THE UNIVERSITY OF SOUTHERN CALIFORNIA
Marshall School of Business

FBE 532 – Corporate Financial Strategy – Spring 2011
Section 15410R
MW 3:30 – 4:50PM
JKP 212
TENTATIVE AND PRELIMINARY SYLLABUS

Instructor Professor Eric Briggs	**Phone** (213) 740-6515 (general FBE office)
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Office Hours Wednesday 2:30 – 3:30 (appointment required)	

Course Description and Objective

This course will explore nearly 30 years of financial and economic history through case study and current event analysis. Such studies will focus on application of the various concepts and methods taught in the core financial curriculum.

Specifically, we examine the linkages between the financing issues and the strategic objectives of the firm. Each case will offer context of a unique set of circumstances at a unique moment in time – and we will evaluate core concepts cases within this context.

By the end of the course, you should become familiar with the array of financial decision-making tools that are available to management and investors. You should also have a deeper understanding of the relationship between corporate operating objectives and financial decision-making.

Such cases will provide for excellent discussion and debate – but there will not be a “right” answer offered. In fact, I will avoid sharing my specific views on “rights” and “bests” as there are rarely clear cut answers. This may be an uncomfortable experience to some, but this experience is intended to match real world circumstances.

Required Texts

Your first year corporate finance textbook

BRIGGS FBE 532 Course Reader Available at the Bookstore

Required Materials

1) Financial Calculator (Texas Instruments BAII PLUS preferred);
2) Access to the internet and valid e-mail address (which you will need to access Blackboard); and
3) Access to Microsoft Word/Excel/Powerpoint and Adobe Acrobat for case studies and coursework.

You are responsible for bringing your financial calculator to all the lectures and the exam.

I will be using Blackboard (http://blackboard.usc.edu) extensively to post announcements and class materials. You are responsible for all information posted on Blackboard whether or not such information is directly presented in class. All grades will be distributed through this system. You are responsible for registering your email address with Blackboard so that you can receive your grade. You are responsible for downloading all necessary materials prior to class. You are also responsible for all materials covered and all announcements made in class, regardless of whether you chose to attend class on that particular day.

Registration
There is no wait list for this class. The class will remain open during the first three weeks of the semester and if there are seats available, students can add the course using Web Registration.

Class Policies
I am very grateful for this opportunity to work with you and your classmates. I take my role and responsibility to work with you through this material very seriously. I will do as much as I can to assist you in preparing for real-world professional environments where clarity of thought and attention to detail are requirements. Such assistance may be greatly beneficial to your continued success in your academic and professional career.

As a corollary, I expect the utmost respect for your classmates and me during our time together. This means there will be a policy of no tolerance for disruptions to the class.

I am best reached via email (at the address above) and will generally return all inquiries within 24 hours. I insist that all email communications will reflect your preparation for the real-world professional environment and will therefore reflect appropriate subject headings and clear sentences. I am also available during office hours as appropriate – although I request that you make an appointment (given the number of students that typically stop by to meet with me).

Regarding course notes and classes, it is my policy to not distribute notes, overheads and spreadsheets in these types of circumstances. Handing out solutions would greatly reduce the ambiguity and defeat the purpose of the course. Moreover, it would render that case unusable in the future.

Any re-grade requests must be submitted in writing within one school week of the distribution of correct answers. Any re-grading will encompass the entire exam (and/or class as appropriate).

Evaluation Breakdown and Groups

Class Participation, Cold Calls and Attendance	25.0%
Daily Problem Write Ups	20.0%
Final Exam	55.0%

Class Participation, Cold Calls and Attendance
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, but rather *we will be discussing*. What you get out of this class is going to be a direct function of how well you have prepared for each session.

Class Participation is a measure of a student's positive impact on the class such as asking intelligent questions or offering insightful contributions during case discussions and lectures. Your class participation grade is based on my sole judgment of your contribution to the class based on a broad variety of factors at my discretion.

In order to be sure that I assign proper credit, I require (i) that you keep the same seat the entire semester [when enrollment stabilizes I will pass out a seating chart] and (ii) that you have your name card in front of you at each class. Expect to be cold-called 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.

Please also note that while you may have legitimate reasons for missing class, proof of documentation will be required. Police reports and hospital records are accepted; a simple note from a doctor is not.

