University of Southern California

Marshall School of Business

FBE 532

Corporate Financial Strategy

Fall, 2011

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Prof. M. Weinstein
x06499, HOH713
email: mark.weinstein@marshall.usc.edu

TTh 2:00 – 3:20
LAW 406

Office Hour: TBD

For the ones who had a notion
A notion deep inside
That it ain't no sin
To be glad you're alive

Bruce Springsteen
Badlands

"You call it grad school; I call it raising the debt ceiling."

TEXTS

[Required] Case and Readings Packet: at the Bookstore

Your textbook from your first-year corporate finance course. I assume you have all been through this, or a similar textbook before. Readings in this text are for background and to refresh your memory.

COURSE OBJECTIVES

This course will use cases to examine how the concepts and methods that you learned core can be applied to "real world" situations. We examine the linkages between the financing issues and the strategic objectives of the firm. It will be important to see what these linkages are and how the financial decisions reached must be consistent with the firm's objectives. By the end of the course, you should have become somewhat comfortable with taking raw financial data from the firm and applying different valuation approaches as a guide in decision-making. You should also have a deeper appreciation for the role of financial decisions in furthering corporate objectives and for the relations between the finance side of the firm and the operating side of the firm.

COURSE PROCEDURES:

In this class it is crucial that you spend time PRIOR to class going over the day's case. To the extent possible, I will not be lecturing. Thus, the only way the class works if the students have prepared the case. There are two mechanisms for ensuring this.

First, for each case I present a number of "study questions." I will highlight one or more of them in the syllabus. I expect you to hand in your response to these highlighted questions each class session (for cases that go over more than a single day, you should hand it in at the start of the case unless I indicate otherwise in the syllabus). These case assignments will be grades on a √, 0, - basis. These write-ups will count for 10% of the final grade.

The write-up should be written as a business memo directed to the decision maker in the case. Text is limited to at most two double spaced pages in a 12 point or larger font (this text is in 12 point type), with at most four pages of exhibits, graphs and figures. These must be easily readable and the entire document is to be on 8.5" x 11 inch paper with no cover page and margins of 1" at the top and bottom of the page and 1.25" at the left and right of the page. Penalties will be imposed for any violation of these rules (i.e., length, size of font, etc.)

Second, class participation will count for 25% of the final grade. In order to be sure that I know everyone in the class, I require (1) that you keep the same seat the entire semester [when enrollment stabilizes I will pass out a seating chart] and (2) that you have your name card in front of you at each class. I cold-call on a regular basis. Your attendance and participation are essential ingredients to a successful class. I expect you to inform me by email, prior to class, if you are going to miss class for any reason.

Cell phones and laptops are to be turned OFF during class.

The nature of the course

This is a case course. As you know, cases provide a rather unstructured and open-ended experience and you will have fairly little guidance, and rather larger uncertainty, about what the instructor wants and what the "right" answer is. This is intended, as this is the way the real world is.

This kind of teaching is often uncomfortable for students, as it requires you to learn by dealing with the inherent uncertainty of decision making with limited information. These are not simple textbook word problems. You will be tempted to look to the instructor in such a course for more guidance. However, it is inappropriate for me, or any other instructor in this kind of course, to give much detailed guidance. This would defeat the purpose and limit the learning that goes on. For this reason I will not discuss individual cases with any student prior to the class in which that case is discussed. As in the world outside the classroom, there is no single "right" analysis of a case. There are some approaches that are more "right" than others, and some that are clearly wrong in that they make unreasonable assumptions or proceed in an unreasonable manner. At some point in the discussion I will probably present my ideas of how one might analyze the situation, but mine is not the only valid approach and other reasonable approaches may be equally "right."

It is generally the case that students will ask for copies of my case notes and spreadsheets after we have discussed a given case in class. My policy, and that of ALL FBE instructors, is not to distribute these notes and spreadsheets. First, as stated earlier, given the inherent ambiguity of a case, there is no single "right" answer. There are, of course good and bad arguments and approaches. This course will help you distinguish between them. Handing out my solutions would reduce the ambiguity and defeat the purpose of the course. Moreover, it would render that case unusable in the future.

