

BUSI 7110/7116: Financial Analysis California Pizza Kitchen

Purchase the case, as discussed in class and on the course web page. Read it thoroughly and complete your analysis. Be prepared to discuss the case and your analysis in class on the due date. To help guide you, be prepared with answers to the following questions. You may work in teams of up to 3 people, but everyone is expected to understand all parts of the analysis.

The case must be purchased from Darden Business Publishing from the link provided on the course web page.

1. In what ways can Susan Collyns facilitate the success of CPK?
2. Using the scenarios in case Exhibit 9, what role does leverage play in affecting the return on equity (ROE) for CPK? What about the cost of capital? In assessing the effect of leverage on the cost of capital, you may assume that a firm's CAPM beta can be modeled in the following manner: $\beta_L = \beta_U[1 + (1 - T)D/E]$, where β_U is the firm's beta without leverage, T is the corporate income tax rate, D is the market value of debt, and E is the market value of equity.
3. Based on the analysis in case Exhibit 9, what is the anticipated CPK share price under each scenario? How many shares will CPK be likely to repurchase under each scenario? What role does the tax deductibility of interest play in encouraging debt financing at CPK?
4. What capital structure policy would you recommend for CPK?