Problem Write Ups
For each class, there will be a series of "study questions." Each set of questions has one or more underlined questions. Each class, you will be expected to prepare a response to the questions that have been underlined. Your response is expected to be handed in before each class session begins. If a case covers more than one class, the write up is due during the first of two classes. These case assignments will be graded scored on a scale of full credit, half credit and no credit.

I will be grading each of these write-ups based on the quality of your analysis, how well you support your assumptions and apply techniques, the judgment you exercise and on the professionalism of your presentations. My goal is for you to create a high-quality document, specific to each case. The quality of work product should be reflective of what you would be comfortable presenting to a current or prospective employer. Your grade on each write-up will be determined relative to the analyses of other individuals in the class.

The write-up should be written as a business memo directed to the decision maker in the case. Text is limited to one 1.5 spaced page in a 12 point font, with at most two 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.)

In addition, I will randomly select certain individuals to verbally present their findings during appropriate class sessions.

Final Exams
The Final Exam will be given during the examination period stated in the Official Class Schedule for this class. We will discuss this further during the class.

<u>You are required to be present for the exam. If you are unable to take the exams during the scheduled exam time, you should not take the class.</u> There are certain limited legitimate reasons for not showing up for an exam. However, as with class participation, you must provide documentation of any such claim (as identified above). If you do not provide documentation for missing an exam, you will fail that exam.

Student Disability:
Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible and at least 2 weeks prior to any scheduled examinations. DSP is located in STU 301 and is open 8:30 a.m. to 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

Code of Ethics & Academic Integrity:
The use of unauthorized material, communication 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 student's work as unacceptable and assign a failing mark on the paper.

All students at the University of Southern California have an inherent responsibility to uphold the principles of academic integrity and to support each other and the faculty in maintaining a classroom atmosphere that is conducive to orderly and honest conduct. Students must understand and uphold the rules printed in the Student Conduct Code in the USC SCampus handbook, regarding examination behavior, fabrication, plagiarism, and other types of academic dishonesty. Violations will result in a failing course grade and referral to the University's judicial system.

No Recording and Copyright Notice
No student may record any lecture, class discussion or meeting with me without my prior express written permission. The word "record" or the act of recording includes, but is not limited to, any and all means by which sound or visual images can be stored, duplicated or retransmitted whether by an electro-mechanical, analog, digital, wire, electronic or other device or any other means of signal encoding. I reserve all rights, including copyright, to my lectures, course syllabi and related materials, including summaries, prior exams and all supplementary course materials available to the students enrolled in my class whether posted on Blackboard or otherwise.

The material presented and the classroom discussions are for the students' edification. They are not intended to be financial advice to students in connection with any issue(s) they or others may have. If students have a financial matter, they are advised to promptly consult an experienced professional who can fully review the facts and advise them accordingly.

Tentative Class Schedule

Date	Day	Session	Details
1/10/2011	M	1	Introduction
1/12/2011	W	2	CASE: Blaine Kitchenware
1/17/2011	M	No	MLK Holiday
1/19/2011	W	3	CASE: Carter's
1/24/2011	M	4	LECT: Valuation Approaches I - DCF
1/26/2011	W	5	LECT: Valuation Approaches II - DCF
1/31/2011	M	6	CASE: Novartis
2/2/2011	W	7	LECT: Valuation Approaches III - Market Approach
2/7/2011	M	8	CASE: Ft. Myers Eldercare
2/9/2011	W	9	CASE: JetBlue
2/14/2011	M	10	CASE: HP/Compaq
2/16/2011	W	11	CASE: HP/Compaq
2/21/2011	M	No	President's Day
2/23/2011	W	12	CASE: Hertz
2/28/2011	M	13	CASE: Hertz
3/2/2011	W	14	CASE: Hertz
3/7/2011	M	15	CASE: Corning
3/9/2011	W	16	CASE: Corning
3/14/2011	M	No	Spring Break
3/16/2011	W	No	Spring Break
3/21/2011	M	17	CASE: Molecular Insight
3/23/2011	W	18	CASE: Molecular Insight
3/28/2011	M	19	CASE: Marvel
3/30/2011	W	20	CASE: Flash Memory Inc
4/4/2011	M	21	CASE: Humana
4/6/2011	W	22	CASE: Seagate
4/11/2011	M	23	CASE: Seagate
4/13/2011	W	24	CASE: Time Inc
4/18/2011	M	25	CASE: Baidu.com
4/20/2011	W	26	CASE: Baidu.com
4/25/2011	M	27	CASE: SKS Microfinance
4/27/2011	W	28	CASE: Bear Stearns

