Principles *of* Corporate Finance

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Principles *of* Corporate Finance

FOURTEENTH EDITION

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PRINCIPLES OF CORPORATE FINANCE, FOURTEENTH EDITION

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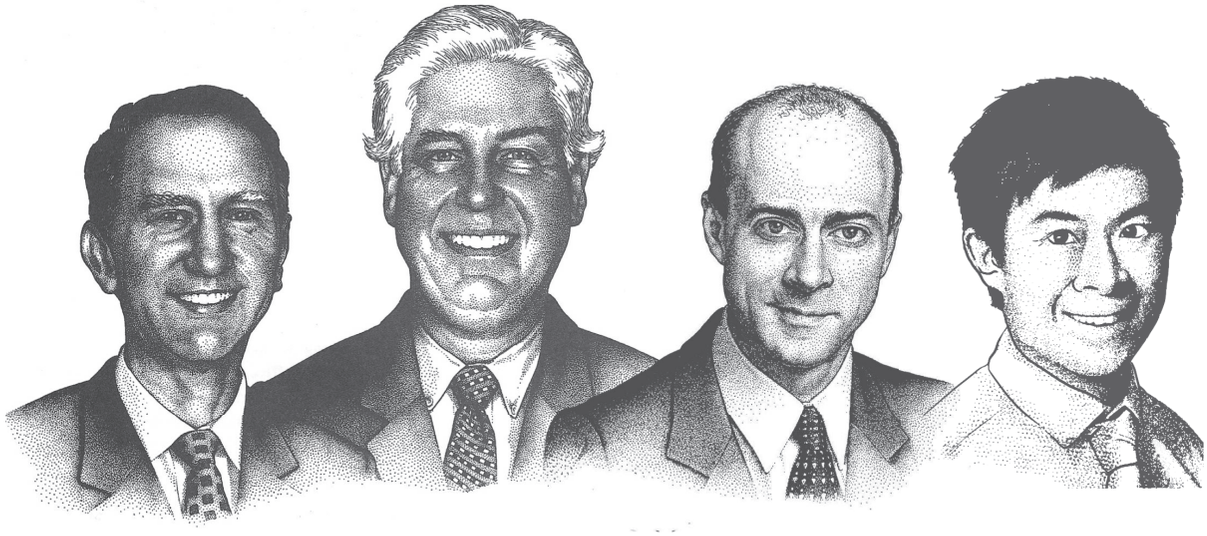
Dedication

To our parents.

About the Authors



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Emeritus Professor of Finance at London Business School. He is the former president of the European Finance Association and a former director of the American Finance Association. He is a fellow of the British Academy and has served as a special adviser to the Governor of the Bank of England and director of a number of financial institutions. Other books written by Professor Brealey include *Introduction to Risk and Return from Common Stocks.*

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Professor of Finance at London Business School and Mercers School Memorial Professor of Business at Gresham College. He is also Managing Editor of the *Review of Finance* and was previously a tenured professor at Wharton, where he won 14 teaching awards in six years. His research focuses on corporate finance, responsible business, and behavioral finance. He has spoken at the World Economic Forum in Davos, given the TED talk "What to Trust in a Post-Truth World" and the TEDx talk "The Social Responsibility of Business"; he is also advisor to several investment management companies. He is the author of *Grow the Pie: How Great Companies Deliver Both Purpose and Profit.* Poets & Quants named him MBA Professor of the Year for 2021.

Preface

This book describes the theory and practice of corporate finance. We hardly need to explain why financial managers have to master the practical aspects of their job, but we should spell out why down-to-earth managers need to bother with theory.

Managers learn from experience how to cope with routine problems. But the best managers are also able to respond to change. To do so you need more than time-honored rules of thumb; you must understand why companies and financial markets behave the way they do. In other words, you need a *theory* of finance.

That should not sound intimidating. Good theory helps you to grasp what is going on in the world around you. It helps you to ask the right questions when times change and new problems need to be analyzed. It also tells you which things you do *not* need to worry about. Throughout this book, we show how managers use financial theory to solve practical problems.

Of course, the theory presented in this book is not perfect and complete—no theory is. There are some famous controversies where financial economists cannot agree. We have not glossed over these disagreements. We set out the arguments for each side and tell you where we stand.

Much of this book is concerned with understanding what financial managers do and why. But we also say what financial managers *should* do to increase company value. Where theory suggests that financial managers are making mistakes, we say so, while admitting that there may be hidden reasons for their actions. In brief, we have tried to be fair but to pull no punches.

