

Cases in Financial Management - FINA7370

6pm-9pm Thursday

Spring-2005

University of Houston

Christine Resler

Email: cresler@uh.edu

website: using WebCt site

U of H Office: 713 743 4756

Cell: 713 208 4285

Home: 713 796 2271

Office Hours 4pm to 6pm Monday and Wednesday

Contacting Me

I will have office hours from 4pm to 6pm on Monday and Wednesday; however, please try to make an appointment to assure that I am there. I have a very open door policy. You can call me any time and I will help you then or set-up a time. Please use my home number in the evenings. You can call me at home until 10:00 pm and that includes weekends. You can leave me a message at home as well; however, I am far better about checking my office and cell phone voice mail. Please feel free to use email to contact me. I will always respond to email promptly M-F, however, on the weekends I often do not check messages so call me at home or on my cell phone.

Course Objectives and Structure

The course is designed to give you a perspective of financial management from the point of view of a corporate financial executive and an investment or commercial banker. The goal is to expose you to the topics that are part of a Fortune 1000 CFOs daily life. The class will be a combination of financial analysis and review of specific financial management topics combined with the case method. In addition to analyzing the specific financial issues and decisions, this class will consider how those issues relate to the strategic objectives of the firm. The overall impact will go far beyond the financial aspects of the company to consider the strategic and operational impacts as well.

When you finish this class you will be able to perform and interpret the analysis required for financial and strategic management. I will approach the material from a very practical approach and teach you how to do the analysis in a real world setting. Typically I will discuss a topic and assign readings on that topic followed the next class by cases on what we learned the previous week.

It will be rigorous and you must come to class prepared. You must read the assigned readings and prepare the cases before class. If you do not understand a reading, contact me or at a minimum in class be very forthright with what was confusing so you are prepared to participate in lively discussion each class. The reading and the overview of each topic should help you to prepare the case.

Topics to be discussed

- Valuation (DCF, Multiple Analysis)
- Tools for Financial Decision Making (ROC, EVA, WACC, DCF, Peer Analysis - both multiple analysis and financial ratio analysis, Option Analysis)
- Preparing Projections for a Company
- Working Capital Management

- Capital Resource Allocation
- Optimal Capital Structure
- Leveraged Buyouts
- Mergers and Acquisitions
- Hybrid securities (Convertible Bonds, LYONs, Warrants)
- Bankruptcy and Reorganization
- Options and Swaps – Managing Currency and Interest Rate Risk
- IPOs and Spin-outs
- Corporate Governance and Investor Relation in the “new” Business world – “Managing Wall Street”

Required Text

The Principles of Corporate Finance, 7th edition, Brealey and Myers – *If you have an older edition of this books it is fine; do not purchase the current edition. It will be used as a reference guide, however I do believe it is imperative that you have a copy of at least an older edition if not the current one.*

Reading Packet – *In the Copy Center at U of H. This packet will be fairly expensive because it has a lot of excerpts from different text books and cases.*

Cases will be available through the Harvard Business School Press Website (link and instructions are on the WebCt site)

Prerequisite Experience

You will utilize your previous class and work experience in this class frequently. I will review the fundamentals with you, however, please be sure you have the following classes/skills or you will find this class overwhelming. Proficiency in Excel; we will be utilizing it frequently in this class. Corporate Finance (comfortable performing Discounted Cash Flow “DCF” analysis and an understanding of Weighted Average Cost of Capital “WACC”), Investments, Financial Accounting (comfortable with the interrelationship of the income statement, balance sheet and statement of cash flows, comfortable reading and interpreting the notes of the financial statements). It would be helpful if you have had some financial statement analysis experience through a class focused on financial statement analysis or have at least touched upon it in Corporate Finance or Investments.

If you do not feel your skill set meets these requirements please see me to determine if you will be successful in this class or if you need further course work before taking. I will be teaching this class again in the Fall Semester and possibly the Summer.

Grading

Final Case:	40%
Class Participation – Including group Chrysler case:	30%
Case Write-ups:	30%

Final

A final case will be handed out prior to the last class. You will have one week to independently prepare the final case utilizing the materials you have received throughout the semester. The case will be handed in at the beginning of the last class and we will discuss the final case after it has

been handed in. Please bring 2 copies of your final to class, one to hand in and one to retain for discussion during the class.