Recommended Readings
While not required, my life has greatly been impacted by my interest in corporate finance. When asked about the most influential books (at varying stages in my career) on the topic of business and finance, I commonly cite the following:

When Genius Failed: The Rise and Fall of Long-Term Capital Management by Roger Lowenstein

Let My People Go Surfing: The Education of a Reluctant Businessman by Yvon Chouinard

The Intelligent Investor: The Definitive Book on Value Investing. A Book of Practical Counsel (Revised Edition) by Benjamin Graham, Jason Zweig, and Warren E. Buffett

The End of Wall Street by Roger Lowenstein

Liar's Poker: Rising Through the Wreckage on Wall Street by Michael Lewis

Runner Up Nomination: *Too Big to Fail* by Andrew Ross Sorkin

Bio and Background
Mr. Briggs is a professor in the finance and business economics department at the Marshall School at USC.

In addition, Mr. Briggs is a Founding Principal of The Salter Group (www.saltergroup.com) – a valuation and financial advisory firm based in the Los Angeles Office where he co-manages the firm's overall practice and project management efforts. Mr. Briggs has extensive experience across a broad range of financial advisory roles including fairness opinions, intangible asset valuations, litigation support and strategic planning.

Since the formation of The Salter Group, Mr. Briggs has directly managed over 1,000 engagements reflecting nearly $100bln in value across a broad array of domestic and international clients including Goldman Sachs, Sony, Cerberus Capital, Fortress Capital, TPG, Citigroup and KKR. Further, Mr. Briggs has advised clients across multiple industry sectors including entertainment and media, construction, technology and life sciences.

Mr. Briggs received his MBA in Applied Finance from the Anderson School at UCLA and holds a B.S. with Honors in Economics from Brown University. Mr. Briggs is a member of Omicron Delta Epsilon and the American Statistical Association.

Class 1:

Introduction to course

The purpose of this book is to supply, in a form suitable for laymen, guidance in the adoption and execution of an investment policy. Comparatively little will be said here about the technique of analyzing securities; attention will be paid chiefly to investment principles and investors' attitudes. We shall, however, provide a number of condensed comparisons of specific securities – chiefly in pairs appearing side by side in the New York Stock Exchange list – in order to bring home in concrete fashion the important elements involved in specific choices for common stocks.

But much of our space will be devoted to the historical patterns of financial markets; in some cases running back over many decades. To invest intelligently in securities one should be forearmed with an adequate knowledge of how the various types of bonds and stocks have actually behaved under varying conditions – some of which, at least, one is likely to meet again in one's own experience. No statement is more true and better applicable to Wall Street than the famous warning of Santayana: "Those who do not remember the past are condemned to repeat it."

Benjamin Graham
The Intelligent Investor
First Collins Business Essentials edition 2006

Class 2:

Case: Blaine Kitchenware
Study Questions:

1. Do you believe Blaine's current capital structure and payout policies are appropriate? Why or why not?
2. Should Dubinski recommend a large share repurchase to Blaine's board? What are the primary advantages and disadvantages of such a move?
3. <u>Consider the following share repurchase proposal: Blaine will use $209 million in cash from its balance sheet and $50 million in new debt bearing an interest rate of 6.75% to repurchase 14 million shares at a price of $18.50 per share. How would such a buyback affect Blaine? Consider the impact on, among other things, BKI's earnings per share and ROE, its interest coverage and debt rations, the family's ownership interest, and the company's cost of capital.</u>
4. As a member of Blaine's controlling family, would you be in favor of this proposal? Would you be in favor of it as a non-family shareholder?
5. How does the proposal in question 3 differ from a special dividend of $4.39 per share?
6. Suppose that Mr. Dubinsky has obtained from Blaine's banker the quotes below for default spreads over 10 year Treasury bonds [note that these differ from the more general bond yields in case Exhibit 4]. What do these quotes imply about Blaine's cost of debt at the various debt levels and credit ratings? Compute BKI's weighted average cost of capital at each of the indicated debt levels. What do your calculations imply about Blaine's optimal capital structure? Based on these calculations, how many shares should Blaine repurchase and at what price?