This book may be your first view of the world of modern finance. If so, you will read first for new ideas, and for an understanding of how finance theory translates into practice. But eventually you will be in a position to make financial decisions, not just study them. At that point, you can turn to this book as a reference and guide.

Changes in the Fourteenth Edition

What has changed in this edition? You will have seen the first change on the cover: Alex Edmans has joined the author team. Alex is a global authority in corporate finance, with particular expertise in corporate governance, responsible business, and behavioral finance—three areas we have significantly bolstered as we will shortly describe. In addition to being a leading researcher, he has substantial practitioner expertise. He has also won a multitude of teaching awards at MIT, Wharton, and London Business School and is particularly noted for the ability to explain complex finance concepts in simple language. He recently gave a year-long Gresham College public lecture series on the principles of finance attended by a diverse audience, from schoolchildren to retirees.

This expansion of the author team has led to a number of important changes. For example, in recent years many observers have questioned companies' focus on profits and have suggested that managers should promote the interests of *all* stakeholders rather than simply seeking to maximize shareholder value. The issue is an important one and we have, therefore, added a new chapter, Chapter 20, that discusses these different corporate objectives, how far they conflict, and how a responsible business should behave.

The structure of a firm's governance is closely related to its objectives. We have therefore moved the material on corporate governance and agency issues to Chapter 19, where it now sits next to the chapter on corporate objectives. This chapter has also been substantially rewritten.

Other chapters with major changes include the two chapters on the pricing of risky assets (Chapters 7 and 8). Chapter 7 now focuses on portfolio choice and a stock's effect on portfolio risk, while Chapter 8 concentrates on asset pricing. This is a clearer separation of topics than in previous editions; we think that it is more logical and helps understanding.

The discussion of market efficiency (Chapter 12) has also undergone substantial revision with additional and updated sections on empirical evidence. The chapter also contains an expanded discussion of behavioral finance and the evidence for behavioral biases.

Financial innovation today is being driven by technological developments such as artificial intelligence, big data, and cloud computing. Chapter 13 now includes a new section that reviews seven ways in which financial technology is changing financial practice.

U.S. financial managers work in a global environment and need to understand the financial systems of other countries. Also, many of the text's readers come from countries other than the United States. Therefore, in recent editions, we have progressively introduced more international material, including information

about the major developing economies, such as China and India. Material on international differences in financing is now integrated in Chapter 14, while Chapter 19 includes a discussion of governance systems around the world.

PEDAGOGICAL CHANGES

Throughout, we have tried to make the book more topical and easier to read. In many cases, the changes consist of some updated data here and a new example there. Often, these additions reflect some recent development in the financial markets or company practice.

We have also changed the introduction to each chapter to include summaries of the content of each of the chapter's sections. We think that this will make it easier for the reader to understand the organization of the chapter and to jump forward to a particular topic of interest. Chapters now also conclude with key takeaway bullet points summarizing the chapter's principal lessons.

Within each chapter we have interspersed a number of new self-test questions that provide an opportunity for readers to pause and check their understanding. Answers to these self-tests are located at the end of the chapter.

The Beyond the Page digital extensions and applications provide additional examples, anecdotes, spreadsheet programs, and more thoroughgoing explanations and practice examples of some topics. This extra material makes it possible to escape from the constraints of the printed page by providing more explanation for readers who need it and additional material for those who would like to dig deeper. This material is very easily accessed on the web. There are now more than 150 of these apps. They are seamlessly available with a click on the e-version of the book, but they are also readily accessible in the traditional hard copy of the text using the shortcut URLs provided in the margins of relevant pages. Check out **mhhe.com/brealey14e** to learn more.

Examples of these applications include:

- **Chapter 2** Would you like to to learn more about how to use Excel spreadsheets to solve time value of money problems? A Beyond the Page application shows how to do so.
- **Chapter 3** Do you need to calculate a bond's duration, see how it predicts the effect of small interest rate changes on bond price, calculate the duration of a common stock, or learn how to measure convexity? The duration app allows you to do so.
- **Chapter 5** Want more practice in valuing annuities? There is an application that provides worked examples and hands-on practice.
- **Chapter 7** Ever wondered how COVID has affected the risk of stocks in the travel industry? An app provides the answer.
- **Chapter 12** Want an example of how speculative trading can swamp the actions of arbitrageurs? The app on the explosion in the price of GameStop shares provides one.
- **Chapter 18** The text briefly describes the flow-to-equity method for valuing businesses, but using the method can be tricky. We provide an application that guides you step by step.
- **Chapter 22** The Black–Scholes Beyond the Page application provides an option calculator. It also shows how to estimate the option's sensitivity to changes in the inputs and how to measure an option's risk.