Class Participation

You must come to class prepared and you must participate. Much of this class will be based on discussion. I will randomly call on people and ask questions and I will also solicit voluntary answers. This type of class can only be successful with participation. I am not going to lecture for three hours each class. I am going to encourage discussion that will help you learn from each other. Many of you have been out in the workforce and have interesting insights. In many cases there will be no right or wrong answers to these cases (not true all the time), discussion will help to demonstrate that.

IF YOU WILL NOT BE IN CLASS EMAIL ME OR CALL ME TO TELL ME WHY. Be honest; I worked 60+ hours per week while working toward my MBA, so I understand if you were told at the last minute that you can not leave the office because of something within your company that just occurred.

Case Write-ups:

Throughout the semester there will be case write-ups due. They will often require financial analysis. The questions will be handed out ahead of time and posted on my website. They are not included in the case packet you have purchased. You must hand them in before class and retain an additional copy for yourself to help you with the discussion. Case write-ups should be no longer than three pages of text and should also include any additional financial analysis you would like to attach.

You can do the case write-ups in groups of 1, 2 or 3. No more than 3. I encourage you to form a group to discuss all cases before class to help you prepare. However, I am not requiring it because I know many of you work and commute. I encourage group conference calls as a work around, but again if you want to do case assignments and preparations individually it is your decision. Once you have formed a group, I prefer you remain in that group. If there are extenuating circumstances please inform me. Note last semester my students who formed groups and learned from each other during the semester performed better on the individual final case.

If you cannot attend class, your paper must be emailed to me prior to the beginning of class.

Schedule

Date	Readings and Cases	Topics and Write-Ups
January 20	<ul style="list-style-type: none"> • How to do a case study 	<ul style="list-style-type: none"> • Introduction • How do to a case • Valuation Approaches (notes on class website)
January 27	Readings: <ul style="list-style-type: none"> • Chapter section 4.5 (p. 75-80) in Brealey and Myers • Chapter 9 (p. 220-252) in Brealey and Myers“A • Chapter 19 (523-550) • Berkshire Hathaway Letter to Shareholders, 2001-2003 (on class website) – Read after the case • Warren Buffet – GEICO 	<ul style="list-style-type: none"> • Valuation Approaches Continued (notes on class website) Case write-up: <ul style="list-style-type: none"> • Warren Buffet – GEICO

February 3	<p>Readings:</p> <ul style="list-style-type: none"> • “The EVA Financial Management System” in Chew • Chapter 10 (skim p.254-283) • Chapter 19 (p. 522-559) in Brealey and Myers • “Using APV: A Better Tool for Valuing Operations” in Packet <ul style="list-style-type: none"> • The Battle for Value: Federal Express Corporation vs. United Parcel Service of America Inc. 	<ul style="list-style-type: none"> • Valuation, EVA, APV and WACC <p>Case write-up:</p> <ul style="list-style-type: none"> • FedEx vs. UPS
February 12	<p>Readings:</p> <ul style="list-style-type: none"> • Chapter 29 (p. 816-848) in Brealey and Myers • Chapter 30 (p. 850-878) in Brealey and Myers <ul style="list-style-type: none"> • Coke vs. Pepsi, 2001 	<ul style="list-style-type: none"> • Valuation, EVA, APV and WACC <p>Case write-up:</p> <ul style="list-style-type: none"> • Coke vs. Pepsi, 2001
February 10	<ul style="list-style-type: none"> • Butler Lumber • Euroland Foods <p>Readings:</p> <ul style="list-style-type: none"> • “Signaling with Dividends Stock Repurchase, and Equity Issues” in packet • “Who Wins in Large Stock Buybacks” in Chew • “The Dividend Cut Heard ‘Round the World” in Chew • “The Relative Signaling Power of Dutch Auction and Fixed-Price Tender Offers and Open Market Share Repurchases” in packet • Chapter 16 (p. 432-462) in Brealey and Myers 	<ul style="list-style-type: none"> • Financial Statement Analysis • Working Capital Management • Capital Resource Allocation <p>Case write-up (1-2 pages):</p> <ul style="list-style-type: none"> • Butler Lumber
February 17	<ul style="list-style-type: none"> • Intel Corporation <p>Readings:</p> <ul style="list-style-type: none"> • “Mergers and Acquisitions Bootcamp” on website • Chapter 33 (p. 928-961) in Brealey and Myers 	<ul style="list-style-type: none"> • Stock Buybacks and Dividend Policy <p>Case write-up (1-2 pages):</p> <ul style="list-style-type: none"> • Intel
February 24	<ul style="list-style-type: none"> • Consolidated Rail (A), (B) and (C) <p>Readings:</p> <ul style="list-style-type: none"> • “The Capital Structure Puzzle” in Chew • Chapter 18 (p. 488-521) in Brealey and Myers • “Identifying, Measuring, and Hedging Currency Risk at Merck” • Chapter 27 (p. 754-783) in Brealey and Myers • Chapter 28 (p. 786-814) in Brealey and Myers <p><i>Note if you need a basic refresher on options see chapters 20-22 in Brealey and Myers</i></p> <ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Mergers and Acquisitions <p>Case write-up:</p> <ul style="list-style-type: none"> • Consolidated Rail
March 11	<ul style="list-style-type: none"> • Aspen Financial 	<ul style="list-style-type: none"> • Optimal Capital

