

Corporate Finance Basics for Directors and Shareholders

Mercer Capital
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Contents

I. Finance Fundamentals

What Is Total Return?

What Influences Required Returns?

What Is Risk?

Cost of Capital

II. Essentials of Corporate Finance

Corporate Finance Questions

Managing the Cost of Capital

Which Projects Merit Investment?

Investing and Financing at the Margin

Sources of Shareholder Return

Tailoring Returns

III. Looking Forward

Capital Structure

Capital Budgeting

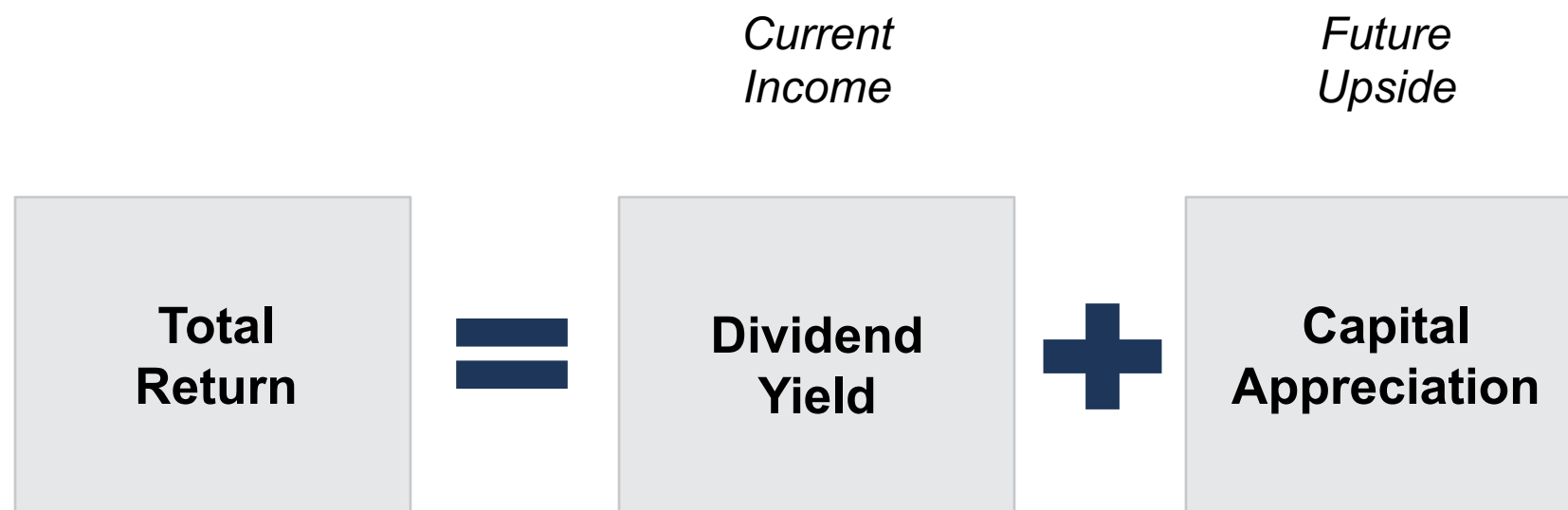
Dividend Policy

Risk & Return // Cost of Capital

Finance Fundamentals

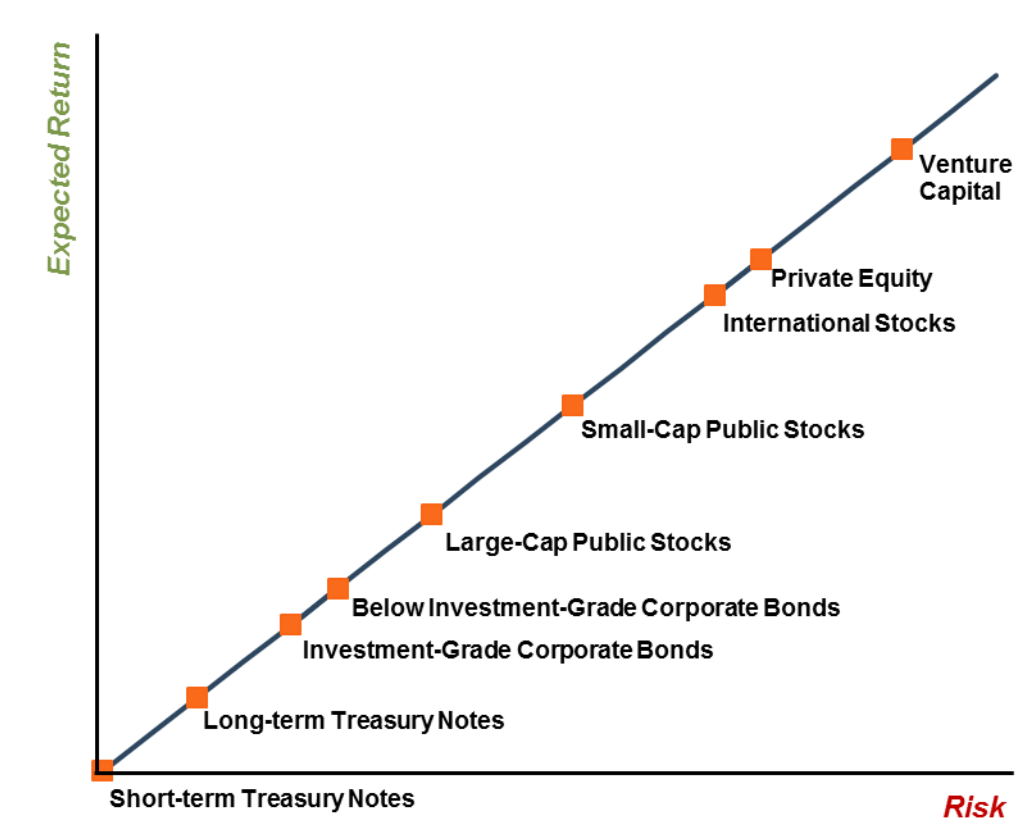
What Is Total Return?