Chapter Structure

Each chapter of the book includes an introductory preview, a list of key takeaways, and an annotated list of suggested further reading. The list of possible candidates for further reading is now voluminous. Rather than trying to include every important article, we largely list survey articles or general books. We give more specific references in footnotes.

In addition to the self-test questions within the chapter, each chapter is followed by a set of problems on both numerical and conceptual topics, together with a few challenge problems.

We include a Finance on the Web section in chapters where it makes sense to do so. This section now houses a number of Web Projects, along with new Data Analysis problems. These exercises seek to familiarize the reader with some useful websites and to explain how to download and process data from the web.

The book also contains 12 end-of-chapter Mini-Cases. These include specific questions to guide the case analyses. Answers to the mini-cases are available to instructors on the book's website.

Spreadsheet programs such as Excel are tailor-made for many financial calculations. Several chapters include boxes that introduce the most useful financial functions and provide some short practice questions. We show how to use the Excel function key to locate the function and then enter the data. We think that this approach is much simpler than trying to remember the formula for each function.

We conclude the book with a glossary of financial terms.

The 34 chapters in this book are divided into 12 parts. Parts 1, 2 and 3 cover valuation and capital investment

decisions, including portfolio theory, asset pricing models, and the cost of capital. Parts 4 through 9 cover financing decisions, payout policy and capital structure, corporate objectives and governance, options, debt financing, and risk management. Part 10 covers financial analysis, planning, and working-capital management. Part 11 covers mergers and acquisitions, and corporate restructuring. Part 12 concludes.

We realize that instructors will wish to select topics and may prefer a different sequence. We have therefore written chapters so that topics can be introduced in several logical orders. For example, there should be no difficulty in reading the chapters on financial analysis and planning before the chapters on valuation and capital investment.

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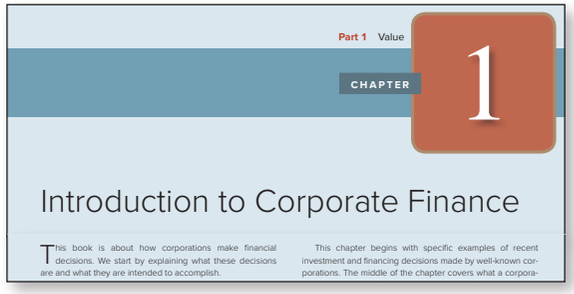
Richard A. Brealey
Stewart C. Myers
Franklin Allen
Alex Edmans

Guided Tour

Pedagogical Features

Chapter Overview

Each chapter begins with a brief narrative and outline to explain the concepts that will be covered in more depth. Useful websites related to material for each part are provided in the Connect library.


Part 1 Value

CHAPTER 1

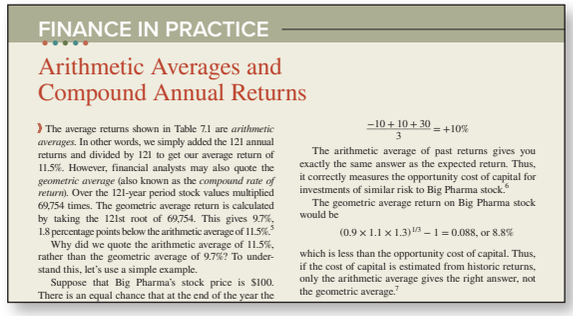
Introduction to Corporate Finance

This book is about how corporations make financial decisions. We start by explaining what these decisions are and what they are intended to accomplish.

This chapter begins with specific examples of recent investment and financing decisions made by well-known corporations. The middle of the chapter covers what a corpora-

Finance in Practice Boxes

Relevant news articles, often from financial publications, appear in various chapters throughout the text. Aimed at bringing real-world flavor into the classroom, these boxes provide insight into the business world today.


FINANCE IN PRACTICE

Arithmetic Averages and Compound Annual Returns

The average returns shown in Table 7.1 are *arithmetic averages*. In other words, we simply added the 121 annual returns and divided by 121 to get our average return of 11.5%. However, financial analysts may also quote the *geometric average* (also known as the *compound rate of return*). Over the 121-year period stock values multiplied 69,754 times. The geometric average return is calculated by taking the 121st root of 69,754. This gives 9.7%, 1.8 percentage points below the arithmetic average of 11.5%.[5]

Why did we quote the arithmetic average of 11.5%, rather than the geometric average of 9.7%? To understand this, let's use a simple example.

