FIN 394.2 Fall 2008

MW 8:00 a.m. – 9:30 a.m. (03405) UTC 1.104
MW 9:30 a.m. – 11:00 a.m. (03410) UTC 1.104
MW 11:00 a.m. – 12:30 p.m. (03415) UTC 1.104

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Office hours:
Mondays 1:00 p.m. – 3:00 p.m.
and by appointment

Financial Strategies

Course Objective

This course explores the interaction between the financial decisions and the business strategy of a firm. Topics covered include: financial forecasting and cash management; capital structure choice; risk management; business valuation, value-based management, project analysis; corporate restructuring and reorganization, and mergers and acquisitions.

Financial Strategies provides students who already have a basic understanding of financial theory and the related analytical techniques with experience in the application of that theory and those techniques. This experience is obtained through the analysis of issues frequently encountered by financial decision-makers. The main emphasis is on the identification of value creating financial strategies and investments for the firm.

Course Packet and Useful References

The course packet, which is available at the University COOP, contains daily assignments, readings, and the cases that will be discussed during the course. **The course packet is the only required text.** However, students may find the following books to be useful references at various times during the course.

General references:

Berk, Jonathan and Peter DeMarzo, Corporate Finance, Boston, MA, Pearson/Addison-Wesley, 2007.

Brealey, Richard A., Stewart C. Myers, and Franklin Allen, Principles of Corporate Finance (9th ed.), New York, NY, McGraw Hill/Irwin, 2008.

Higgins, Robert C., Analysis for Financial Management (8th ed.), New York, NY, McGraw Hill/Irwin, 2007.

Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe, Corporate Finance (7th or 8th ed.), New York, NY, McGraw Hill/Irwin, 2005 or 2008.

Valuation, restructuring, and M&A references:

Bruner, Robert F., Applied Mergers and Acquisitions, New York, NY, John Wiley& Sons, Inc, 2004.

Gaughan, Patrick A., Mergers, Acquisitions, and Corporate Restructurings (4th ed.), New York, NY, John Wiley& Sons, Inc, 2006.

Koller, Tom, Marc Goedhart, and David Wessels, Valuation: Measuring and Managing the Value of Companies (4th ed.), New York, NY, John Wiley& Sons, Inc, 2005.

Course-related information, including the syllabus and handouts, will be posted on Blackboard.

Grading

Final grades will be determined as follows: Weight

Midterm case 20%

Each student will individually prepare a written analysis of a case. The case will be distributed in class on October 8, 2008 and the analysis will be due in class on October 15, 2008. The report will not exceed six pages, including exhibits. See page 6 of this syllabus for additional details.

Final case 40%

The final assignment in this course will consist of a written case analysis (individually prepared). The case will be distributed on the last day of class, December 3, 2008, and the analysis will be due by 9:00 a.m. on Wednesday, December 10, 2008. The report will not exceed six pages (including exhibits). See page 6 of this syllabus for additional details.

Class participation 35%

This portion of the grade will be based on the contribution of each individual student to the class discussion throughout the term. It will be based on the quality and quantity of class participation. Quality will be the far more important of the two dimensions. While each comment will be judged on its merits, worrying about each comment is counterproductive. What is important is your overall contribution to moving the class forward during the semester. Relatively frequent contributions to the discussion that demonstrate logical and thorough analysis will be required to earn 35%.

Peer evaluation 5%

At the end of the semester, I will ask each member of the class to evaluate the contribution of other class members to the quality of the class discussion throughout the semester.

Other Comments

- All students are expected to be seated and ready at the beginning of class. I reserve the right to refuse admission to any student who does not make it to class on time. If you miss a class, you are responsible for any material that you miss, including any administrative announcements.
- To be fair to other students, I will not give any extra-credit assignments. Your final grade will be determined solely by the system described above.
- I expect every student to abide by the Honor System.

Class Schedule/Readings

I. Introduction

Aug. 27 Lecture 1: Course introduction and overview

II. Financing

II.a. Financial Forecasting and Cash Management

Sept. 3 Padgett Paper Products Company (analysis of growth and bank financing)

8 Kota Fibres, Ltd. (forecasting seasonal financing needs)

Reading: The Management of Working Capital, Chapter 15 in Practical Financial Management (4th ed.) by William R. Lasher, New York, NY, McGraw Hill/Irwin, 2005.

II.b. Financial Policy

10 Coleco Industries, Inc. (choosing the appropriate financial policy)

Readings: Scan Chapters 14-16 on Capital Structure in Corporate Finance by Jonathan Berk and Peter DeMarzo, Boston, MA, Pearson/Addison-Wesley, 2007. (*in your BA385T Text*)

15 Stone Container Corporation (A) (equity financing and signaling)

II.c. Leasing

17 Primus Automation Division, 2002 (leasing analysis)

Reading: Leasing, Chapter 25 in Corporate Finance by Jonathan Berk and Peter DeMarzo, Boston, MA, Pearson/Addison-Wesley, 2007. (*in your BA385T Text*)

III. Risk Management

22 Lecture 2: Risk management

Readings:

A New Nightmare in the Boardroom, The Economist, February 10, 1996.

Smith, Clifford W. Smith Jr., Charles W. Smithson, and D. Sykes Wilford, Managing Financial Risk, Journal of Applied Corporate Finance, January 1, 1989.

Culp, Christopher L., The Revolution in Corporate Risk Management: A Decade of Innovations in Process and Products, Journal of Applied Corporate Finance (Winter 2002), pp. 8 – 26.

Morgan Stanley Roundtable on Enterprise Risk Management and Corporate Strategy, Journal of Applied Corporate Finance (Summer 2005), pp. 32 - 61.