Investment returns come in two forms



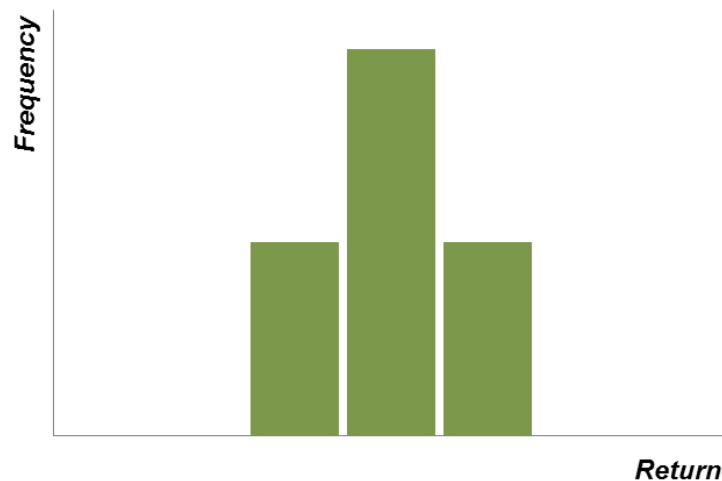
What Influences Required Returns?

Return follows risk

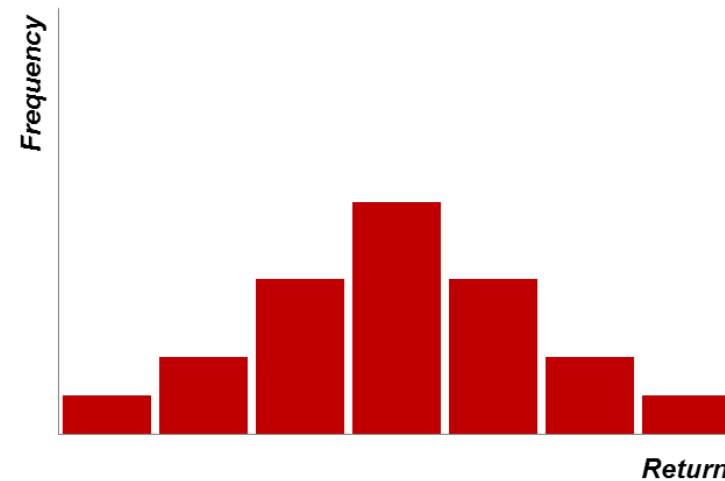


What Is Risk?