Suppose that Big Pharma's stock price is $100. There is an equal chance that at the end of the year the

$$\frac{-10+10+30}{3}=+10\%$$

The arithmetic average of past returns gives you exactly the same answer as the expected return. Thus, it correctly measures the opportunity cost of capital for investments of similar risk to Big Pharma stock.[6]

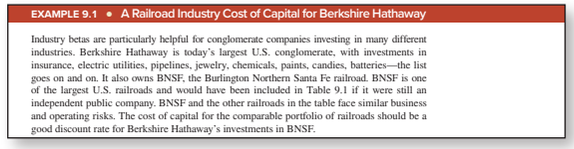
The geometric average return on Big Pharma stock would be

$$(0.9\times 1.1\times 1.3)^{1/3}-1=0.088,\text{ or }8.8\%$$

which is less than the opportunity cost of capital. Thus, if the cost of capital is estimated from historic returns, only the arithmetic average gives the right answer, not the geometric average.[7]

Numbered Examples

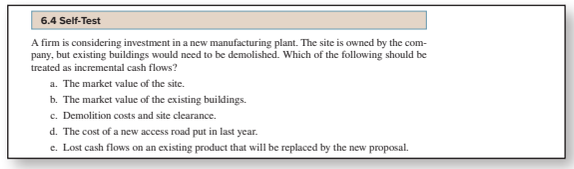
Numbered and titled examples are called out within chapters to further illustrate concepts. Students can learn how to solve specific problems step-by-step and apply key principles to answer concrete questions and scenarios.


EXAMPLE 9.1 • A Railroad Industry Cost of Capital for Berkshire Hathaway

Industry betas are particularly helpful for conglomerate companies investing in many different industries. Berkshire Hathaway is today's largest U.S. conglomerate, with investments in insurance, electric utilities, pipelines, jewelry, chemicals, paints, candies, batteries—the list goes on and on. It also owns BNSF, the Burlington Northern Santa Fe railroad. BNSF is one of the largest U.S. railroads and would have been included in Table 9.1 if it were still an independent public company. BNSF and the other railroads in the table face similar business and operating risks. The cost of capital for the comparable portfolio of railroads should be a good discount rate for Berkshire Hathaway's investments in BNSF.

Self-Test Questions

Each chapter includes a number of self-test questions that allow students to check their understanding. Answers to these questions are given at the end of the chapter.

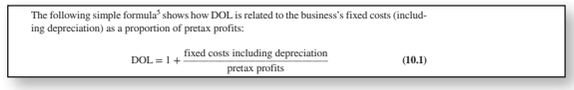

6.4 Self-Test

A firm is considering investment in a new manufacturing plant. The site is owned by the company, but existing buildings would need to be demolished. Which of the following should be treated as incremental cash flows?

a. The market value of the site.
b. The market value of the existing buildings.
c. Demolition costs and site clearance.
d. The cost of a new access road put in last year.
e. Lost cash flows on an existing product that will be replaced by the new proposal.

Numbered Equations

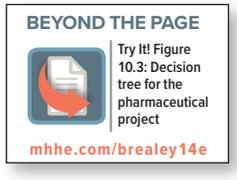
Where a result can be stated formally, we do so in the form of a numbered equation. However, we are also careful to explain the intuition behind a financial theory, so that readers without a quantitative background should be able to read with understanding.


The following simple formula[5] shows how DOL is related to the business's fixed costs (including depreciation) as a proportion of pretax profits:

$$\text{DOL}=1+\frac{\text{fixed costs including depreciation}}{\text{pretax profits}} \qquad (10.1)$$

Beyond the Page Interactive Content and Applications

Additional resources and hands-on applications are just a click away. Students can use the web address or click on the icon in the eBook to learn more about key concepts and try out calculations, tables, figures when they go Beyond the Page.


BEYOND THE PAGE

Try It! Figure 10.3: Decision tree for the pharmaceutical project

mhhe.com/brealey14e

Excel

Spreadsheet Functions Boxes

These boxes provide detailed examples of how to use Excel spreadsheets when applying financial concepts. Questions that apply to the spreadsheet follow for additional practice.

USEFUL SPREADSHEET FUNCTIONS

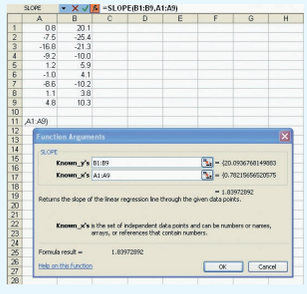
Estimating Stock and Market Risk

Spreadsheets such as Excel have some built-in statistical functions that are useful for calculating risk measures. You can find these functions by clicking *fx* on the Excel toolbar. If you then click on the function that you wish to use, Excel will ask you for the inputs that it needs. At the bottom left of the function box, there is a Help facility with an example of how the function is used.