Because of the nature of this course (and the grading criteria), it is extremely important that you attend every class, arrive on time and be prepared to participate. To help me out, you should bring a name card and place it on the desk in front of you. I may not remember who said what without those cards. After the enrollment in the course has stabilized, I will pass around a seating chart. At that point, I ask that you remain in that seat for the entire term. This will help ensure that class participation is accurately recorded and rewarded. Note that good class participation does not mean simply speaking; it means participating and moving the discussion along in a productive manner.

FINAL EXAM

There will be an in class final exam. It will be given during the examination period stated in the Official Class Schedule for this class, which is Thursday, December 9, 2011 from 2:00 to 4:00.

GRADING

Grading will be based on: the case question write-ups (10%), class participation (25%) and the final exam (65%)

In evaluating class participation I will be considering the contributions that you have made to furthering the discussion of the topic at hand. Mere opening your mouth is not good class participation. I am looking for comments that are thoughtful and lead the discussion forward, not astray.

Note that I will cold-call. Thus, I expect everyone in the class to be able to discuss each case. However, I recognize that there are times when you will be unable to be prepared for a class. In that case, you must contact me BEFORE class and you may ask for a "cold-call" pass. Of course, I do not expect you to abuse this loophole. You may use this option no more than twice during the semester.

ELECTRONIC RESOURCES

I will maintain a website for this course on Blackboard. The website will contain an electronic version of this course syllabus, with hypertext links to 1) Excel spreadsheets for each case, 2) every handout as a PDF file, 3) any lecture notes this I write up as PowerPoint presentations. Each spreadsheet contains most of the exhibits in the case. This will make it easier for you to spend time on the analysis rather than punching in numbers. I will also monitor discussion threads on Blackboard. I would like you to post any questions that you have to the discussion board. I will leave them open for a bit so that other students may respond, then I will reply. This way all questions are available to all students. I will consider posting and replying to questions as an element of class participation in determining your grade. Of course, if you have a private question please contact me directly by e-mail, or at my office.

ACADEMIC DISHONESTY

The use of unauthorized materials, communications with fellow students during an examination, attempting to benefit from the work of another student, and similar behavior that defeats the intent of an examination, or other class work is unacceptable to the University. It is often difficult to distinguish between a culpable act and inadvertent behavior resulting from the nervous tensions accompanying examinations. Where a clear violation has occurred, however, the instructor may disqualify the students work as unacceptable and assign a failing

SECTION 1: INTRODUCTION AND REVIEW

Class 1: 8/23/2011

Introduction to course

"Know something? The entire dialectic of Marxist revisionism can be reduced to one simple formula: Money talks."

Background reading for this lecture:

Review the sections in your first year text that covered capital structure and dividend policy

If the investment value of an enterprise as a whole is by definition the present worth of all its future distributions to security holders, whether on interest or dividend account, then this value in no wise depends n what the company's capitalization is. Clearly, if a single individual or a single institutional investor owned all of the bonds, stocks and warrants issued by the corporation, it would not matter to this investor what the company's capitalization was (except for details concerning the income tax). Any earnings collected as interest could not be collected as dividends. Thus such an individual it would be perfectly obvious that total interest- and dividend- paying power was in no wise dependent on the kind of securities issued to the company's owner. Furthermore no change in the investment value of the enterprise as a whole would result from a change in its capitalization. Bonds could be retired with stock issues, or two classes of junior securities could be combined into one, without changing the investment value of the company as a whole. Such constancy of investment value is analogous to the indestructibility of matter or energy: it leads us to speak of the Law of the Conservation of Investment Value, just as physicists speak of the Law of the Conservation of Matter, or the Law of the Conservation of Energy.[1]

John Burr Willams
The Theory of Investment Value
Harvard University Press, 1938

[1] More accurately, one should speak of the Law of Conservation of Matter and Energy, as we now know that matter can be converted into energy.