Variability of returns as a proxy for risk

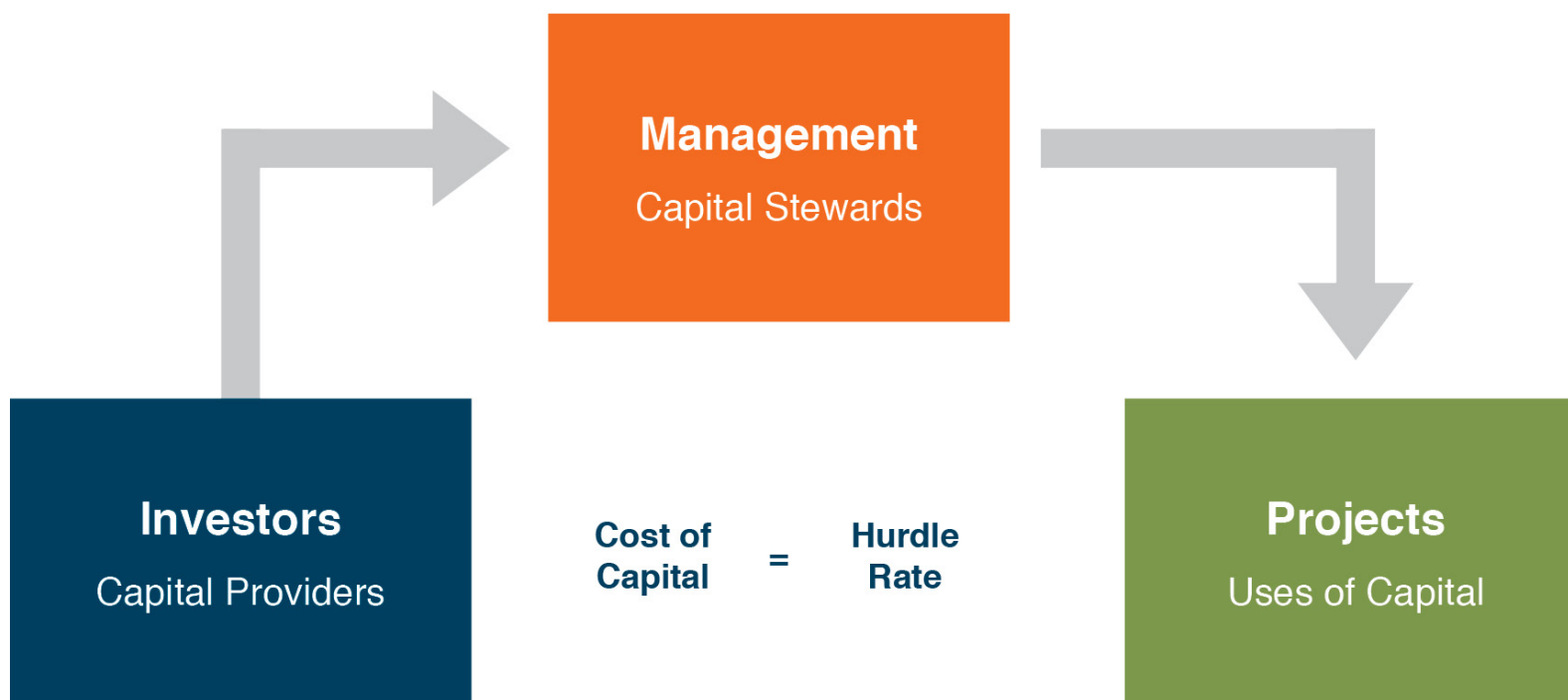


VS.



Cost of Capital

The cost of capital is the price paid to attract capital from investors to fund projects



Capital Structure // Capital Budgeting // Dividend Policy

Essentials of Corporate Finance

Corporate Finance Questions

The essence of corporate finance is discerning rational answers to three fundamental questions

