

DEBT ON YOUR STOCK SELECTION GUIDES?

OR

WHY THE NUMBERS DON'T MATCH



Presented by Joan Loken,
Education Chair – Rocky Mountain
Chapter

Definition of Debt

- ***Debt*** is what the company owes and has to pay interest on, such as:
 - Loans from banks.
 - Company bonds.
 - Preferred stock.
- ***Short term debt*** has to be paid in the next twelve months.
- ***Long term debt*** has to be paid later than the next twelve months.

Debt to Capital

7%	29.1%	30.1%	31.5%	31.4%	31.8%	32.2%	Net Profit Margin	32.3%
44.0	3496.0	8074.0	9432.0	12313	24982	26000	Working Cap'l (\$mill)	30000
35.0	6235.0	10235	9237.0	11510	14772	15000	Long-Term Debt (\$mill)	15000
5012	16919	23025	25090	30798	39776	45500	Shr. Equity (\$mill)	65500
0.9%	23.6%	21.0%	22.3%	21.0%	21.6%	21.0%	Return on Total Cap'l	20.0%
8.3%	31.3%	29.5%	29.5%	27.6%	28.6%	27.5%	Return on Shr. Equity	23.5%
8.3%	31.3%	29.5%	28.5%	24.3%	26.0%	24.5%	Retained to Com Eq	21.0%
			3%	3.0%	0%	1.0%	Div'ds to Net Prof	11%

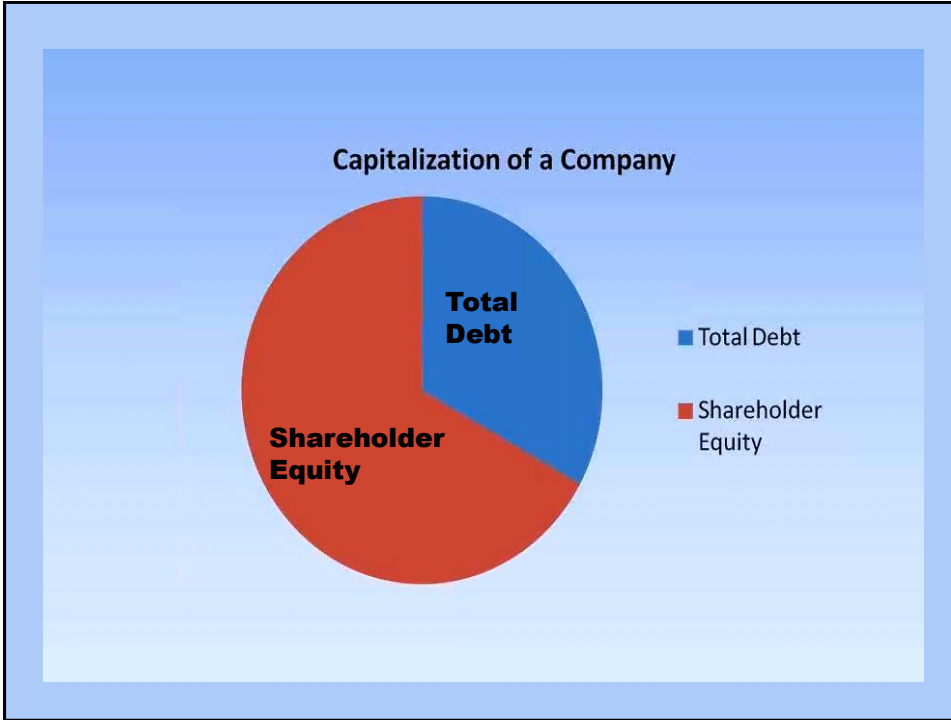
CAPITAL STRUCTURE as of 8/31/11
 Total Debt \$14789 mill. Due in 5 Yrs \$5900 mill.
 LT Debt \$14789 mill. LT Interest \$775.0 mill.
 (27% of Cap'l)
 Leases, Uncapitalized Annual rentals \$458.0 mill.

No defined benefit pension plan
 Pfd Stock None

Common Stock 5,051,000,000 shs.