10 year Treasury Yield	5.02%

Interest Coverage Ratio	Debt Rating	Default Spread
>13.0	AAA	0.65%
9.5 - 12.0	AA-	0.80%
7.0 - 9.5	A	0.85%
5.0 - 7.0	BBB+	1.83%
4.0 - 5.0	BBB+	2.98%
2.5 - 4.0	B+	4.10%

Debt Relationships	AAA	AA-	A	BBB+	BBB+	B+
FY2006 EBIT	73,860	73,860	73,860	73,860	73,860	73,860
Interest Expense	4,765	6,423	8,028	10,551	14,069	17,420
Coverage Ratio	15.5 x	11.5 x	9.2 x	7.0 x	5.2 x	4.2 x
Estimated Cost of Debt	?	?	?	?	?	?
Implied Debt	?	?	?	?	?	?

Class 3:

Case: Carters
Study Questions:

1. How does Berkshire Partners create value?
2. Does Carters fit with the Berkshire investment philosophy? Why is Investcorp selling?
3. How much cash flow will Carters generate in the next five years (2002 – 2006) based on management estimates?
4. <u>How realistic are the management forecasts in light of Carters' historical performance?</u>
5. What should the Berkshire team bid?

Class 4 and Class 5:

Valuation Approaches (readings on Blackboard)

Class 6:

Case: Novartis Venture Fund
Study Questions

1. What are the objectives of Novartis Venture Fund within the Novartis Pharmaceutical company? How does it contribute to the overall objective of the company?
2. <u>What elements in its mandate and operating procedures would you highlight as being particularly different from those of independent venture capital funds? Do those provide advantages of problems for running the fund?</u>
3. In general, what do you see as pros and cons of corporate venture capital funds versus independent venture capital funds, i.e. what are the advantages and problems of operating under a large corporate umbrella such as Novartis?
4. Why is Novartis Venture Fund resorting to a third party independent valuation boutique to conduct valuation exercise? What are the potential issues with outsourcing such a critical job?

Class 7:

Valuation Approaches (readings on Blackboard)

Class 8:

Case: Ft. Myers Eldercare
Study Questions:

1. Has Dana done a good job researching his options?
2. How do congregate care and assisted living facilities differ?
3. What are the advantages and disadvantages of each of Dana's options: selling the land, congregate housing or assisted living?
4. <u>Given the assisted living option, what does the development budget look like? What is the operating income statement using conventional and tax-exempt debt? What are the initial returns on cost and equity for each option?</u>
5. Which option would you choose and why? If you chose an equity partner, who would you choose and why?
6. Should Dana place his parents in his project? What experiences have students had in this area in their own families? How do other societies handle the issues of the elderly?

Class 9:

Case: JetBlue Airways IPO Valuation
Study Questions:

1. What are the advantages and disadvantages of going public?
2. <u>What different approaches can be used to value JetBlue's Shares?</u>
3. <u>At what price would you recommend that JetBlue offer its shares?</u>

Class 10 & 11:

Case: HP & Compaq
Page limits do not apply to this writeup. Provide a detailed analysis of the stated question, supported by spreadsheets. Make it clear what assumptions you have made in your analysis.
Study Questions

1. What would a SWOT analysis reveal
2. Was the merger strategy sound?
3. <u>What is the value of the projected synergies?</u>
4. What is the appropriate valuation range for Compaq?
5. How should Kathryn Macalester vote her shares?
6. Complete a social-issues scorecard on this deal. Is this a true merger of equals? Does one side seem to emerge with more power than the other?
7. <u>Given the acquisition premium, how dependent is HP on the expected synergies for this deal to be economically attractive to HP shareholders?</u>
8. Assess the appropriateness of the exchange ratio proposes in this deal. In terms of the relative contributions of the two firms, is the exchange ratio fair to the HP shareholders?
9. Consider the entire set of terms: Is this a good deal? For whom?
10. How should Kathryn Macalester vote her shares?

Class 12:

Case: Bidding For Hertz: Leveraged Buyout (Day 1)
Study Questions

1. How does the dual-track process used by Ford to initiate "consideration of strategic alternatives" affect the bidding process for Hertz?
2. In what ways does Hertz conform or not conform to the definition of an "ideal LBO target"? Do you believe Hertz is an appropriate buyout target?
3. Strategically, what value-creating opportunities can the sponsors exploit in this transaction?