1

**What is the most
efficient mix of
capital?**

Managing the
cost of capital

2

**What projects
merit
investment?**

Capital
budgeting

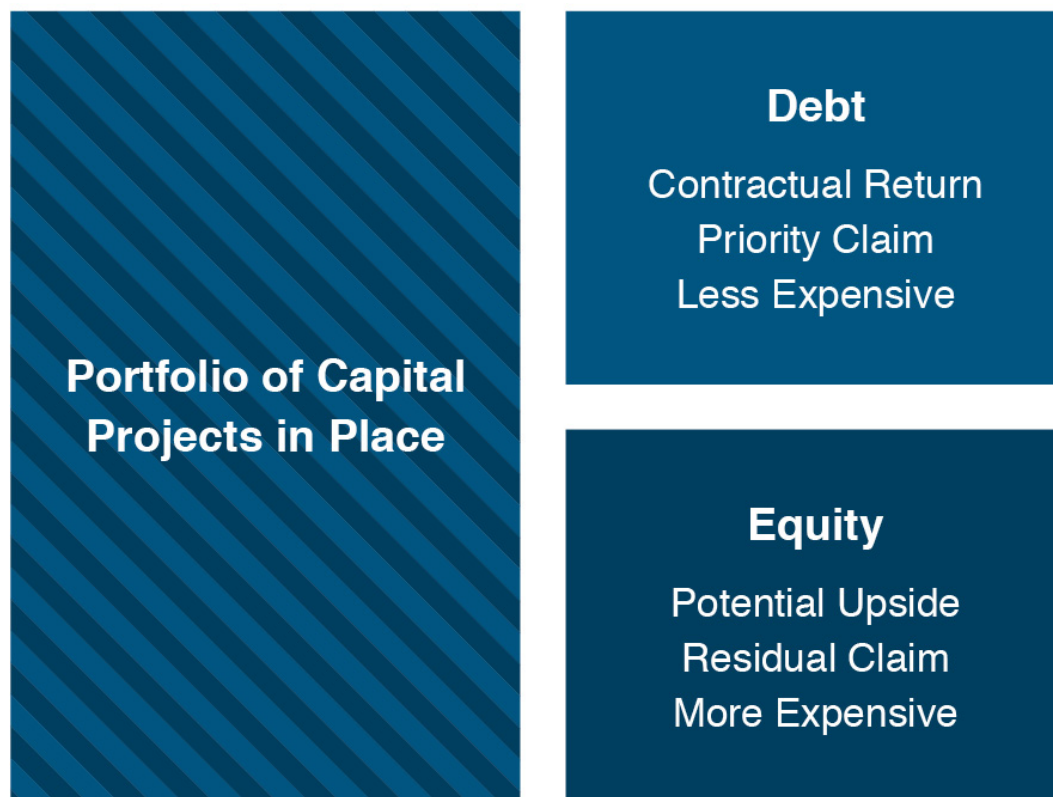
3

**What mix of
returns do
shareholders
desire?**

Dividend
policy

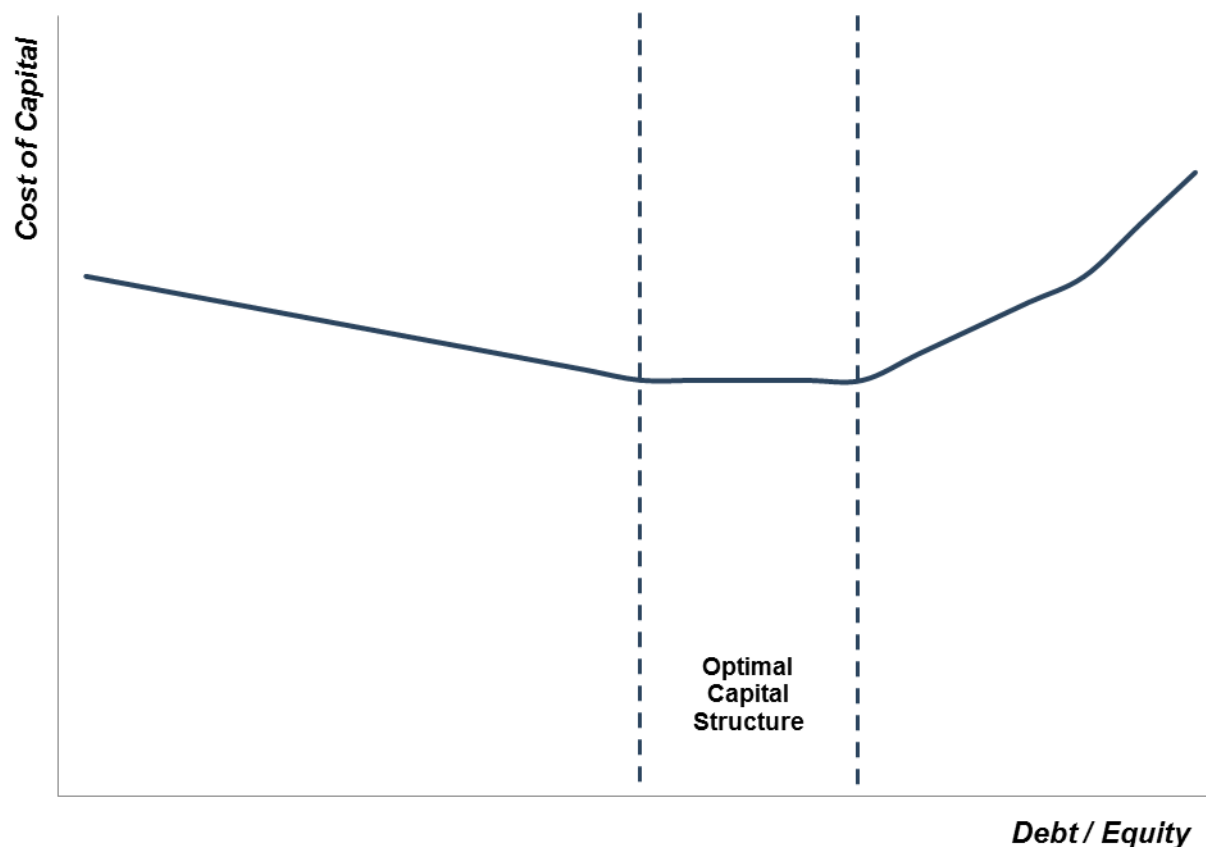
Managing the Cost of Capital

A company's portfolio of projects is financed with a mix of debt and equity



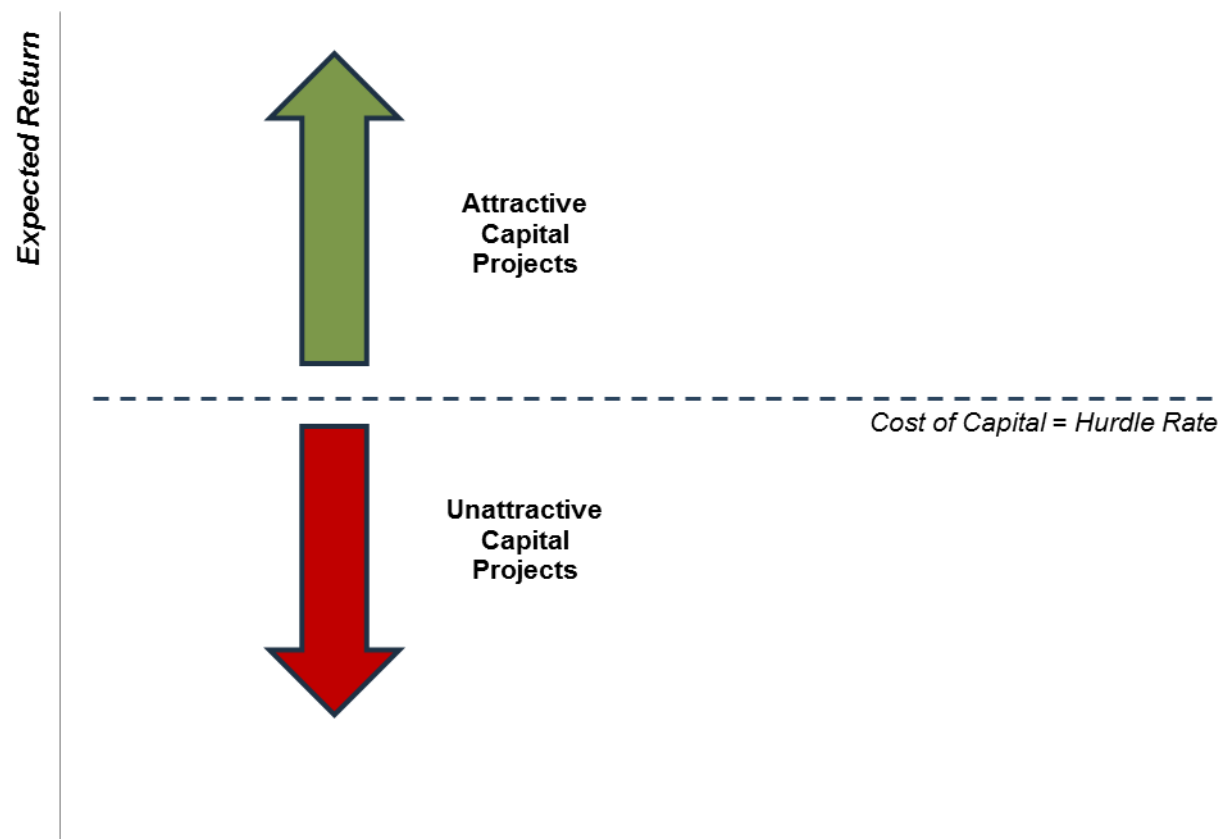
Managing the Cost of Capital

While the nominal cost of debt is lower than that of equity, the use of debt increases the risk of both debt and equity, eventually increasing the overall cost of capital