Class 2: 8/25/2011

Case: Debt Policy at UST

Study Questions:

1. What are the primary business risks associated with UST Inc.? What are the attributes of UST Inc.? Evaluate from the viewpoint of a bondholder.
2. Why is UST considering a leveraged recapitalization after such a long history of conservative debt policy?
3. Should UST Inc. undertake the $1 billion recapitalization? Calculate the marginal (or incremental) effect on UST's value, assuming that the entire recapitalization is implemented immediately (January 1, 1999).
    a) Assume a 38% tax rate
    b) Prepare a *pro-forma* income statement to analyze whether UST will be able to make interest payments.
    c) For the basic analysis, assume the $1 billion in new debt is constant and perpetual. Should UST alter the new debt via a different level or a change in the amount of debt through time?
4. UST Inc. has paid uninterrupted dividends since 1912. Will the recapitalization hamper future dividend payments?

Section 2: Valuation Methods

Readings for this section of the course:

Introduction to Cash Flow Valuation Methods
Corporate Valuation and Market Multiples
Leverage, Betas and Taxes (on Blackboard under Course Documents)

Class 3: 8/30/2011

First Lecture on Valuation: WACC, Asset and Equity Betas

Class 4: 9/1/2011

Second Lecture on Valuation: Four DCF Valuation Approaches

Class 5: 9/6/2011

Case: Valuation of Airthread Connections

Study Questions:

1. Please describe the methodological approach that should be used to value AirThread (should Ms. Zhang use WACC, APV, CCF, or some combination thereof). How should the cash flows be valued for 2008 – 2012? How should the terminal or going concern value be estimated? How should the nonoperating investments in equity affiliates be accounted for in the valuation? [Hint: it may be possible to use more than one technique simultaneously.]
2. What discount rate should Ms. Zhang use for the un-levered FCF for 2008 through 2012? Is this the same discount rate that should be used to value the terminal value? Why or why not?
3. Develop an estimate of the long-term growth rate that should be used to estimate AirThread's terminal value. Using your estimate of long-term growth, what is the present value of AirThread's going concern value?
4. What is the total value of AirThread before considering any synergies? What is the value of AirThread, assuming Ms. Zhang's estimates for synergies are accurate? Should the value of the tax shields reflect that personal tax disadvantage of interest income to ordinary debt holders? If so, what is the personal income tax disadvantage of debt?

Class 6: 9/8/11

Case: Flash Memory

Study *Questions*

1. Assuming the company does not invest n the new product line, prepare forecasted income statements and balance sheets at year-end 2010, 2011, 2012. Based on these forecasts, estimate Flash's required external financing: in this case all required financing takes the form of additional notes payable from its commercial bank, for the same period.

Class 7: 9/13/11

Case: Flash Memory (continued)

Study *Questions*

1. What course of action do you recommend regarding the proposed investment in the new product line? Should the company accept or reject this investment opportunity?
2. How does your recommendation from the previous question impact your estimate of the company's forecasted income statements and balance sheets, and required external financing in 2010, 2011, and 2012? How do these forecasted income statements and balance sheets differ if the company relies solely on additional notes payable from its commercial bank, compared to a sale of new equity?
3. As CFO Hathaway Browne, what financing alternative would you recommend to the board of directors to meet the financing needs you have estimated in this case? What are the costs and benefits of each alternative?

Class 8: 9/15/11

Case: Ocean Carriers

Study Questions:

1. Do you expect daily spot hire rates to increase or decrease next year?
2. What factors drive average daily hire rates?
3. How would you characterize the long-term prospects of the capsize dry bulk industry?
4. Ocean Carriers uses a 9% discount rate. Should Ms. Linn purchase the $39MM capsize? Make 2 different assumptions:
    a) First assume that Ocean Carriers is a U.S. firm subject to 35% taxation
    b) Second, assume Ocean Carriers is located in Hong Kong, where owners of Hong Kong ships are not required to pay any tax on profits made overseas and are also exempted from paying any tax on profit made on cargo that is uplifted from Hong Kong.
5. What do you think of the company's policy of not operating ships over 15 years old?