Class 13:

Case: Bidding For Hertz: Leveraged Buyout (Day 2)
Study Questions

1. What is the market-required rate of return for this investment and why might it differ from the sponsors' target return?
2. What is the value of Hertz using the Flow to Equity method of valuation?
3. Assess the amount Ford is likely to receive if it pursues its IPO alternative versus sale to a private equity group?
4. What factors would be considered in assessing whether the consortium's bid is likely to beat that of a rival group?

Class 14:

Case: Investing in Sponsor Backed IPOs: The Case of Hertz
Study Questions

1. Why are the private equity sponsors pursuing an IPO of Hertz at this time – that is, what is the purpose of the IPO?
2. What are the differences between conventional IPOs and IPOs that arise from leveraged buyouts?
3. Should the sponsors have taken on additional debt and paid themselves a dividend from Hertz?
4. What are the pros and cons of sponsor-backed IPOs for public shareholders?
5. <u>At the $15 offer price, does the Hertz IPO represent a good investment opportunity for Berg?</u>
6. The sponsors invested $2.3 Billion in equity (divided equally among them) to finance the $15 Billion buyout of Hertz in December 2005. If the Hertz IPO is competed at the $15 offer price and the overallotment option is exercised, what is your estimate of the gross returns the sponsors will earn on their $2.3 Billion investment in Hertz (i.e., ignoring carried interest or management fees on the funds)?
7. Would you invest in the Hertz IPO?

Class 15:

Case: Corning Convertible Preferred Stock
Study Questions

1. <u>Describe Corning's Business. How has the firm performed? What accounts for the changes in the value of Coring stock in Exhibit 2? Trying to avoid hindsight bias—and this is very hard to do—could one have forecasted Corning's troubles before 2001?</u>
2. Evaluate Corning's financing strategy. How as the firm raised capital in the past?
3. Why does Corning need to raise capital? Why might it be difficult or undesirable to raise equity, given its financial leverage and credit rating? Working through the exercise below will help you understand the "debt overhang" problem. Why might it be difficult or undesirable to raise equity even if its financial leverage were lower?

   Debt and Incentives Exercise: Suppose that the face value of Corning debt is $4 billion and that the value of its assets will either be $10 billion (to creditors and shareowners) or $3 billion (to creditors in bankruptcy), with equal probability. Compute the market value of debt and the market value of equity per share, ignoring discounting. What happens to the market value of equity per share if Corning raises $400 million and invests in projects that deliver $500 in value for sure i.e., regardless of the value of Corning's assets?
4. Why is JP Morgan proposing this particular security? Who are the likely buyers?

Class 16:

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. <u>What are the risks of this offering for Corning?</u>
3. <u>What should Flaws do?</u>

Class 17 & 18:

Case: Molecular Insight
Study Questions

1. <u>What is your assessment of this venture?</u>
2. <u>Why are they having so much trouble raising series B financing?</u>
3. How would you describe Molecular Insight's approach to protecting the intellectual property? What is your assessment of the approach?
4. What should David Barlow do now? Be specific.
5. Would you invest in a series B financing?

Class 19:

Case: Bankruptcy and Restructuring at Marvel Entertainment Group
Study Questions

1. Why did Marvel file for Chapter 11? Were the problems caused by bad luck, bad strategy, or bad execution?
2. Evaluate the proposed restructuring plan. Will it solve the problems that caused Marvel to file Chapter 11? As Carl Icahn, the largest unsecured debt holder, would you vote for the proposed restructuring plan? Why or why not?
3. <u>How much is Marvel's equity worth per share under the proposed restructuring plan assuming it acquires Toy Biz as planned? What is your assessment of the pro forma financial projections and liquidation assumptions?</u>
4. Will it be difficult for Marvel or other companies in the MacAndrews and Forbes holding company to issue debt in the future?
5. Why did the price of Marvel's zero-coupon bonds drop on Tuesday, November 12, 1996? Why did portfolio managers at Fidelity and Putnam sell their bonds on Friday, November 8, 1996?

