

HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY
School of Business and Management

FINA 535 – Strategic Finance and Value Creation

Fall 2004

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Course outline

The course focuses on valuation and value creation. Through a combination of lectures and case studies, participants learn valuation techniques and examine how valuation analysis can be applied to enhance financial and strategic decision-making. The course's final sessions examine how firms create (and sometimes destroy) value in corporate restructuring transactions – including mergers and acquisitions, spinoffs, equity carve-outs, and leveraged buyouts. The focus here is on understanding how corporate restructuring transactions work, the theory concerning how they affect value, and the empirical evidence on how much shareholder value gets created in these transactions.

Prerequisites

The prerequisite for this course is FINA 512: Corporate Finance. In lectures and case discussions, I will assume you have a working knowledge of financial accounting, cash flow estimation, Capital Asset Pricing Model (CAPM), capital budgeting, and capital structure.

Readings

Required Text

1. *Valuation: Measuring and Managing the Value of Companies* 3rd edition, 2000, by Tom Copeland, Tim Koller and Jack Murrin.
2. Case studies, outside readings, and lecture notes.

Office Hours

Office hours are by appointment.

Course Outline

August 30, 2004 September 4, 2004	Managing value - the governing objective Valuation: An overview of processes and principles Discounted Cash Flow valuation <i>Readings:</i> 1. Copeland, Koller and Murrin, Chapters 1, 5, 8, 9 and 10.
September 6, 2004 September 11, 2004	Discounted Cash Flow Valuation - Applications Relative valuation (valuation by multiples) <i>Readings:</i> <i>Case:</i> Digital Everywhere Inc. 1. Timothy A. Luehrman, What's it worth? A general manager's guide to valuation, <i>Harvard Business Review</i> , May-June 1997. 2. Copeland, Koller and Murrin, Chapters 11, 12, 13, and 15
September 13, 2004 September 18, 2004 Case Due	Fundamental drivers of a company's value Cash flows drivers – Return on Invested Capital (ROIC) and Growth Value Metrics: EVA™, MVA, CFROI etc. Value Based Management <i>Readings:</i> 1. Copeland, Koller and Murrin, Chapters 1 through 6. <i>Case:</i> NetFlix.com, Inc.
September 20, 2004 September 25, 2004 Case Due	Valuation of Acquisitions Targets <i>Case:</i> Radio One, Inc.
September 27, 2004 October 2, 2004	Value creation in mergers & acquisitions <i>Readings:</i> 1. Lehn, Kenneth and Mark Mitchell, "Do bad bidders make good targets?" <i>Journal of Applied Corporate Finance</i> (Summer 1990).
October 4, 2004 October 9, 2004 Case Due	Value creation in restructuring transactions Spinoffs and Equity Carveouts <i>Readings:</i> <i>Case:</i> Time Inc.'s entry into the entertainment industry (A) Harvard Business School, 9-292-117.

1. Patrick Cusatis, James A. Miles, and J. Randall Woolridge, "Some New Evidence that Spinoffs Create Value," *Journal of Applied Corporate Finance*, Summer 1994.
2. David M. Glassman, "Spinoffs and Spinouts: Using Securitization to Beat the Bureaucracy," *Journal of Applied Corporate Finance*.

October 11, 2004
October 16, 2004

Creating value by restructuring liabilities
○ Leveraged buyout transactions

O.M. Scott & Sons Leveraged Buyout
[No write-up required]

Readings:

1. Michael Jensen, "Eclipse of the Public Corporation," *Harvard Business Review*, September-October 1989.

Case: O. M. Scott & Sons Leveraged Buyout, Harvard Business School, 9-190-148.