Here is a list of useful functions for estimating stock and market risk. You can enter the inputs for all these functions as numbers or as the addresses of cells that contain the numbers. Note that different versions of Excel may use slightly different names for these functions.

1. **VAR.P** and **STDEV.P:** Calculate variance and standard deviation of a series of numbers, as shown in Section 7-2.
2. **VAR.S** and **STDEV.S:** Footnote 12 of Chapter 7 noted that when variance is estimated from a sample of observations (the usual case), a correction should be made for the loss of a degree of freedom. VAR.S and STDEV.S provide the corrected measures. For any large sample VAR.S and VAR.P will be similar.
3. **SLOPE:** Useful for calculating the beta of a stock or portfolio.
4. **CORREL:** Useful for calculating the correlation between the returns on any two investments.
5. **COVARIANCE.P** and **COVARIANCE.S:** Portfolio risk depends on the covariance between the returns on each pair of stocks. These functions calculate the covariance.
6. **RSQ:** R-squared is the square of the correlation coefficient and is useful for measuring the proportion of the variance of a stock's returns that can be explained by the market.
7. **AVERAGE:** Calculates the average of any series of numbers.

If, say, you need to know the standard error of your estimate of beta, you can obtain more detailed statistics by going to the *Tools* menu and clicking on *Data Analysis* and then on *Regression*.



Microsoft Excel

Spreadsheet Questions

The following questions provide opportunities to practice each of the Excel functions.

1. (VAR.P and STDEV.P) Choose two well-known stocks and download the latest 61 months of adjusted prices from **finance.yahoo.com**. Calculate the monthly returns for each stock. Now find the variance and standard deviation of the returns for each stock by using VAR.P and STDEV.P. Annualize the variance by multiplying by 12 and the standard deviation by multiplying by the square root of 12.
2. (AVERAGE, VAR.P, and STDEV.P) Now calculate the annualized variance and standard deviation for a portfolio that each month has equal holdings in the two stocks. Is the result more or less than the average of the standard deviations of the two stocks? Why?
3. (SLOPE) Download the Standard & Poor's index for the same period (its symbol is GSPC). Find the beta of each stock and of the portfolio. (*Note:* You need to enter the stock returns as the Y-values and market returns as the X-values.) Is the beta of the portfolio more or less than the average of the betas of the two stocks?
4. (CORREL) Calculate the correlation between the returns on the two stocks. Use this measure and your earlier estimates of each stock's variance to calculate the variance of a portfolio that is evenly divided between the two stocks. (You may need to reread Section 7-3 to refresh your memory of how to do this.) Check that you get the same answer as when you calculated the portfolio variance directly.
5. (COVARIANCE.P) Repeat Question 4, but now calculate the covariance directly rather than from the correlations and variances.

Excel Exhibits

Select tables are set as spreadsheets, and the corresponding Excel files are also available in Connect and through the Beyond the Page features.

		Year							
		0	1	2	3	4	5	6	7
1	Capital investment	12,000							–1,949[a]
2	Accumulated depreciation		2,000	4,000	6,000	8,000	10,000	12,000	0
3	Year-end book value	12,000	10,000	8,000	6,000	4,000	2,000	0	0
4	Working capital		550	1,289	3,261	4,890	3,583	2,002	0
5	Revenues		523	12,887	32,610	48,901	35,834	19,717	
6	Expenses	4,000	3,037	8,939	20,883	30,809	23,103	13,602	
7	Depreciation[a]		2,000	2,000	2,000	2,000	2,000	2,000	0
8	Pretax profit (5 – 6 – 7 – 1)	–4,000	–4,514	1,948	9,727	16,092	10,731	4,115	1,949[a]
9	Tax at 21%	–840[c]	–948	409	2,043	3,379	2,254	864	409
10	Profit after tax (8 – 9)	–3,160	–3,566	1,539	7,684	12,713	8,477	3,251	1,540

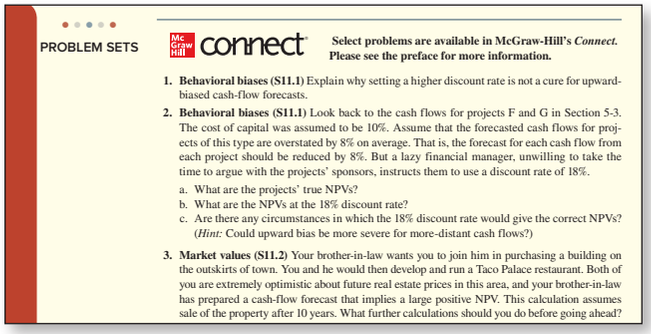
TABLE 6.2 Initial forecast data for guano project.

