

Capital Valuation and Capital Structure Decisions

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Capital structure refers to the mix of funding sources a company uses to finance its assets and its operations, primarily divided between debt and equity. (Gutta, 2025). A company's value is often calculated using its capital structure, specifically by discounting its future cash flows by its WACC, which involves balancing debt vs. equity financing decisions (Hayes, 2025b).

Debt capital requires paying interest, but it preserves ownership, while equity capital does not need to be repaid, but dilutes ownership. Despite the interest payments required, the cost of debt is typically lower than equity financing due to tax deductions on the interest and the higher expectations for returns by investors involved with equity financing (Boyte-White, 2026).

“Financial leverage is the practice of borrowing money, investing the funds, and planning for future returns to be greater than debt servicing costs.” (Hayes, 2025). “Leverage is a double-edged sword: Too much of it can expose the company to financial risks, and too little of it could lead to lower growth.” (Gutta, 2025). Different valuation techniques try to capture the company's capital structure, including discounted cash flow (DCF) analysis. (Schmidt, 2018).

Regarding my check-in as to how I think I am doing in class, I believe I am on track to earn at least the B- grade I need to maintain a respectable transcript. This class is a constant motivational struggle for me, since I have no interest in learning more than the bare minimum I need to deepen my intuition about how finance capital operates. I constantly look for things that do peak my interest while I research for my papers, which also means I get distracted a lot. For example, when I read that the largest bankruptcy in U.S. history, Lehman Brothers resulted from its being over-leveraged, while BaseCamp's self financing has resulted in slow steady growth of at least 5% year after year, consciously choosing a finance model with returns far lower than the industry average of 15.7%. (Gutta, 2025), it led me to look into BaseCamp Franchising. It is not a publicly traded company, so it is not the focus of what we are learning here in class, but it is

just the kind of thing I am interested in, a business that consciously strives to avoid the evils of finance capital by maintaining a sustainable business for the benefit of owners, customers, and even employees alike. (Edelson, 2025). While I certainly do not trust Forbes to have any idea what “doing good” means, I did learn a lot from this article that got me thinking about how finances could be managed in the solidarity economy. That is what I am hoping to learn in our MBA program.

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