

Lecture Class:

Monday/Wednesday Room: JKP 110
15324 10:00am-11:50am
15326 12:00noon-1:50pm

Office Hours (Appointment M/W 8:45-9:45am and 2-2:45pm
Required) Starting 2/19 Fridays 9-11:30am
There will be additional office hours posted prior to midterms.

Course Description and Topics

This course develops and uses tools of financial and valuation analysis to evaluate the performance and assess the value of companies.

Financial Analysis and Performance Measurement

- What do the numbers mean? We will discuss tools for analyzing company strategy and financial performance.

Value Creation

- Understand that the goal of the firm is value creation. Return on capital and growth drive value creation. Value creation is fundamentally more important than that of growing revenues, earnings per share, maximizing volume and/or market share. Companies and business units create value by investing capital in positive net present value (NPV) projects.

Core Valuation Techniques and Financial Analysis

- There are many approaches to determine fair market value (FMV) of a firm. We will discuss discounted cash flow and comparable companies valuation approaches.
- Gain proficiency in performing discounted cash flow valuation analysis to value a company. This includes analyzing historical performance, benchmarking and strategic analysis and forecasting free cash flows, estimating the appropriate cost of capital, identify sources of value, interpretation of results.
- Analyze market multiples and precedent merger and acquisition transaction analysis to perform the market approach to valuation.

Managing for Value and Using Valuation for Decision Making

- Utilize and interpret financial data and applying valuation techniques to make decisions about courses of action for a firm.
- Discuss methods for creating value through mergers and acquisitions, divestitures and restructuring.
- Discuss valuation of distressed companies and the impact of financial leverage.

Other Valuation Issues and Special Situations

- Explore the challenges of valuing high-growth and private companies.
- Learn about the process of venture capital and early stage financing.
- Discuss leveraged buyouts and the approach to valuing highly leveraged companies.

Course Learning Objectives

The objective of this course is to learn firm, debt and equity valuation methods from both a conceptual and practical framework. While there is some new finance theory introduced in this course, the emphasis is on the practical application and integration of finance and accounting concepts to valuing companies. We will discuss standalone valuation, valuation in an M&A setting, LBOs and multinational valuation. We do not specifically discuss the valuation of financial institutions. Students with weak accounting and finance backgrounds will be at a disadvantage in this course. Working knowledge of Excel is also important. Students who hoped to never see a financial statement again should not take this course.

The course utilizes extensive and detailed readings, exercises, a valuation project, two quizzes and a final exam. Prior students indicate that the workload for this course is demanding, as such, it is only recommended for those students who are interested in learning valuation techniques in depth. Students interested in broader topical coverage and a less detailed examination of valuation techniques should consider FBE 432 Corporate Financial Strategy (the corporate finance case course).

This course covers the theory and practice of financial analysis and valuation. Our coverage of the material is designed to allow you to become comfortable with the fundamentals so that you may improve your proficiency in participating in future financial and strategic discussions within a company or organization and with external analysts and service providers. Learning goals include:

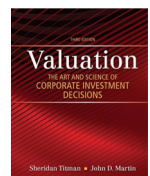
1. Understand the key aspects of financial analysis and valuation to effectively manage different types of enterprises. Students will gain knowledge of the following areas: accounting, finance, strategy and industry analysis.
2. Demonstrate critical thinking skills in the application of techniques in financial analysis and valuation. Students will gather, categorize, analyze, interpret, and evaluate relevant qualitative and quantitative information and develop the ability to be creative and innovative through the completion of a final valuation project.
3. Develop communication strategies for discussing financial analysis and valuation. This includes effective oral and written presentations of quantitative and valuation analysis. Conduct research using a broad range of sources, synthesizing and judging the quality of collected information and support written or oral claims logically and persuasively.
4. Apply valuation in a global context, considering the interplay of international markets, and economic, social and cultural issues. Students will consider issues involved in cross-border M&A and valuation analysis.

Required Materials

Textbook: *Valuation: The Art and Science of Corporate Investment Decisions*, 3rd Edition By Sheridan Titman, John D. Martin. Published by Prentice Hall Copyright © 2016

ISBN-13: 978-0133479522 ISBN-10: 0133479528

Cases: The course pack with our cases can be purchased online at the following link (each case is \$3.95): <https://cb.hbsp.harvard.edu/cbmp/access/44120292>



Course Notes

Slides, handouts and supplemental readings/articles will be posted on Blackboard. Notes or recordings made by students based on a university class or lecture may only be made for purposes of individual or group study, or for other non-commercial purposes that reasonably arise from the student's membership in the class or attendance at the university. This restriction also applies to any information

distributed, disseminated or in any way displayed for use in relationship to the class, whether obtained in class, via email or otherwise on the Internet, or via any other medium. Actions in violation of this policy constitute a violation of the Student Conduct Code, and may subject an individual or entity to university discipline and/or legal proceedings.

