporate bonds?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Explain types of investments?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Calculate stock-related values?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
21st CENTURY SKILLS						
6.	Reason effectively and use systems thinking?	0-1	2-3	4	5-6	
7.	Make judgments and decisions, and solve problems?	0-1	2-3	4	5-6	
8.	Communicate clearly?	0-1	2-3	4	5-6	
9.	Show evidence of creativity?	0-1	2-3	4	5-6	
10.	Overall impression and responses to the judge's questions	0-1	2-3	4	5-6	
TOTAL SCORE						