24 Walt Disney Company's Yen Financing (managing risk)

29 United Grain Growers Limited (A) (risk identification and technique selection)

Oct. 1 Foreign Exchange Hedging Strategies at General Motors: Transactional and Translational Exposures (hedging policy)

IV. Valuation

6 Berg Electronics Corporation (capital cash flows approach to valuation)

Readings:

Ruback, Richard S., Capital Cash Flows: A Simple Approach to Valuing Risky Cash Flows, Financial Management (Summer 2002), pp. 85-103.

Technical Note on Valuing Companies in Corporate Restructurings

8 Sprigg Lane (A) (evaluating risk)

Readings:

Monte Carlo Simulation, Section 10.2 in Chapter 10 of Principles of Corporate Finance (6th ed.) by Richard A. Brealey, Stewart C. Myers, and Franklin Allen, New York, NY, McGraw Hill/Irwin, 2000, pp. 268 - 275.

13 The Hertz Corporation (A) (valuing a leveraged buyout)

15 **Midterm case (report due in class)**

V. Value Based Management

20 Lecture 3: Value based management

Readings:

Shareholder Value Approach, Chapter 3 in Creating Shareholder Value by Alfred Rappaport (Free Press, 1998).

Economic Value added, Scott D. Hakala, Chapter 13D in Financial Valuation: Businesses and Business Interests (2000 Update), edited by Richard C. May and Loren B. Garruto (Warren Gorhman & Lamont, 2000)

Stewart, Bennett, The Real Reasons Enron Failed, Journal of Applied Corporate Finance (Spring 2006), pp. 116 – 119.

VI. Project Analysis

22 Diamond Chemicals PLC (B) (capital budgeting)

Readings:

Note on Valuing Managerial Flexibility and Commitment by Robert F. Bruner

Mathews, Scott, Vinay Datar, and Blake Johnson, A Practical Method for Valuing Real Options: The Boeing Approach, Journal of Applied Corporate Finance (Spring 2007), pp. 95-104.

27 Airbus A3XX: Developing the World's Largest Commercial Jet (A) (large project analysis)

VII. Restructuring and reorganization and M&A

29 Lecture 4: Corporate restructuring and reorganization and M&A

Reading: Corporate Restructuring and Reorganization, James K. Seward, Chapter E8, in Warren Gorham & Lamont Handbook of Modern Finance, edited by Dennis Logue and James Seward (1999).

Nov. 3 Tax-Motivated Film Financing at Rexford Studios (raising capital)

5 USX Corporation (corporate restructuring)

10 Cumberland Worldwide Corporation (A) (financial restructuring in distress)

12 Ford Motor Company's Value Enhancement Plan (A) (recapitalization)

17 Transportation Displays Incorporated (C) (alternative exit strategies following a successful corporate turnaround)

VIII. Mergers and Acquisitions

19 Lecture 5: Mergers and acquisitions

Reading: Mergers and Acquisitions, Chapter 28 in Corporate Finance by Jonathan Berk and Peter DeMarzo, Boston, MA, Pearson/Addison-Wesley, 2007. (*in your BA385T Text*)

University of Rochester Roundtable on Corporate M&A and Shareholder Value, Journal of Applied Corporate Finance (Fall 2005), pp. 64 – 84.

Bruner, Robert, Where M&A Pays and Where it Strays: A Survey of the Research, Journal of Applied Corporate Finance (Fall 2004), pp. 63 – 76.

24 Service Corporation International (value drivers)

26 Palamon Capital Partners/TeamSystem S.P.A. (valuing a PE investment)

Reading: Cross-Border Valuation, Chapter 21 in Valuation: Measuring and Managing the Value of Companies (4th ed.) by Tim Koller, Marc Goedhart, and David Wessels, New York, NY, John Wiley& Sons, Inc, 2005.

Dec. 1 Jaguar plc, 1989 (international acquisition)

3 Lecture 6: Summary and course wrap-up

10 Final case due by 9:00 a.m.

Instructions for Preparing Written Case Analyses

Case Analysis

1. Read the case carefully. Identify the significant points and relationships. Use the exhibits to help you understand and/or interpret the text.

2. Analyze the data presented in the case and evaluate it in light of the situation. Try to understand not only the present situation, but also its historical origin and how it developed.

3. Decide what the major problems are and, if appropriate, prioritize them.

4. With the problems in mind, identify the feasible alternative courses of action. Determine what additional information is necessary to evaluate the alternative courses of action. Obtain that additional information.

5. Decide what your specific recommendation is to be. In doing so, use your understanding of the alternatives to frame a solution to the problem(s), and predict and evaluate the probable consequences of your solution.

6. Decide how you will organize the presentation of your solution to the case.

Document Organization

1. **Problem Statement:** Identify the problem(s) concisely, using whatever case facts are necessary to show significance and/or priority.

2. **Analysis:** Avoid generalities. Be as specific as possible. Express your ideas clearly, supporting them adequately with evidence, explanation, and references to appropriate exhibits. The strengths and weaknesses of alternative courses of action should be developed. The analysis should build to support your recommendation. Reasons for accepting or rejecting alternatives should be stated and, if necessary, defended.

3. **Recommendation:** State your recommendation clearly and in detail sufficient to guide implementation. Discuss both the positive and negative results of following your recommendation and why you think that it is the appropriate course of action. Make sure that the recommendation follows logically from your analysis.

Document Format

The case solution will be written as a report to senior management. The first page should provide a short executive summary that is no more than two paragraphs long. The detailed analysis should be presented on the following pages. All pages should be numbered and the document typed with one-inch margins and double spacing. Use a 10 point font or larger. Tables, Charts, spreadsheets, or any other supporting materials may be attached as exhibits. Each exhibit must be referred to in the text and clearly labeled.