Recommended Reading

The Wall Street Journal available through <http://mymarshall.usc.edu> Wall Street Journal student subscription rates are available: <http://wsjstudent.com>

Prerequisite Knowledge

This course assumes that the background knowledge of students include basic finance (BUAD 306) and accounting. It will be assumed that students are comfortable with the topics of standard corporate finance texts such as Ross, Westerfield and Jaffe or Brealey & Myers. Please review your basic finance and accounting concepts. The pace and schedule of topics covered in this class does not allow for review of these concepts.

Class Participation

Please arrive to class on time and prepared. *Be prepared for cold calling*; bring your name card to class. Please handle mobile phone and text messaging outside of class and perform unrelated web browsing outside of class. Please come to class rested (if you sleep in class you will be asked to leave).

Grading Policies

Final grades represent how you perform in the class relative to other students. Historically, the average grade target for this class is a 3.3/4 (B+). Three items are considered when assigning final grades: 1) your average weighted score as a percentage of the available points for all assignments (the points you receive divided by the number of points possible) 2) the overall average percentage score within the class 3) your ranking among all students in the class.

<u>Grade Breakdown</u>	
Team Case Analysis	10%
Individual Participation	5%
Group Peer Evaluation	5%
Final Group Valuation Project	30%
Midterm 1 Exam	25%
Midterm 2 Exam	25%
Total	<hr/> 100%

Class Participation

High Score:

- Regular attendance and proactive and consistent participation in the class sessions with insightful questions and comments.
- Consistently very high levels of preparation for class sessions, activities and case discussion.
- Superior and sophisticated understanding, insights, and syntheses of the course material as reflected in case analysis, class discussions and the final group project.
- Very high levels of professionalism manifested in interactions with speakers and classmates.

Group Work: Students may form groups (3-6 students) across the two undergraduate sections. I will not become involved in any group problems. In choosing teammates, consider the skills your team will want to possess: accounting, finance and excel modeling expertise. Also make sure that your teammates' expectations for their performance in this course are consistent with your expectations for yourself. The cover sheet of each written assignment should contain the first and last names of the students submitting the assignment arranged alphabetically. All of the names of the members in the group must appear at the top of the memo to receive credit.

Case Analysis and Team Case Presentation:

Valuation is a skill best acquired through practice. Therefore the course will present numerous exercises, in the form of analyzing case studies, requiring the student to apply the concepts contained in the readings and lectures. This will be a demanding course so students should be prepared to dedicate the effort required to be successful.

We will analyze real companies and work through problems by analyzing different scenarios and courses of action. In your analysis of our HBS case studies you should place yourself in the role of the decision maker as you read through the situation and identify the problems and issues. The next step is to perform the necessary analysis. To get the most out of cases, you should read and reflect on the case individually, and then meet in study group teams prior to class to “warm up” and discuss your findings with other classmates. In class we will probe underlying issues, compare different alternatives, and finally, suggest courses of action in light of the objectives of the case.

The cases have been included in the curriculum as a means to provide this self-study and practice in analysis. Study groups should prepare a pre-session case study analysis. For most of the HBS cases you will receive supplementary excel spreadsheets via Blackboard. Case discussions will be used as a means to assess class participation. The participation grade is based on the quality of your analysis, how well you support your assumptions and apply valuation techniques, and the judgment you exercise and on the professionalism of your contributions in class. Individuals may be randomly selected to verbally present their findings on the cases during the class session.

In addition, each group will make at least one case presentation and also jointly draft the related memoranda. All memoranda should be crafted as a recommendation to the decision maker in the case relating to the valuation issue presented and be written in a style consistent with a professional audience. I will assign the cases to the teams on a random/blind basis. Case presentations can be no longer than 15-minutes (strictly enforced) and must be accompanied by a power point presentation not longer than 20 slides. Each student on the team must participate and present at least three slides. Grading for the presentations will be based 70% on content and 30% on presentation. On the day the presentation is scheduled, the presenting teams should arrive early to load their presentations on the computer so that class can begin on time. They should also submit the .ppt and .pdf files to Blackboard prior to class and deliver a printed-copy of the slides (in four per page handout format) and memos to me in class. Team Memoranda will often be posted in Blackboard for other students to review.

Final Valuation Group Project & Peer Evaluation: Work in a group of your choice (3-6 students) on the final valuation project. An overview of the final project deliverable will be posted in the “Assignments” section on Blackboard no later than mid-April. You will be asked to present your final case on our Final Exam date. Attendance is mandatory. You will also be asked to complete a peer evaluation of each team member, which will be considered in the final grading assessment.