MARKET CAP: \$169.7 billion (Large Cap)

**KNOW WHICH DEBT
 YOU'RE USING**



CALCULATION DONE WITH END-OF-QUARTER NUMBERS

Company	ORACLE CORP	Price Date	01/17/12
Study by	Ken Kavula	Data Date	01/17/12
Sector	Technology	Data Source	BI
Industry	Software - Infrastructure	Reference	
Preferred(\$M)	0.0		
Common(M Shares)	5,041.0	% Insiders	21.9
Debt(\$M)	14,778.0	% Institutions	66.0
% Debt to Tot.Cap.	27.2	Quality	

NAS: ORCL

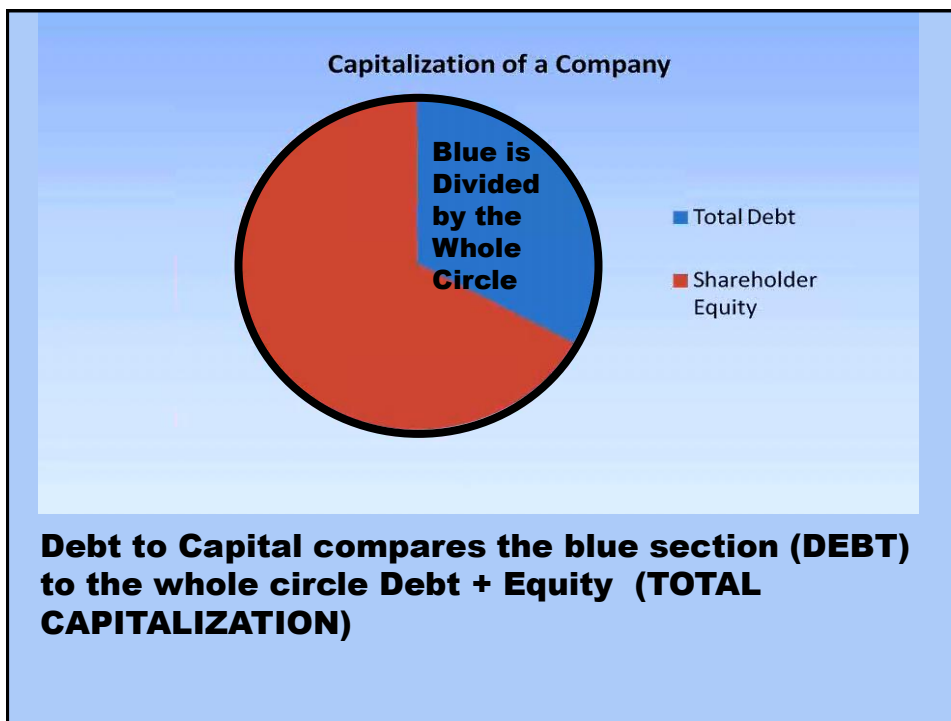
70,672.4

INGS
SHARE

$$\text{TOTAL DEBT} / (\text{TOTAL DEBT} + \text{SHAREHOLDER EQUITY})$$

Definition of Capital

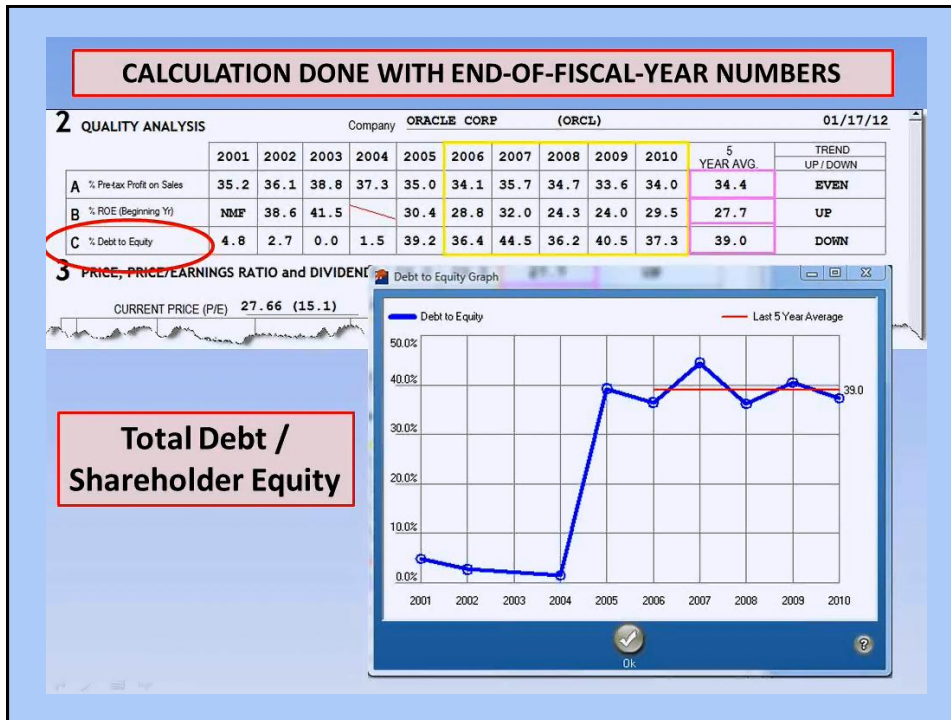
- Capital is the funds that the company can use for financing projects and other operations.
- It is equal to Equity plus Debt.
- Also called Total Capital.
- Banks use a different definition.
- Not to be confused with Market Capitalization! (which is the stock price times the # of shares outstanding)