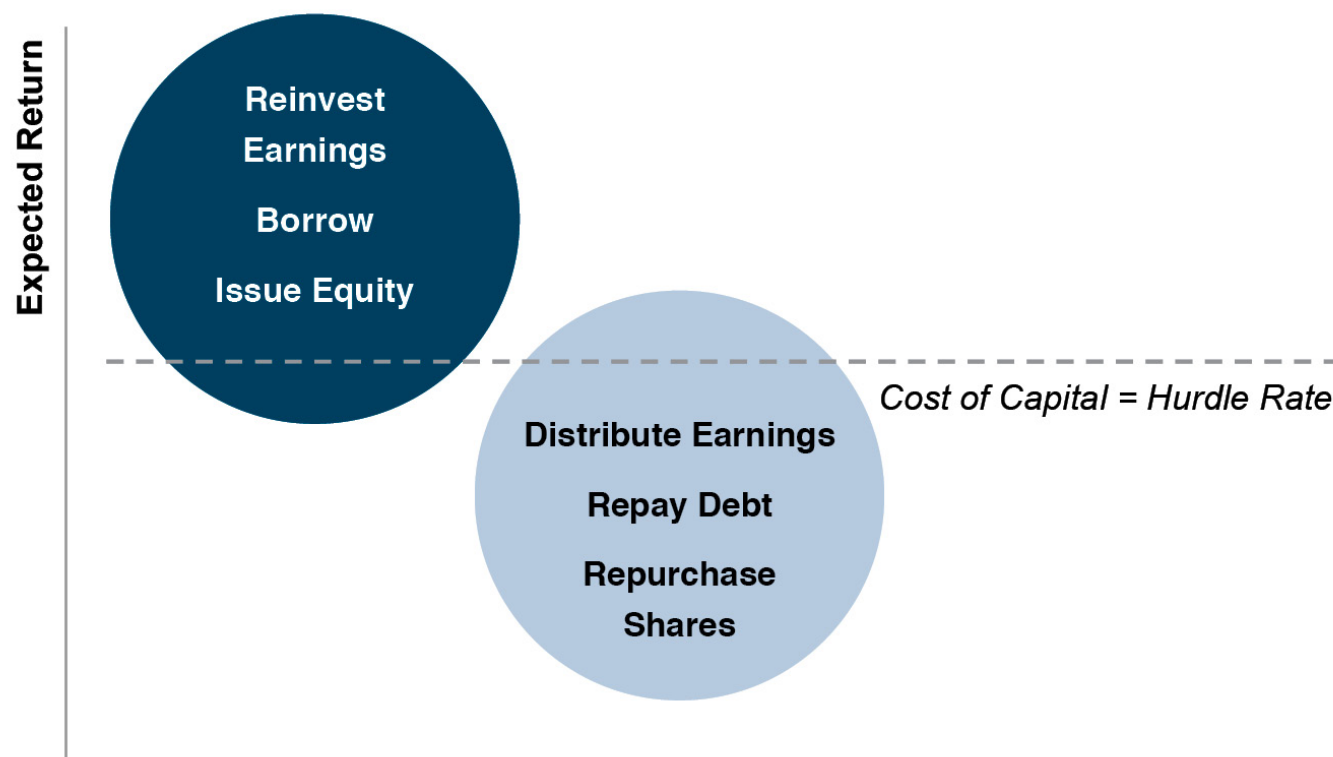
Which Projects Merit Investment?

One task of management is to evaluate available capital projects to determine whether the expected return meets or exceeds the hurdle rate