Class 9: 9/20/11

Case: Compass Maritime Services, LLC: Valuing Ships

Study Questions:

1. How much is the Bet Performer worth based on comparable transactions? Which ship is the best reference transaction (the closest comparable)?
2. Regression analysis:
    a) What is the expected relation between ship price and each factor listed in Exhibit 4 (size, age, and charter rates)? What is the economic logic for why each factor might affect ship value (cash flows or risk)?
    b) Which single factor is the best predictor of ship prices?
    c) Can you think of other factors that might predict ship prices?
    d) How well do all three factors jointly explain ship prices?
    e) Using all three factors, what is the predicted price for the Bet Performer?
    f) What would the price be if the Bet Performer were 5 years younger (6 years old rather than 11 years old), if the ship were 20K DWT smaller (150K DWT rather than 170K DWT) or if charter rates in May 2008 were 30% lower (the trailing Baltic Capesize Index were 70% of the 12,479 value reported in Exhibit 4)? In each case assume all other factors remain the same.
3. If you were Basil Karatzas, what would you recommend to your client regarding an offer price for the Bet Performer? What concerns, if any, would you have?

SECTION 3: RAISING MONEY

Class 10: 9/22/11

Private Equity

Readings: *Note on the Private Equity Fundraising Process*
Note on European Private Equity
Note on the Initial Public Offering Process

Class 11: 9/27/11

Case: Loop Capital.

Study Questions

4. Assess Reynolds' entrepreneurial qualities. What are his strengths and weaknesses?
5. Do you approve or disapprove of Reynolds' human resources strategy? Is his the right approach for a start-up company? Explain?
6. Summarize the decision-making process Reynolds used to evaluate entering new lines of business.
7. How would you estimate the cost to Loop Capital of launching the new infrastructure fund? How would you quantify the potential rewards to Loop Capital?
8. Should Reynolds launch the $700 million infrastructure private equity fund? If so, how should he finance the investments?

Class 12: 9/29/11

CLASS WILL NOT MEET TODAY

Assignment: Review your behavior toward others during the last year. How will you treat your fellow man and/or woman during the year to come?

Class 13: 10/4/11

Case: Lion Capital and the Blackstone Group: The Orangina Deal

Study Questions

1. Why would Lion do a deal with Blackstone? Why would Blackstone do one with Lion? What does each risk? What can each gain?
2. Is Orangina a good deal? It seems that Lion and Blackstone are paying a pretty full price; what angle might the Blackstone-Lion consortium have found to justify it?
3. Based on the information in Exhibits 8A and 9b in the case, how would you value Orangina?

Class 14: 10/6/11

Case: Warburg Pincus and emgs: The IPO Decision (A)

Study Questions

1. What is distinctive about Warburg Pincus and its approach? Are these sources of strength or weakness?
2. Has Warburg Pincus added value to *emgs*, or is the mostly a financial play?
3. Is *emgs* ready to go public? Does it makes sense to do so in Norway or in the U.S.?
4. How much is *emgs* worth? What are the key sources of uncertainty about this valuation?

Class 15: 10/11/10

Case: Blackstone Group IPO

Study Questions

1. What are the build-in tensions with a public private equity firm? How does Blackstone's structure attempt to reconcile them?
2. If you were an LP in Blackstone, how would you view the structure Blackstone has put in place to go public?
3. Would you rather be a unitholder in Blackstone or an LP?
4. As a potential employee, how would you evaluate the Blackstone compensation package against a commensurate offer from a similar large-scale private equity firm that was not public?

SECTION 4: CORPORATE RESTRUCTURING AND MERGERS

"I don't know how to draw a merger—you'll have to go back and kill them."