[a] In the income statement, the initial investment of $12 million is depreciated straight-line over the six years.
[b] Gain on sale of assets. The asset has been entirely depreciated for tax purposes and the entire sales price is, therefore, subject to tax.
[c] A negative tax payment means a cash inflow, assuming that IM&C can use the tax loss on the guano project to shield income from the rest of its operations.

End-of-Chapter Features

Problem Sets

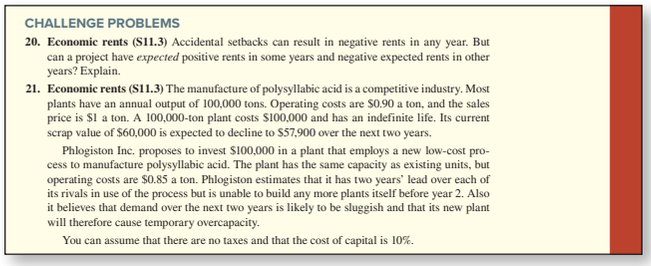
Beside each end-of-chapter problem we note the section of the chapter to which the question relates. This helps instructors create assignments and makes it simpler for students to look back for help. These end-of-chapter problems give students hands-on practice with key concepts and applications.



PROBLEM SETS

connect **Select problems are available in McGraw-Hill's *Connect*. Please see the preface for more information.**

1. **Behavioral biases (S11.1)** Explain why setting a higher discount rate is not a cure for upward-biased cash-flow forecasts.
2. **Behavioral biases (S11.1)** Look back to the cash flows for projects F and G in Section 5-3. The cost of capital was assumed to be 10%. Assume that the forecasted cash flows for projects of this type are overstated by 8% on average. That is, the forecast for each cash flow from each project should be reduced by 8%. But a lazy financial manager, unwilling to take the time to argue with the projects' sponsors, instructs them to use a discount rate of 18%.
   a. What are the projects' true NPVs?
   b. What are the NPVs at the 18% discount rate?
   c. Are there any circumstances in which the 18% discount rate would give the correct NPVs? (*Hint:* Could upward bias be more severe for more-distant cash flows?)
3. **Market values (S11.2)** Your brother-in-law wants you to join him in purchasing a building on the outskirts of town. You and he would then develop and run a Taco Palace restaurant. Both of you are extremely optimistic about future real estate prices in this area, and your brother-in-law has prepared a cash-flow forecast that implies a large positive NPV. This calculation assumes sale of the property after 10 years. What further calculations should you do before going ahead?



CHALLENGE PROBLEMS

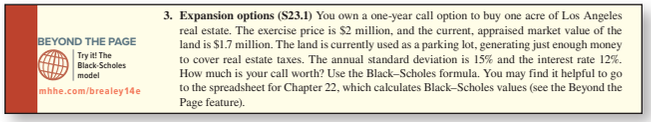
20. **Economic rents (S11.3)** Accidental setbacks can result in negative rents in any year. But can a project have *expected* positive rents in some years and negative expected rents in other years? Explain.
21. **Economic rents (S11.3)** The manufacture of polysyllabic acid is a competitive industry. Most plants have an annual output of 100,000 tons. Operating costs are $0.90 a ton, and the sales price is $1 a ton. A 100,000-ton plant costs $100,000 and has an indefinite life. Its current scrap value of $60,000 is expected to decline to $57,900 over the next two years.

    Phlogiston Inc. proposes to invest $100,000 in a plant that employs a new low-cost process to manufacture polysyllabic acid. The plant has the same capacity as existing units, but operating costs are $0.85 a ton. Phlogiston estimates that it has two years' lead over each of its rivals in use of the process but is unable to build any more plants itself before year 2. Also it believes that demand over the next two years is likely to be sluggish and that its new plant will therefore cause temporary overcapacity.

    You can assume that there are no taxes and that the cost of capital is 10%.

Excel Problems

Most chapters contain problems, denoted by an icon, specifically linked to Excel spreadsheets that are available in Connect and through the Beyond the Page features.