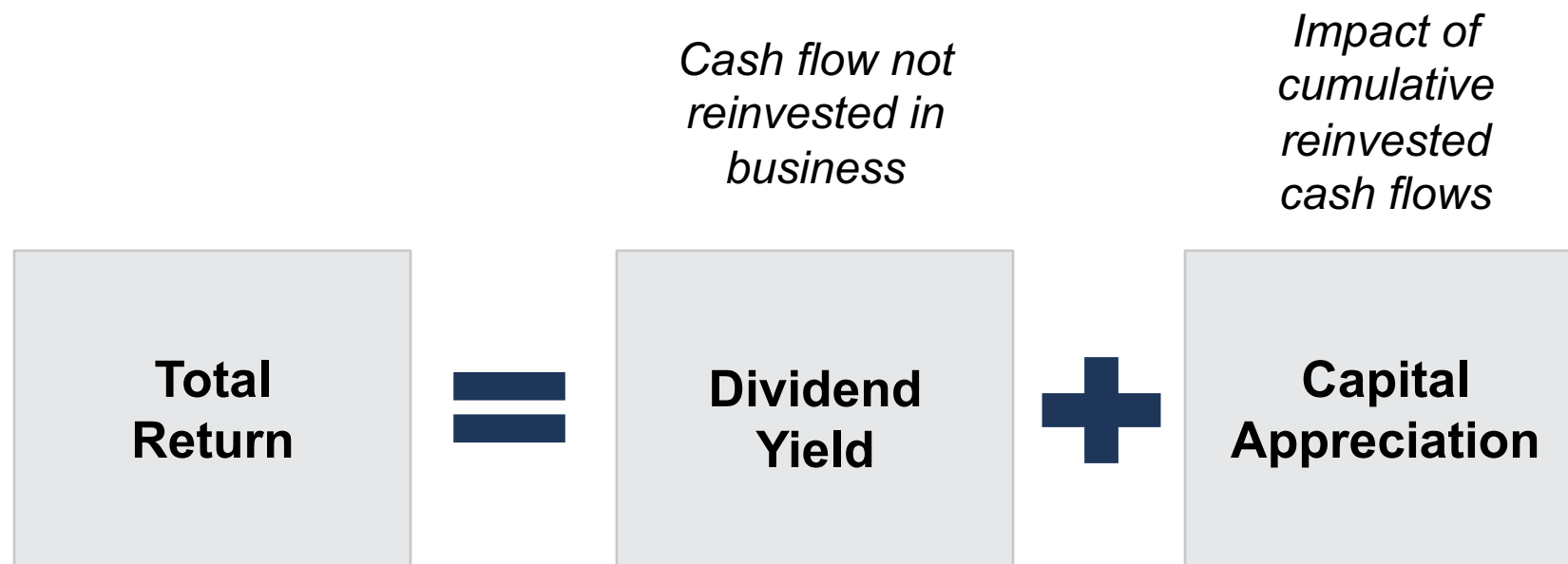
Investing & Financing at the Margin

At the margin, the availability of attractive investment opportunities informs the appropriate decisions regarding distributions and return of capital



Sources of Shareholder Return

The financing and investment decisions influence the returns realized by shareholders



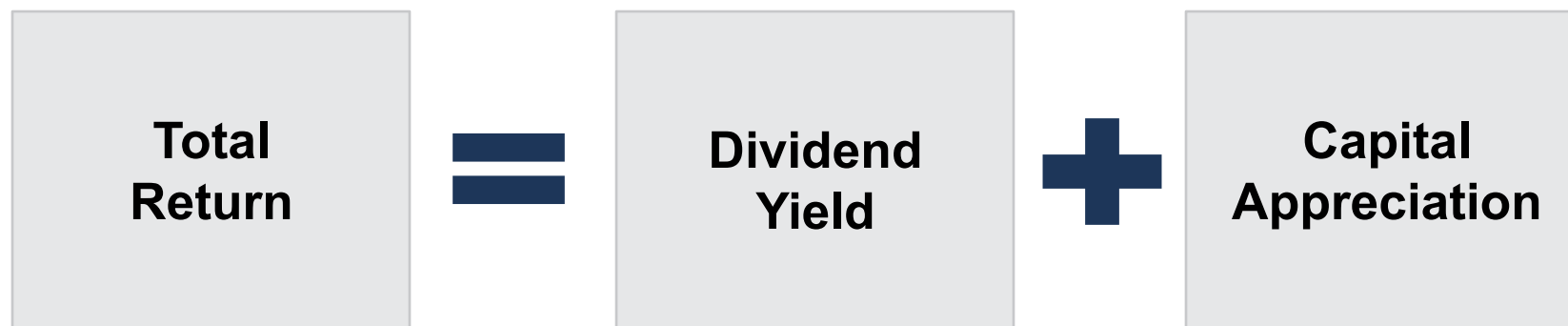
Over time, the relationship of total return to the cost of capital depends upon the management team's ability to identify and execute upon capital projects for which the return exceeds the hurdle rate.

Tailoring Returns

Through distribution policy, the board can tailor the components of total return to fit shareholder preferences

Total return determined by operating performance

However, the board does have some discretion in determining the relative components of total shareholder return