Background Readings for this Section:

Evaluating M&A Deals
Evaluating M&A Deals – Equity Consideration
Evaluating M&A Deals – How Poison Pills Work
Note on Poison Pills

Class 16: 10/13/11

Case: Humana, Inc.

Study Questions

1. Do you think Humana's problems were serious enough to warrant some form of restructuring?
2. How much extra value would be created by separating the hospital and health plan segments through a spinoff? What are the sources of this added value, and how should the spinoff be structured for Humana to realize maximum benefits from the spinoff?
3. Kaiser Permanente has employed an integrated strategy of owning both hospitals and health plans for many years, some would argue with great apparent success. This suggests that Humana's problems are not the fault of its integrated strategy *per* se, and that breaking apart the hospital and health plan segments may not enhance shareholder value in the long run. Do you agree or disagree?
4. Do any other options considered by management represent a more sensible solution to Humana's problems than the spinoff?

Class 17: 10/18/11

Case: Marvel Enterprises.

Study Questions

1. In your view, what strategic direction should Marvel Enterprises' Vice Chairman Peter Cuneo and his colleagues pursue? Why? How?
2. Why was Marvel's turnaround so successful? Would you characterize that success as a fluke? Or do you view it as sustainable? Why? How?
3. How important are each of Marvel's three divisions—comic books, toys and licensing—to its past and future performance?
4. To what extent is Marvel's success due to only one character, Spider Man? How can Marvel develop its lesser-known characters?

Class 18: 10/20/11

Case: Roche's Acquisition of Genentech

Study Questions

In preparing this case, you can assume that Genentech has 1,052 million shares outstanding

1. Why is Roche seeking to acquire the 44% of Genentech it does not own? From Roche's point of view, what are the advantages of owning 100% of Genentech? What are the risks?
2. As a majority shareholder in Genentech, what responsibilities does Roche have to the minority shareholders?
3. As of June, 2008, what is the value of the synergies Roche anticipates from a merger with Genentech? Assess the value of synergies per share of Genentech. Please us a 9% weighted average cost of capital in your analysis.
4. Based on DCF valuation techniques, what range of values is reasonable for Genentech as a stand-alone company in June 2008? Please exclude synergies from your valuation and use a 9% weighted average cost of capital. You can assume that as of the end of June 2008, Genentech held approximately $7 Billion in cash, which included investments and securities that were not needed in its daily operations. (Note: Exhibit 10 is a good starting point for this analysis).
5. What does the analysis of comparable companies (Exhibits 12, 13 and 14) indiciate about Genentech's value within the range established in question 4 above?
6. How has the financial crisis affected Genentech's value? What changes in valuation assumptions occurred between June 2008 and January 2009?
7. How did Genentech's board and management respond to Roche's offer of $89 per share?
8. What should Franz Humer do? Specifically, should he launch a tender offer to Genentech's shares? What are the risks of this move? What price should he offer? Should he be prepared to go higher? How much new financing will Roche need to complete the tender offer?

Class 19: 10/25/11

Case: Mellon Financial and Bank of New York

Study Questions

In preparing this case, assume that both banks are fairly valued, i.e., their market values are equal to their intrinsic values.

1. What is the value of the cost savings synergies created by the deal? Assume that:
    a) The combined company will have a tax rate of 38%.
    b) Deposits, Short-Term Borrowings, Long Term Debt and Equity are part of the bank's capital structure: "Other Liabilities" are not.
    c) An aggregate beta of .1 is a reasonable estimate of the (average) beta of the debt that supports the assets that give rise to the merger's synergies.
    d) The equity betas reported in Exhibit 2 may be used as estimates for the betas of the equity that supports the assets that give rise to the synergies.
    e) The market risk premium is 6.2%
2. How much confidence do you have in your estimate of synergies?
3. Will synergy cash flows allow the banks to increase their debt?
4. Under the terms of the proposed deal, what fraction of the synergies will be captured by Mellon legacy shareholders? By BNY legacy shareholders? ("Legacy" shareholders are the former shareholders of BNY or Mellon, after they become shareholders of the new company.)

