

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

FINA 535 – Strategic Finance and Value Creation




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Course Outline

The course discusses valuation frameworks that can readily be applied to improve business and strategic decision making. We examine alternative valuation approaches and focus on the application of these techniques in the context of equity offerings, leveraged recapitalizations and buyouts, subscriber or customer valuations, and synergy valuations in mergers and acquisition transactions. Finally, we link value driver analysis to performance measurement and management.

<i>Session #1</i> November 4	FRAMEWORKS FOR VALUATION Koller, Goedhart, and Wessels, Chapters 3, 5, 7, and 8. Materials:  Case: Digital Everywhere, Inc., # 9-298-099 <i>Description:</i> Presents a valuation problem in a fictitious firm, Digital Everywhere. Students have the opportunity to compare various discounted cash flow valuation models in an entrepreneurial firm.  Digital Everywhere, Inc.
<i>Session #2</i> November 11 Due: Homework I (Individual)	VALUATION TECHNIQUES: ALTERNATIVE APPROACHES DCF VALUATIONS USING MULTIPLES FOR VALUATION Koller, Goedhart, and Wessels, Chapter 12
<i>Session #3:</i> November 18 Due: Eskimo Pie Case Analysis (Group work)	SUBSCRIBER VALUATION MODELS  Case: NetFlix.com, HBS #9-201-037 <i>Description:</i> The CFO of an Internet start-up company is evaluating the company's projected cash flow needs. The case provides an opportunity to value companies and businesses using subscriber valuation models. The specific case setting requires

students to think critically about the expected cash flows that are likely to be generated by the business. Also, to provide the setting for an interesting discussion about strategic versus financial values related to the acquisition of subscribers to a new Internet service. It highlights the need to coordinate operating and financial strategies and demonstrates that financing considerations may preclude first-best operating strategies.

VALUE-BASED MANAGEMENT

Koller, Goedhart and Wessels, Chapter 13 and 14


Session #4:
November 25

MERGER AND ACQUISITIONS

Due: Pepsi and Quaker
Oats stand-alone
valuations (Group work)

- Value Creation in Mergers and Acquisitions
- Valuation of Synergies

Koller, Goedhart and Wessels, Chapter 15

 *PepsiCo's Bid for Quaker Oats (A), HBS #9-801-458*

Description:


Throughout 1999, PepsiCo closely tracked several potential strategic acquisitions. In the fall of 2000, it appeared that the right moment for an equity-financed acquisition had arrived. At this time, PepsiCo management decided to initiate confidential discussions with The Quaker Oats Co. about a potential business combination. Gatorade, a key brand in Quaker's portfolio, had long been on PepsiCo's wish list, but PepsiCo's managers, led by CEO Roger Enrico and CFO Indra Nooyi, were committed to upholding the value of PepsiCo's shares and, as a result, were determined not to pay too much for Quaker. This case provides information that allows students: to assess the value of Quaker's businesses, estimate potential synergies associated with a Pepsi-Quaker merger, and come up with an effective negotiation strategy.

Session #5

TAKEOVER DEFENSES

December 2

Due: Time Inc.'s entry
into the entertainment
industry (Group Work)

 Time Inc.'s entry into the entertainment industry (A)
HBS #9-293-117.

Description:


Richard Munro, Time Inc.'s chairman and CEO, must respond to a hostile tender offer from Paramount Communications. Paramount conditioned its bid on cancellation of Time's plans to merge with Warner Communications. Several months before the hostile Paramount bid, Time had announced its plans to merge with Warner after careful consideration of a comprehensive list of possible partners, including Paramount.

The Board endorsed Munro's decision to merge with Warner because the two firms held a wide range of complementary assets. If Time continued with its plans to merge with Warner, Time's shareholders would forgo at least \$175 per share in cash, and possibly more. On the other hand, a merger with Paramount was not part of Time's long-term strategy. Munro must recommend a specific course of action to the Board at its emergency session. The case is written from the viewpoint of Time's managers. Should Time's managers resist the Paramount bid?

RESTRUCTURING TRANSACTIONS

Divestitures, Spin-offs, and Equity Carveouts

Koller, Goedhart and Wessels, Chapter 16

<p><i>Session #6</i> December 9</p> <p>Due: Acova Radiateurs (Group Work)</p>	<p>BUYOUT VALUATIONS</p> <p>Adjusted Present Value (APV) Method</p> <p><i>Case:</i> Acova Radiateurs, HBS #9-295-150.</p>
<p><i>Session #7</i> December 16</p>	<p>CREATING VALUE IN PRIVATE EQUITY TRANSACTIONS</p> <p> Ducati & Texas Pacific Group – A “Wild Ride” Leveraged Buyout, HBS #9-801-359.</p> <p><i>Description:</i></p> <p>Describes the attempt of Texas Pacific Group (TPG), a buyout firm, to purchase a controlling stake in Ducati Motor, the world's leading high performance motorcycle company, based in Bologna, Italy. Ducati is part of Cagiva Group, a family-controlled industrial group. Cagiva has fallen on hard times and Ducati is the crown jewel in the group. Yet even Ducati is under great financial pressure and short on working capital. Abel Halpern, a partner at TPG, is frustrated because a deal with the owners seems to be an ever-moving target. Although TPG has negotiated with the seller for almost a year. In spite of costly due diligence efforts by TPG, Abel Halpern is now ready to walk away from the deal. In his decision he needs to consider not only valuation and the feasibility of hiring new management to turn the company around but also the feasibility of an eventual exit via the public markets in Italy.</p>
<p><i>Final Exam</i> December 23</p>	<p>In-class</p> <p>Closed-book and closed notes. Allowed one A-4 size “cheat-sheet” into the exam.</p>