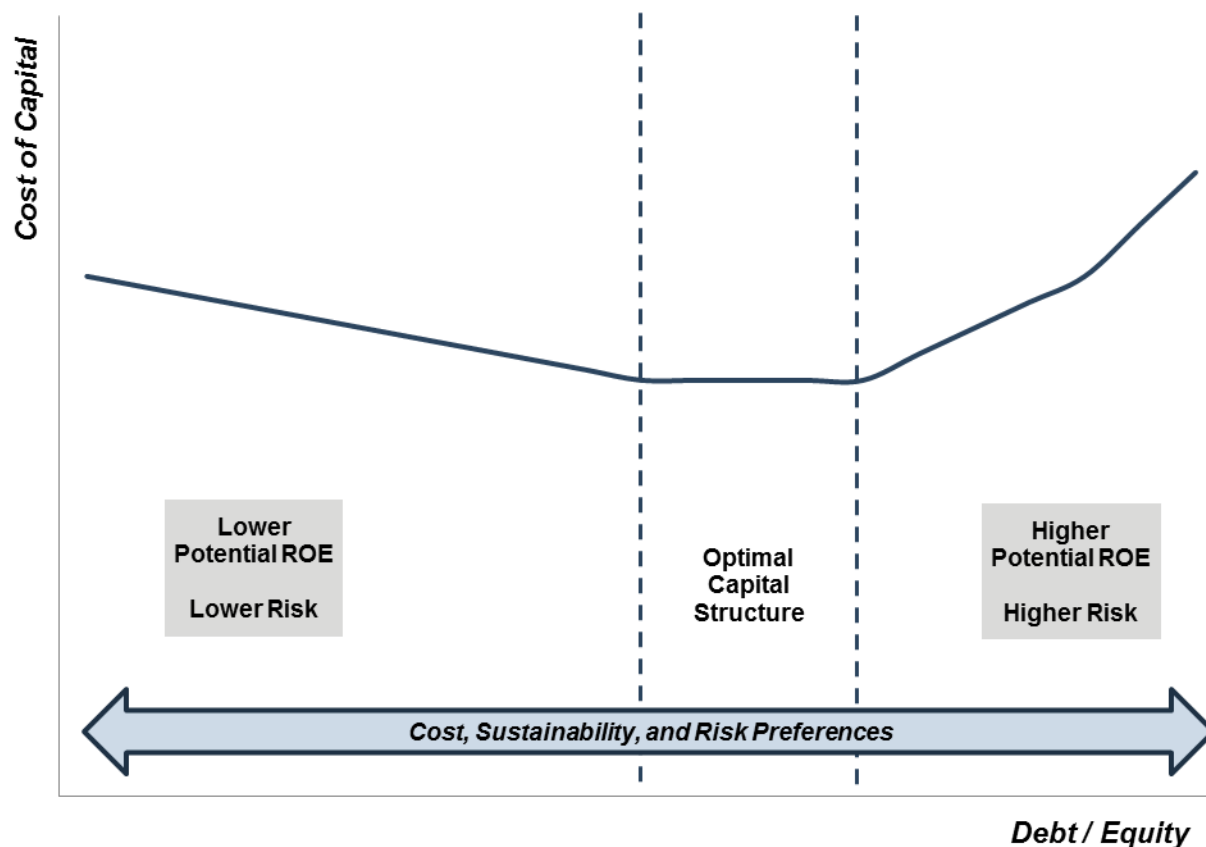


Capital Structure // Capital Budgeting // Dividend Policy

Looking Forward

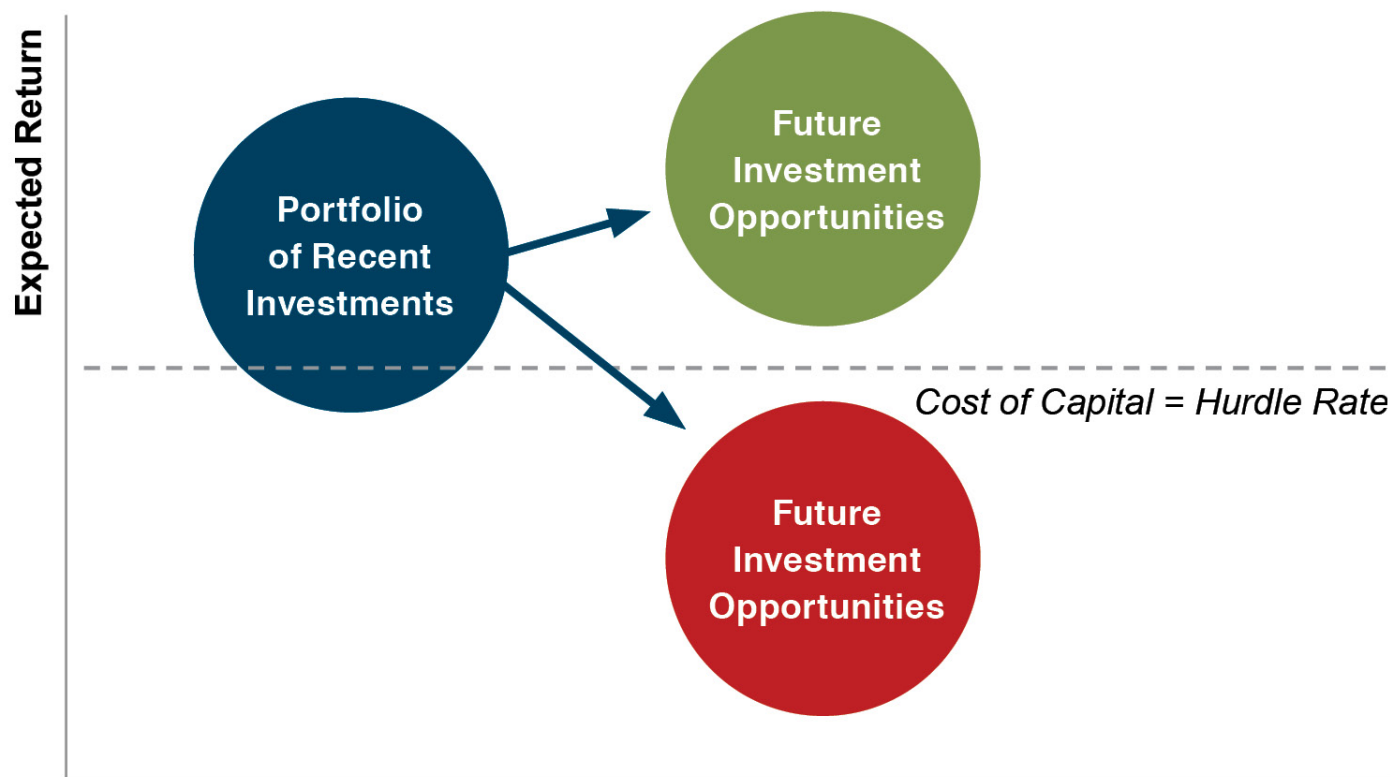
Capital Structure

In the long-run, the optimal capital structure for the Company will balance cost, flexibility, availability, and risk preferences