BEYOND THE PAGE

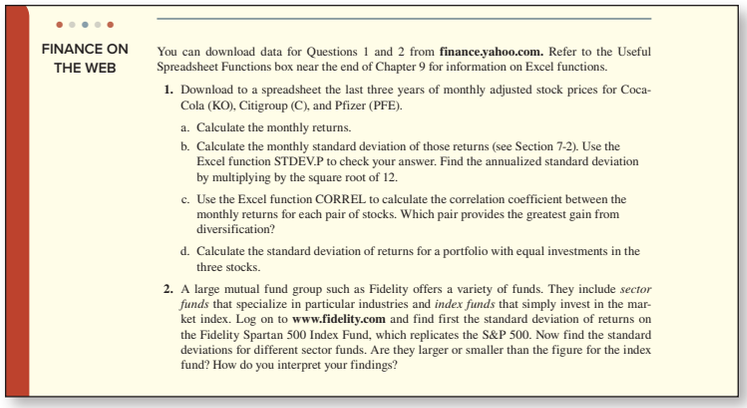
Try it! The Black-Scholes model

mhhe.com/brealey14e

3. **Expansion options (S23.1)** You own a one-year call option to buy one acre of Los Angeles real estate. The exercise price is $2 million, and the current, appraised market value of the land is $1.7 million. The land is currently used as a parking lot, generating just enough money to cover real estate taxes. The annual standard deviation is 15% and the interest rate 12%. How much is your call worth? Use the Black–Scholes formula. You may find it helpful to go to the spreadsheet for Chapter 22, which calculates Black–Scholes values (see the Beyond the Page feature).

Finance on the Web

These web exercises give students the opportunity to explore financial websites on their own. The web exercises make it easy to include current, real-world data in the classroom.



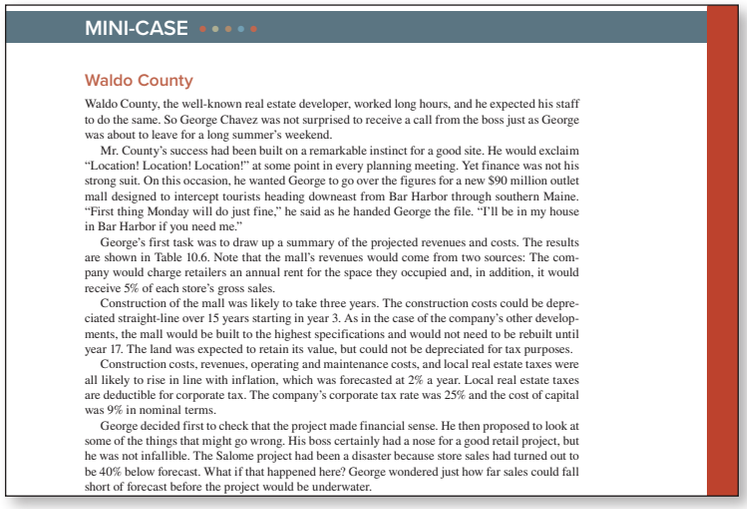
FINANCE ON THE WEB

You can download data for Questions 1 and 2 from **finance.yahoo.com.** Refer to the Useful Spreadsheet Functions box near the end of Chapter 9 for information on Excel functions.

1. Download to a spreadsheet the last three years of monthly adjusted stock prices for Coca-Cola (KO), Citigroup (C), and Pfizer (PFE).
   a. Calculate the monthly returns.
   b. Calculate the monthly standard deviation of those returns (see Section 7-2). Use the Excel function STDEV.P to check your answer. Find the annualized standard deviation by multiplying by the square root of 12.
   c. Use the Excel function CORREL to calculate the correlation coefficient between the monthly returns for each pair of stocks. Which pair provides the greatest gain from diversification?
   d. Calculate the standard deviation of returns for a portfolio with equal investments in the three stocks.
2. A large mutual fund group such as Fidelity offers a variety of funds. They include *sector funds* that specialize in particular industries and *index funds* that simply invest in the market index. Log on to **www.fidelity.com** and find first the standard deviation of returns on the Fidelity Spartan 500 Index Fund, which replicates the S&P 500. Now find the standard deviations for different sector funds. Are they larger or smaller than the figure for the index fund? How do you interpret your findings?

Mini-Cases

Mini-cases are included in select chapters so students can apply their knowledge to real-world scenarios.



MINI-CASE

Waldo County

Waldo County, the well-known real estate developer, worked long hours, and he expected his staff to do the same. So George Chavez was not surprised to receive a call from the boss just as George was about to leave for a long summer's weekend.

Mr. County's success had been built on a remarkable instinct for a good site. He would exclaim "Location! Location! Location!" at some point in every planning meeting. Yet finance was not his strong suit. On this occasion, he wanted George to go over the figures for a new $90 million outlet mall designed to intercept tourists heading downeast from Bar Harbor through southern Maine. "First thing Monday will do just fine," he said as he handed George the file. "I'll be in my house in Bar Harbor if you need me."

