

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

FINA 535 – Strategic Finance and Value Creation

Spring 2006

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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 M&A transactions. Finally, we link value driver analysis to performance measurement and management.

Prerequisites

The prerequisite for this course is FINA 512: Corporate Finance. 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* 4th edition, 2005, by Tim Koller, Marc Goedhart, and David Wessels.
2. Case studies, outside readings, and lecture notes.

Office Hours

Office hours are by appointment.

Grading

Your grade in the course will be based on your case analysis, class participation, and a final exam.

Group Case Analysis – (max. 5 students) (Each case accounts for 15% of the weight)	30%
Valuation Project	15%
Class participation	10%
Final exam	45%

Academic Integrity

It is expected that you will support and maintain a high standard of academic integrity. Cheating on exams and other academic misconduct will result in a failing grade and additional sanctions. A gross violation of Academic Regulations would be using solutions to the cases and home-works from previous years, be it someone's class notes or case solutions, whether verbal or written (see section 12.2 Academic Dishonesty, of the Academic Calendar 2005-06). Please ensure that telephones and pagers are switched off during class period.

Course Outline

<i>Session #1</i> February 6	Frameworks for Valuation Estimating Continuing Value Calculating and Interpreting Results Koller, Goedhart, and Wessels, Chapters 3, 5, 7, and 8. <i>Case: Netscape's Initial Public Offering, HBS 9-296-088</i> <i>DCF Valuation of China's Brewery Companies</i>
<i>Session #2</i> February 13	Valuation Techniques: Alternative Approaches Using Multiples for Valuation Koller, Goedhart, and Wessels, Chapter 12 <i>Case: Interco, HBS #9-291-033</i>
<i>Session #3:</i> February 20	Subscriber Valuation Models - Customer Lifetime Value Estimates - Customer Economics <i>Case: NetFlix.com, HBS #9-201-037</i>
Session #4 February 27	Merger and Acquisition Valuations Koller, Goedhart and Wessels, Chapter 15 Due: Valuation of Lenovo Inc. (Group Project Due) <i>Case: Bayer AG (A), HBS#9-598-031</i> <i>Case: PepsiCo's Bid for Quaker Oats (A), HBS#9-801-458</i>
Session #5 March 6	Valuation of Synergies <i>Lenovo's acquisition of IBM PC business</i> Due: Time Inc.'s Entry Into the Entertainment Industry <i>Case: Time Inc.'s entry into the entertainment industry (A) HBS #9-293-117</i>
Session #6 March 13	Divestitures, Spin-offs, and Equity Carveouts <i>Case: USX Corporation, HBS #9-296-050</i>
Session #7 March 20	<i>Leveraged Buyouts</i>

Due: Acova Radiateurs	<p><i>Case: The OM Scott & Sons Company Leveraged Buyout, HBS #9-190-148</i></p> <p><i>Buyout Valuations</i></p> <p><i>Case: Acova Radiateurs</i></p> <p><i>Case: Ducati & Texas Pacific Group – A “Wild Ride” Leveraged Buyout, HBS #9-801-359.</i></p>
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Final Exam March 27	<p>In-class</p> <p>Closed-book and closed notes. Allowed one A-4 size “cheat-sheet” into the exam.</p>
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