Spring 5-1-2012

Capitalization Structure: The Effects of Leverage on Growth Prospects

Laura Cawley  
*Syracuse University*

Roers Janku  
*Syracuse University*

Follow this and additional works at: [https://surface.syr.edu/honors_capstone](https://surface.syr.edu/honors_capstone)

Part of the [Corporate Finance Commons](https://surface.syr.edu/honors_capstone), [Finance Commons](https://surface.syr.edu/honors_capstone), and the [Growth and Development Commons](https://surface.syr.edu/honors_capstone)

**Recommended Citation**

Cawley, Laura and Janku, Roers, "Capitalization Structure: The Effects of Leverage on Growth Prospects" (2012). *Syracuse University Honors Program Capstone Projects*. 166.  
[https://surface.syr.edu/honors_capstone/166](https://surface.syr.edu/honors_capstone/166)

This Honors Capstone Project is brought to you for free and open access by the Syracuse University Honors Program Capstone Projects at SURFACE. It has been accepted for inclusion in Syracuse University Honors Program Capstone Projects by an authorized administrator of SURFACE. For more information, please contact [surface@syr.edu](mailto:surface@syr.edu).
Capitalization Structure: The Effects of Leverage on Growth Prospects

A Capstone Project Submitted in Partial Fulfillment of the Requirements of the Renée Crown University Honors Program at Syracuse University

Laura Cawley & Roers Janku
Candidates for B.S. Degrees
and Renée Crown University Honors
May 2012

Honors Capstone Project in Finance

Capstone Project Advisor: _______________________
Fernando Diz, Professor of Finance

Capstone Project Reader: _______________________
Thomas Foley, Executive Associate Dean

Honors Director: _______________________
Stephen Kuusisto, Director

Date: 04/25/2012
Abstract

In this paper we quantitatively analyzed capital structure to lead to an understanding of the effects of debt within capital structure. Utilizing EBITDA growth as a proxy for the effects of leverage, we quantitatively analyzed the impact of the capitalization decision. Through the use of a model we analyzed 180 companies to come to conclusions about the EBITDA growth rate necessary as determined by leverage.
# Table of Contents

Abstract..................................................................................................................

Introduction........................................................................................................... 1

Section I: Theories of Capital Structure................................................................. 1
  Theoretical Background ................................................................. 1
  Graham and Dodd ........................................................................... 2
  Modigliani and Miller ................................................................. 5
  Martin J. Whitman ................................................................. 9
  Pecking – Order Hypothesis............................................................. 11
  Signaling Model ........................................................................... 12

Section II: Research Methodology......................................................................... 13
  Research Approach ................................................................. 13
  The Sample ................................................................................. 15
  The Model ................................................................................. 18
  Inputs & Assumptions .................................................................. 24

Section III: Analysis............................................................................................... 26
  Model Results .............................................................................. 26

Section IV: Conclusions.......................................................................................... 45

References.............................................................................................................. 46

Appendices............................................................................................................. 49

Summary of Capstone Project................................................................................. 56