CEOs and investment analysts often are concerned about the impact of a proposed merger on the firms' earnings per share (EPS). Deals that increase reported EPS are called "accretive," those that reduce reported EPS are "dilutive."

5. Based on the last closing stock prices, and assuming no synergies, what exchange ratio would leave the per-share values of Mellon and BNY the same? (This is sometimes called the "zero-premium" exchange ratio.) How does the actual exchange ratio differ from this number? Who benefits from the difference?
6. In the absence of synergies, what exchange ratio would keep the earnings attributed to each legacy share in Q4 2007 equal before and after the merger?
7. In the absence of synergies, is the proposed deal accretive or dilutive for Mellon shareholders? For BNY shareholders?
8. How do synergies impact accretion/dilution analysis?

9. BNY managers have argued that their P/E multiple is temporarily low relative to their peers because of the “overhang” of recently completed deals. Do you buy their logic or is this simply a negotiating tactic?

10. In the negotiations with BNY, should Kelly have held out for an exchange ratio that was more favorable to Mellon? Is he selling out the shareholders of Mellon and the city of Pittsburgh by doing the deal on disadvantageous terms?

Class 20: 10/27/11

Case: Vodphone AirTouch's Bid for Mannesmann

Study Questions

1. What was the strategic and economic rationale for Mannesmann's acquisition of Orange? Did Mannesmann overpay for Orange?
2. Vodafone AirTouch proposed that each Mannesmann share would receive 53.7 Vodafone AirTouch shares, so that in aggregate Mannesmann shareholders would own 47.2% of the equity of the new combined firm.
   a) Describe the stock swap. As of December 17, what was the market value of Mannesmann's contribution to the combined firm? As a Mannesmann shareholder, would you accept the current offer? As a Vodafone shareholder would you support the proposed transaction?
   b) On December 17, 1999, based on real sock prices of the two firms, what is the market's estimate of the implied synergies from the deal? Assume that if the bid fails both firms would trade at prices prevailing on Oct. 21, 1999.
   c) What is the present value of the expected synergies (in pounds) as shown in Exhibit 10 as of March 2000. (You may want to assume that the synergies related to revenues and costs would grow at 4% annually past 2006, but savings from capital expenditures would not extend beyond 2006, and that the merger will not affect the firm's level of working capital.) Use the average exchange rate of 1£=1.5789€ to convert pound synergies into Euros.
   d) UK equities return 7.7% (in pounds) over the UK risk-free rate for the period 1919 – 1993 and 6.8% over the UK risk-free rate for the period 1970 – 1996. How might this observation affect your decision?

Class 21: 11/1/11

Case: Vodphone AirTouch's Bid for Mannesmann (Continued)

Study Questions

3. What hurdles is Vodafone AirTouch going to face to complete its acquisition of Mannesmann? Who is going to be its most likely supporter? Who is going to resist? Why?
4. Why is Gent so eager to do the deal? Why is Esser fighting so hard?
5. What role do hostile takeovers play? In their absence what mechanisms perform the same function? How is the German Corporate Governance system different from the Anglo-Saxon system?

Class 22: 11/3/11

Case: Dow's Bid for Rohm and Haas

Study Questions

6. Why does Dow want to buy Rohm and Haas? Was the $78 per share bid reasonable?
7. What are the major deal risks inherent in the merger transaction? How and to whom does the merger agreement allocate these key risks? Hint: analyze the various provisions in case Exhibit 4. What risk does each provision address and which party ultimately bears the risk?
8. As of early February 2009, what should Andrew Liveris (Dow's CEO) do and what should Raj Gupta (Rohm and Haas' CEO) do?
9. If you were the judge (Hon. William B. Chandler III) in the Delaware Court of Chancery, how would you resolve this legal dispute?