George's first task was to draw up a summary of the projected revenues and costs. The results are shown in Table 10.6. Note that the mall's revenues would come from two sources: The company would charge retailers an annual rent for the space they occupied and, in addition, it would receive 5% of each store's gross sales.

Construction of the mall was likely to take three years. The construction costs could be depreciated straight-line over 15 years starting in year 3. As in the case of the company's other developments, the mall would be built to the highest specifications and would not need to be rebuilt until year 17. The land was expected to retain its value, but could not be depreciated for tax purposes.

Construction costs, revenues, operating and maintenance costs, and local real estate taxes were all likely to rise in line with inflation, which was forecasted at 2% a year. Local real estate taxes are deductible for corporate tax. The company's corporate tax rate was 25% and the cost of capital was 9% in nominal terms.

George decided first to check that the project made financial sense. He then proposed to look at some of the things that might go wrong. His boss certainly had a nose for a good retail project, but he was not infallible. The Salome project had been a disaster because store sales had turned out to be 40% below forecast. What if that happened here? George wondered just how far sales could fall short of forecast before the project would be underwater.

Supplements

In this edition, we have gone to great lengths to ensure that our supplements are equal in quality and authority to the text itself.

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- Choose the layout and spacing.
- Add instructions and configure default settings.

Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.

Instructor Library

The *Connect* Instructor Library provides additional resources to improve student engagement in and out of class. This library contains information about the book and the authors, as well as all of the instructor supplements, many of which were carefully updated this edition by Nicholas Racculia, Ph.D., St. Vincent University.

- **Instructor's Manual** The Instructor's Manual contains an overview of each chapter, teaching tips,

learning objectives, challenge areas, key terms, and an annotated outline that provides references to the PowerPoint slides.

- **Solutions Manual** The Solutions Manual contains solutions to all basic, intermediate, and challenge problems found at the end of each chapter.
- **Test Bank** The Test Bank contains hundreds of multiple-choice and short answer/discussion questions, updated based on the revisions of the authors. The level of difficulty varies, as indicated by the easy, medium, or difficult labels.
- **PowerPoint Presentations** The PowerPoint presentations contain exhibits, outlines, key points, and summaries in a visually stimulating collection of slides. The instructor can edit, print, or rearrange the slides to fit the needs of his or her course.
- **Beyond the Page** The authors have created a wealth of additional examples, explanations, and applications, available for quick access by instructors and students. Each Beyond the Page feature is called out in the text with an icon that links directly to the content.
- **Excel Solutions and Templates** There are templates for select exhibits, as well as various end-of-chapter problems that have been set as Excel spreadsheets—all denoted by an icon. They correlate with specific concepts in the text and allow students to work through financial problems and gain experience using spreadsheets. Useful Spreadsheet Functions Boxes are sprinkled throughout the text to provide helpful prompts on working in Excel.

SmartBook: Diagnostic and Adaptive Learning of Concepts

SMARTBOOK® SmartBook®, powered by LearnSmart, is the first and only adaptive reading experience designed to change the way students read and learn. It creates a personalized reading experience by highlighting the most important concepts a student needs to learn at each moment in time. As a student engages with SmartBook, the reading experience continuously adapts by highlighting content based on what the student knows and doesn't know. This ensures that the focus is on the content he or she needs to learn, while simultaneously promoting long-term retention of material. Use SmartBook's real-time reports to quickly identify the concepts that require more attention from individual students—or the entire class. The end result? Students are more engaged with course content, can better prioritize their time, and come to class ready to participate.

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The Connect Student Study Center is the place for students to access additional resources. The Student Study Center:

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- Provides instant practice material and study questions, easily accessible on-the-go.

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Connect keeps instructors informed about how each student, section, and class is performing, allowing for more productive use of lecture and office hours. The progress-tracking function enables you to

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- Access an instant view of student or class performance relative to learning objectives.

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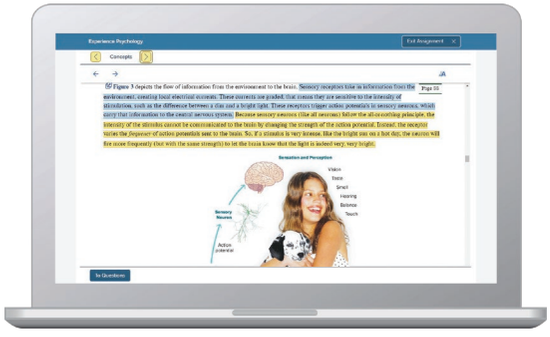

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Brief Contents

Contents

Part Five: Payout Policy and Capital Structure

Part Seven: Options

Part Eight: Debt Financing

Note: Present value tables are available in Connect.