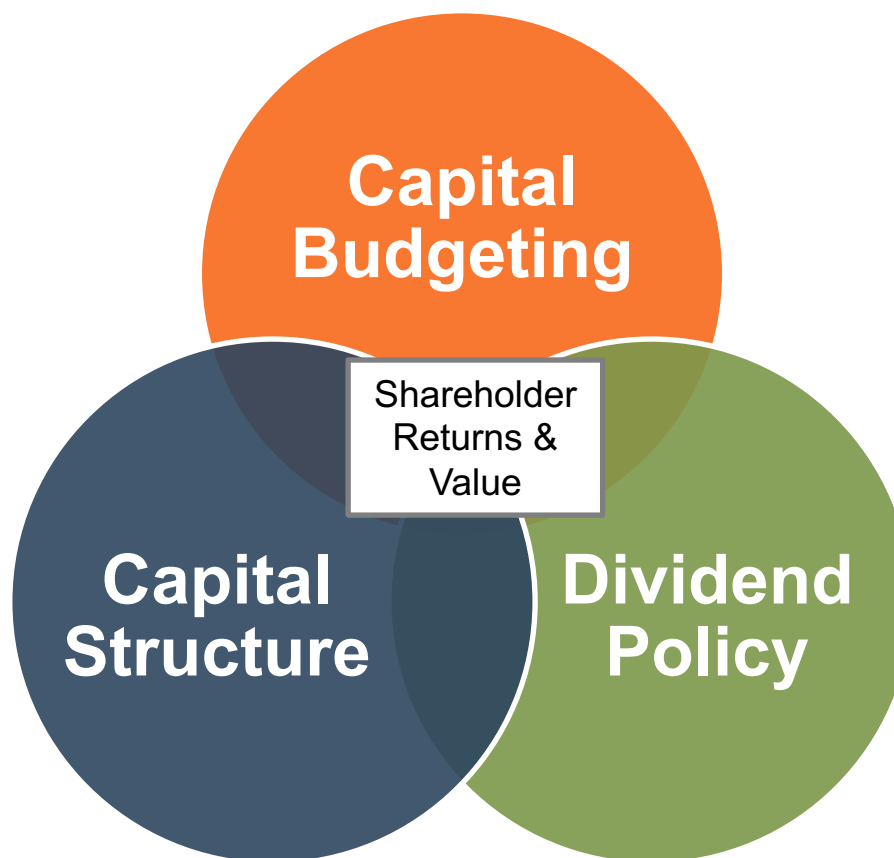
Capital Budgeting

The pace of future capital investment activity should be governed by availability of attractive investment opportunities, desire for diversification, and financial & management constraints



Dividend Policy

The appropriate form and amount of dividends should reflect shareholder preferences within the context of capital budgeting and capital structure decisions



About Mercer Capital

Mercer Capital is a national business valuation and financial advisory firm.

We offer a broad range of services, including corporate valuation, financial institution valuation, financial reporting valuation, gift and estate tax valuation, M&A advisory, fairness opinions, ESOP and ERISA valuation services, and litigation and expert testimony consulting.

We have provided thousands of valuation opinions for corporations of all sizes in a wide variety of industries. Our valuation opinions are well-reasoned and thoroughly documented, providing critical support for any potential engagement.

Our work has been reviewed and accepted by the major agencies of the federal government charged with regulating business transactions, as well as the largest accounting and law firms in the nation in connection with engagements involving their clients.

For over thirty years, Mercer Capital has been bringing uncommon professionalism, intellectual rigor, technical expertise, and superior client service to a broad range of public and private companies and financial institutions located throughout the world. Feel confident in our experience and expertise.

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Corporate Finance Consulting

Mercer Capital works with senior management and boards of directors to assist in strategic financial planning for privately held companies.

Through its financial consulting practice, Mercer Capital's senior professionals are available to facilitate board retreats, provide shareholder education sessions, conduct independent and confidential stakeholder surveys, and provide independent advice to directors and management on strategic financial decisions.

We provide unbiased guidance regarding:

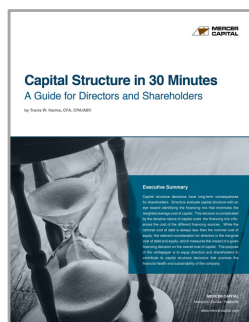
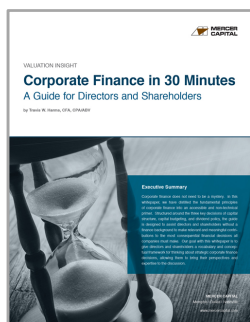
- General Corporate Finance
- Capital Structure
- Capital Budgeting
- Distribution Policy

Contact a Mercer Capital professional to discuss your needs in confidence.

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30 Minutes Whitepaper Series

For more information on these topics, view Mercer Capital's whitepapers titled **The 30 Minutes Series** authored by senior vice president [Travis W. Harms, CFA, CPA/ABV](#). The purpose of these whitepapers is to provide the management, board of directors, and shareholders of companies a user-friendly guide to complex financial issues.

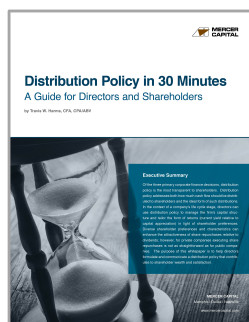
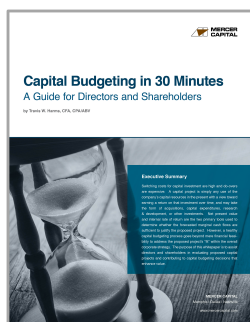


Corporate Finance in 30 Minutes

In this whitepaper, we distill the fundamental principles of corporate finance into an accessible and non-technical primer.

Capital Structure in 30 Minutes

Through this whitepaper, we equip directors and shareholders with the knowledge to contribute to capital structure decisions that promote the financial health and sustainability of their companies.



Capital Budgeting in 30 Minutes

Capital Budgeting in 30 Minutes assists directors and shareholders evaluate proposed capital projects and contribute to capital budgeting decisions that enhance value.

Distribution Policy in 30 Minutes

Of the three primary corporate finance decisions, distribution policy is the most transparent to shareholders. This whitepaper helps directors formulate and communicate a distribution policy that contributes to shareholder wealth and satisfaction.

Corporate Finance Consulting



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