

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	Jakub Chyba
Advisor:	prof. Ing. Michal Mejstřík, CSc.
Title of the thesis:	Impact of Capital Structure and Its Changes on the Value of Companies Obtained Through the Discounted Cash Flow Formula

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Contribution

The author claims that the largest contribution of the thesis is proving that the „target market values of equity“ need to be used in order to attain precise company valuation. I am not convinced that the thesis really proves the stated. Moreover, there is no point in trying to determine the value of a company if I know the target value beforehand. The claims are also not supported by any empirical evidence. Therefore, the practical contribution of the thesis is negligible.

Methods

The methods used in the empirical part are quite „naive“. Firstly the research is conducted solely on manufactured artificial firms. The author uses some methods to determine the target values that should be used in the WACC formula, these methods are not fully explained. Then the correct equity value is taken as benchmark, and compared to the models where bias is induced. Hence the results are predetermined by the methods used. Above described methods could be a good tool to show, how using incorrect weights could bias the results, but do not provide empirical evidence supporting the claims from the theoretical section. Estimation using real-life firms that would support/disprove the theoretical arguments is completely missing.

Literature

The literature review lists most of the relevant sources, and compares their results and outcomes. It could be written more fluently, but its overall quality is adequate.

Manuscript form

The structure of the thesis is adequate, and most of the sources are correctly cited, although some citations are missing. The language used is not very appropriate for a bachelor thesis. In most parts, the thesis is very difficult to read, and to understand what the author is trying to express. The only graphical aids to the results are a few Tables in the last part of the text, but they are not properly referred to in the text.

Summary and suggested questions for the discussion during the defense

The thesis title claims to assess the impact of capital structure and its changes on the company valuation. Instead the author assesses the role of using wrong weights in the Discounted Cash Flow to Firm method. The thesis suffers from two major drawbacks. Firstly, the methodology is insufficient to the task. Specifically, there is no evidence supporting or disproving the empirical validity of the theoretically derived conclusions, only results of a toy exercise with predetermined results are presented. Secondly, the quality of language is poor, and not adequate to a bachelor thesis. I recommend that the thesis is rewritten with emphasis on the sound statistical methods, presenting empirical evidence, and improved quality of writing.

The results of the Urkund analysis do not indicate significant text similarity with other available sources.

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In my view, the thesis does not fulfill the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I do not recommend it for the defense, therefore I suggest a grade F.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	10
<i>Methods</i> (max. 30 points)	5
<i>Literature</i> (max. 20 points)	15
<i>Manuscript Form</i> (max. 20 points)	8
TOTAL POINTS (max. 100 points)	38
GRADE (A – B – C – D – E – F)	F

NAME OF THE REFEREE: *Josef Kurka*

DATE OF EVALUATION: *31.8.2020*

Digitally signed (31.8.2020)
Josef Kurka

Referee Signature