	<ul style="list-style-type: none"> • General Property Trust <p>Readings:</p> <ul style="list-style-type: none"> • Chapter 34 (p. 962-968) in Brealey and Myers • “Leveraged Recaps and the Curbing of Corporate Overinvestment” in Chew • “The Evolution of Buyout Pricing” in Chew • “LBOs – The Evolution of Financial Structures and Strategies” in Chew • “Lessons from a Middle Market LBO” in Chew • Notes on LBO on website <p>Will hand-out data on IES after class</p>	<p>Structure/Investment decisions</p> <ul style="list-style-type: none"> • Hedging Strategies (interest rate and currency rate risk management) <p>Case write-up:</p> <ul style="list-style-type: none"> • Aspen Financial • General Property Trust
March 25	<ul style="list-style-type: none"> • IES • Safeway LBO (A&B) <p>Readings:</p> <ul style="list-style-type: none"> • “Convertible Bonds” in Chew • “The Origin of LYONS” in Chew • “The Uses of Hybrid Debt” in Chew • Chapter 23 (p. 642-664) in Brealey and Myers 	<ul style="list-style-type: none"> • Roll-up • LBO <p>Case write-up:</p> <ul style="list-style-type: none"> • Safeway
April 1	<ul style="list-style-type: none"> • Polaroid Corporation 1996 • MCI – 1983 <p>Readings:</p> <ul style="list-style-type: none"> • “Note on Bankruptcy in the United States” in packet 	<ul style="list-style-type: none"> • Hybrid Securities (Converts, LYONS) <p>Case write-up:</p> <ul style="list-style-type: none"> • MCI
April 8	<ul style="list-style-type: none"> • TWA: The Second Bankruptcy • Revco <p>Readings:</p> <ul style="list-style-type: none"> • “Initial Public Offerings” in Chew • “Raising Capital: Theory and Evidence” in Chew • “A Survey of U.S. Corporate Financing Innovations in Chew • “Some New Evidence that Spinoffs Create Value” in Chew • Chapter 15 (p. 400-430) in Brealey and Myers • Chapter 34 (p. 969-991) in Brealey and Myers • “Who’s to Blame for the Bubble?” in packet 	<ul style="list-style-type: none"> • Bankruptcy and Reorganization <p>Case write-up:</p> <ul style="list-style-type: none"> • Revco
April 15	<ul style="list-style-type: none"> • Netflix.com • USX Corp. <p>Readings: “Note on Cross Border Valuation in Packet</p> <p>Hand out Group Negotiation Case Daimler-Benz A.G./Chrysler</p>	<ul style="list-style-type: none"> • IPO • Spin-off <p>Case write-up:</p> <ul style="list-style-type: none"> • USX Corp.
April 22	<ul style="list-style-type: none"> • Group negotiation for Chrysler Corporation and 	<ul style="list-style-type: none"> • Cross-Border Merger

	<p>Daimler-Benz A.G.</p> <p>Readings:</p> <ul style="list-style-type: none"> • “A Letter to the Chief Executive” in packet • “Communicating Strategy to Financial Analysts” in packet • “Taking the Mystery Out of Investor Behavior” in packet • “The Accounting Transparency Gap” in packet 	<p>Case write-up</p> <ul style="list-style-type: none"> • Group Negotiation
April 29	<ul style="list-style-type: none"> • Investor Relations Case Examples (to be handed out in class the prior week) 	<ul style="list-style-type: none"> • Finish Daimler/Chrysler • Investor Relations and Corporate Governance • Guidelines for Final Case (due December 8, 6pm) <p>Case Assignment Due on Investor Relations</p>
May 6	<ul style="list-style-type: none"> • Final Case Due and class MUST be attended 	<ul style="list-style-type: none"> • Turn in Final Case • Discuss Final Case • End of Semester