Class 20:

Case: Flash Memory, Inc.
Study Questions

1. <u>Assuming the company does not invest in the new product line, prepare forecasted income statements and balance sheets at year-end 2010, 2011, and 2012. Based on these forecasts, estimate Flash's required external financing: in this case all required external financing takes the form of additional notes payable from its commercial bank, for the same period.</u>
2. What course action do you recommend regarding the proposed investment in the new product line? Should the company accept or reject this investment opportunity?
3. How does your recommendation from question 2 above 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?
4. As CFO Hathaway Browne, what financing alternative would you recommend to the board of directors to meet the financing needs you estimate in questions 1 through 3 above? What are the costs and the benefits of each alternative?

Class 21:

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 share-holder 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 22 & 23:

Case: Seagate Technology Buyout
Study Questions
In analyzing these questions, assume that the transaction is expected to close on December 31, 2000

1. Why is Seagate undertaking this transaction? Is it necessary to divest the Veritas shares in a separate transaction? Who are the winners and loser resulting from this transaction?
2. What are the benefits of leveraged buyouts? Is the rigid disk drive industry conducive to a leveraged buyout?
3. Luczo and the buyout team plan to finance their acquisition of Seagate's operating assets using a combination of debt and equity. How much debt would you recommend that they use? Why?
4. Based on the scenarios presented in Exhibit 8, and on your assessment of the optimal amount of debt to be used in Seagate's capital structure, how much are Seagate's operating assets worth? For both of the assumptions listed below, estimate the value of Seagate's operating assets. Assume that of the $800 million in cash that the buyout team will acquire as part of the transaction, $500 million is required for net working capital and $300 million is excess cash.
    a. Assume that the buyout team plans to maintain its debt at a constant percentage of the firm's market value
    b. Assume that the buyout team plans to pay down its debt as cash flows permit until a terminal debt level of $700 million is reached.

Class 24:

Case: Time Inc.'s Entry into the Entertainment Industry (A)
Study Questions

1. How attractive is the merger of Time and Warner?
2. What are the value enhancement opportunities?
3. Is the proposed exchange ratio of .465 per Warner share attractive?
4. What prompted Paramount's interest in Time?
5. <u>What legal, financial, and restructuring options does Time have to combat the Paramount bid? To ensure that it is not a target in the future?</u>
6. What would you do as Mr. Munro? How would you explain a decision to reject the Paramount offer at the annual shareholder's meeting?

Class 25 & 26:

Case: Baidu.com, Inc.
Study Questions

1. What are the key determinants of value, or value drivers, for Baidu?
2. <u>Given the decision to pursue an initial public offering, on what exchange should Baidu list? What factors contribute to that decision? What are the advantages and disadvantages of listing on the NASDAQ?</u>
3. What are the strengths, weaknesses and/or limitations associated with the implementing the discounted cash flow valuation model, the economic profit valuation model, and the comparable multiple valuation model, respectively?
4. What are the key business risks and challenges for Baidu going forward?

Class 27:

Case: SKS Microfinance
Study Questions

1. Why is SKS seeking to raise external finance?
2. What methods might one use to value SKS? What is the value of a single SKS branch? Value the branch by discounting cash flows to equity.

   Cash flows to equity = Net income – Depreciation + Capital Expenditure + Net New Borrowing. Discount equity cash flows at the equity discount rate; you may assume an equity risk premium of 8%.
3. What are the key determinants of the value of a single branch?
4. Assuming that SKS expands its branch network according to the schedule in Exhibit 3, what is a fair value for SKS, the firm?
5. Evaluate the offers SKS is facing. What are the advantages and disadvantages of each?
6. What should Akula do?

Class 28:

Case: Bear Stearns and the Seeds of Its Demise
Study Questions

1. Consider a commercial bank, circa 1973. What would each side of its balance sheet have looked like?
2. Consider an investment bank, circa 1973. What would each side of its balance sheet have looked like?
3. What activities did Bear Stearns undertake Was it a commercial bank or an investment bank?
4. What accounts for the financial turmoil that developed during summer 2007? Who or what do you believe was most responsible for the situation?
5. <u>What forces contributed to the collapse of the two hedge funds?</u>
6. <u>Were the reasons for the collapse unique to Bear Sterns or more widespread?</u>
7. In light of the collapse of the hedge funds, how serious were Bear's credit problems? What steps did management take or could it have taken to address the problem?
8. Were the steps taken by Bear's management adequate in your opinion?
9. More generally, what are the implications of the failure of independent investment banks, such as Bear Stearns, for the future business model of banking?