33% Rule of Thumb Applies to Debt to Total Capital

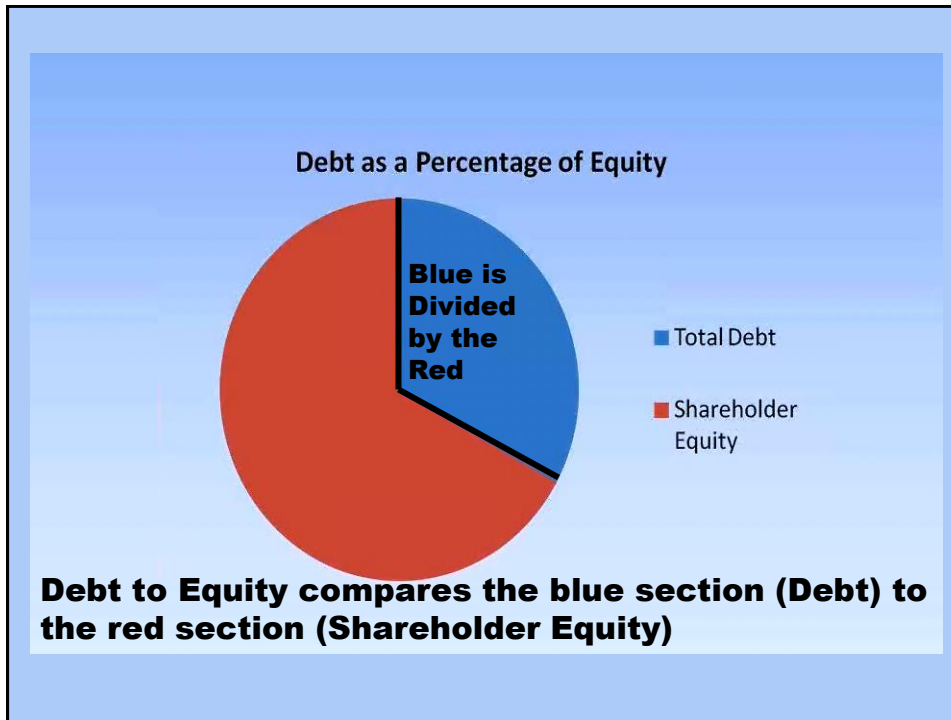
- **Front Right Corner on Toolkit 6**
- **Online Tools (Core SSG & SSG Plus)**

Debt to Equity



Definition of Equity

- **Assets** are everything that the company *owns* at that moment in time.
- **Liabilities** are everything the company *owes* at that moment in time.
- **Equity** is assets minus liabilities.
 - Also called *shareholder's equity*.
 - Also called *net worth*.
 - Also called *book value*.
 - Also called *retained earnings*.



Relationship Between D/E and D/C

- D/E is Debt divided by Equity.
- D/C is Debt divided by the sum of Equity and Debt.
- D/E of 50% is the same debt as D/C of 33.3%.

**Debt should be no more than
50% of equity (back side of Toolkit)
33% Debt to Total Cap. (Toolkit front) & (Online Tools)**

BI Advice on Debt to Capital

- **We like to have companies use some leverage.**
- **But not too much leverage!**
- **Compare the debt ratio to the debt ratio of the company's competitors.**
- **Banks are special with D/C around 90% (that is because their business is making loans).**