Delux Corporation Harvard Case Solution & Analysis

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Question 1:

1. Industry risk
2. PE risk
3. Downgrade

PE ratio needs to be compared with industrial PE rather than S&P 500 PE

Financing requirements:
1. buyback spending
2. strategic acquisition
3. cash dividends
4. financial flexibility

Question 2: Main objectives of financial policy?

1. Remain at current financial rating and minimize cost of capital
2. Meet the operating requirements

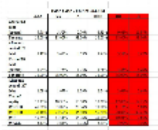
Question 3: How much debt could the firm borrow at each rating level?
Question 5: Is Deluxe's current debt level appropriate?

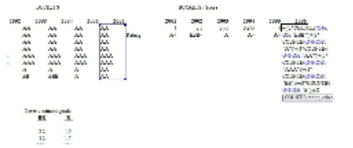
Question 6: What should Singh recommend?

We agree with Team 3's recommendations for this question

Except:
The level of flexibility or reserves
The mix of debt and equity

Question 4: which rating has lowest overall cost? Do you agree with equity investors are indifferent to the increases in financial risk across the investment grade debt categories?





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Risks of business and strategy?
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Exhibit 6

Key Industrial Financial Ratios by Rating Categories

Credit Rating

	Investment grade				Noninvestment grade	
Key Industrial Financial Ratios (Three-year medians 2000–02)	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**
EBIT interest coverage (x)	23.4	13.3	6.3	3.9	2.2	1.0
EBITDA interest coverage (x)	25.3	16.9	8.5	5.4	3.2	1.7
Funds from operations/total debt (%)	214.2	65.7	42.2	30.6	19.7	10.4
Free operating cash flow/total debt (%)	156.6	33.6	22.3	12.8	7.3	1.5
Return on capital (%)	35.0	26.6	18.1	13.1	11.5	8.0
Operating income/sales (%)	23.4	24.0	18.1	15.5	15.4	14.7
Long-term debt/capital (%)	(1.1)	21.1	33.8	40.3	53.6	72.6
Total debt/capital, incl. short-term debt (%)	5.0	35.9	42.6	47.0	57.7	75.1

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