Class 23: 11/8/11

Case: ALZA end Bio-Electro Systems A

Study Questions

10. How does the competitive environment and ALZA's strategy affect its need and ability to finance the new drug delivery technologies?
11. Carefully read the proposal to create BES and to finance it by the issuance of the callable common plus warrant package. Try to break apart the units into simpler pieces that we can understand. How does the unit work? Does it solve Gerstel's problems? Will it appeal to investors? Why or why not?
12. How much is a unit worth? Is $11 a fair price?

Class 24: 11/10/11

Cases: ALZA end Bio-Electro Systems B-1 and C

Study Questions

1. Why is Gerstel offering the units at $11?
2. As an ALZA shareholder, what can you do with your rights to subscribe to the BES (Bio-Electro Systems) units? As an ALZA shareholder, how can you obtain additional units beyond those to which your common shares enable you to purchase for $11? Assuming that you want to own the units, does your guess about the likely success or failure of the offering affect how you will attempt to obtain additional units?
3. Critique Gerstel's strategy to offer the security as described in the (B-1) case. Does his offering strategy make sense? What are its pros and cons? What would you have done differently? Why?
4. In the (C) case, we see the subsequent performance of ALZA, the BES units, and the plies of the units that traded after the instrument separated into callable common and warrants. How should the callable common shares have been valued by the market in early 1991? On August 14, 1991? On November 12, 1991? On January 10, 1992? How were they valued by the market?

Class 25: 11/15/11

Case: Magna International A

Study Questions

1. In general, what advantages and disadvantages do you attribute to a dual-class ownership structure? When and for what types of firms is such a structure most appropriate? Least appropriate?
2. From the perspective of a Magna Class A shareholder, what are the primary costs and benefits of Magna's dual-class ownership structure in 2010?
3. How much value do you believe would be created if Magna successfully unwinds its dual-class structure? How would you propose to divide this value between Magna's Class A and B shareholders?
4. Specifically, what initial proposal should the Magna board make to Mr. Stronach?" As a Class A shareholder, what do you believe is the maximum consideration that should be offeed per Class B share? What is the minimum value you expect Mr. Stronach to consider?

Class 26: 11/17/11

Case: Corning Convertible Preferred Stock (continued)

Study Questions

1. Draw a payoff diagram for the convertible security in Exhibit 10. Value the security as the sum of its parts. Would you buy the Corning preferred shares at par? If your answer is "yes" what other investments, if any, would you make concurrently?
2. What are the risks of this offering for Corning?
3. What should Flaws do?

Class 27: 11/22/11

Case: ALZA end Bio-Electro Systems A

Study Questions

1. How does the competitive environment and ALZA's strategy affect its need and ability to finance the new drug delivery technologies?

Class 28: 11/29/11

Case: AXA MONY

Study Questions

1. Why is AXA bidding for MONY? Does the deal make sense: (a) for AXA; (b) for MONY shareholders; (c) for management? AS a MONY shareholder, what concerns would you have about the deal?
2. How did AXA finance the takeover bid? Explain the structure that they used. Why did they use this structure? What effects, if any, do you think this method of financing has on the likelihood of the deal succeeding?
3. How would you price the ORAN at issue? Is it fairly priced? What does the price of the ORAN on February 9, 2003, imply about the probability of the deal succeeding? What is the fair price for MONY stock?
4. Suppose that you hold a position in the ORAN on February 9. Would you want to buy or sell MONY stock (a) at the "fair" price calculated in question 3 above or (b) at the market price of $31.55? How do you explain the price of MONY stock on February 9?

Class 29: 12/1/11

Case: AXA MONY (Continued)

1. Suppose that you are the manager of a $2bn hedge fund with a significant stake in MONY and that on February 10 you receive a phone call asking to buy your stock at above the market price if you sign over the voting rights with the shares. What considerations would enter into you decision about whether to sell your MONY stock at $31.55 on February 9?

"Hi, Dad. Investment banking wasn't that great after all."