Exams

Students will need a financial calculator capable of performing discounted cash flows, IRR and other financial calculations. Exam questions will include both qualitative and quantitative questions from material covered in class, and presented in the readings (textbook, cases, examples posted, class discussion). Exams are closed-book, closed-note (no-formula sheets).

Add/Drop Process

The class will remain open enrollment (R-clearance) for the first three weeks of the semester. If there is an open seat in an FBE Undergraduate class, students will be freely able to add a class using Web Registration throughout the first three weeks of the term. If the class is full, students will need to continue checking Web Registration to see if a seat becomes available. There are no wait lists for these courses, and professors cannot add students.

Retention of Graded Coursework

Final exams and all other graded work which affected the course grade will be retained for one year after the end of the course *if* the graded work has not been returned to the student; i.e., if I returned a graded paper to you, it is your responsibility to file it.

Office Hours/Contacting Me: I will generally be available for meetings from 8:45am-9:45am and 2-2:45pm on class days. Starting February 19th I will also be available most Fridays 9-11:30am. You must email me to request an appointment with a brief agenda for the meeting. Appointments should generally focus on course material. I often am asked career questions. I do my best to mentor students when I am able but often will refer mock-interview requests and interview-prep questions to career services or to the Trojan Investing Society career mentors.

Technology Policy

Laptop and Internet usage is not permitted during academic or professional sessions unless otherwise stated. Use of other personal communication devices, such as cell phones, is considered unprofessional and is not permitted during academic or professional sessions. ANY e-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops, I-pods) must be completely turned off during class time. No student may record any lecture, class discussion or meeting with me without my prior express written permission. 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.

Statement for Students with Disabilities

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. DSP is located at 3601 Watt Way, Grace Ford Salvatori Hall, 120. It is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. E-mail: ability@usc.edu

Emergency Preparedness/Course Continuity

In case of a declared emergency if travel to campus is not feasible, the *USC Emergency Information* web site (<http://emergency.usc.edu/>) will provide safety and other information, including electronic means by which instructors will conduct class using a combination of Blackboard, teleconferencing, and other technologies.

Academic Conduct

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Section 11, *Behavior Violating University Standards* <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the *Office of Equity and Diversity* <http://equity.usc.edu/> or to the *Department of Public Safety* <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>. This is important for the safety of the whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report or can initiate the report on behalf of another person. *The Center for Women and Men* <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault

resource center webpage <https://sarc.usc.edu/reporting-options/> describes reporting options and other resources.

Statement on Academic Integrity

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. <http://www.usc.edu/dept/publications/SCAMPUS/gov/>

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/> Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

No recording and copyright notice. It is a violation of USC's Academic Integrity Policies to share course materials with others without permission from the instructor. 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, PowerPoints, prior exams, answer keys, and all supplementary course materials available to the students enrolled in my class whether posted on Blackboard or otherwise. They may not be reproduced, distributed, copied, or disseminated in any media or in any form, including but not limited to all course note-sharing websites. Exceptions are made for students who have made prior arrangements with DSP and me.

Other

The material presented and the classroom discussions 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.

FBE 421 Spring 2016 Course Schedule

Schedule	Topics	Readings/Practice Problems/Deliverables*
Jan 11	Course Overview	Syllabus
Jan 13	Foundations of Value: ROIC, Growth and Value Creation	See page 8 of syllabus for link to readings
Jan 18	MLK Holiday – No Class Scheduled	
Jan 20	Valuing Projects and Businesses	Chapter 1 Titman Martin
Jan 25	Understanding Financial Statements and Cash Flow	Chapter 6 Titman Martin
Jan 27	Financial Statement Analysis/Forecasting/Ratio Review	Case Assignment: Bed Bath and Beyond
Feb 1	Forecasting and Valuing Cash Flows	Chapter 2 Titman Martin
Feb 3	Estimating Cost of Capital (WACC Review)	Chapters 4-5 Titman Martin
Feb 8	Relative Valuation Using Market Comparables	Chapter 8 Titman Martin
Feb 10	Capital Budgeting and Strategic Decision Making	Case Assignment: Hansson Private Label
Feb 15	Presidents Day Holiday – No Class Scheduled	
Feb 17	Relative Valuation Using Market Comparables continued	Practice Problem: DKS IPO Mini-Case pg. 311
Feb 22	Enterprise Valuation Methods and Implementation	Practice Problem 9-13 pg. 356
Feb 24	Midterm 1 Exam	
Feb 29	Using the APV Model to Estimate Enterprise Value	Chapter 9 Titman Martin
Mar 2	Applying Valuation Frameworks for IPO Valuation	Chapter 9, AOLTW Mini-Case (Blackboard)
Mar 7	Valuation in a Private Equity Setting	Chapter 10
Mar 9	<i>Guest Speaker: Luke Sikora, Vulcan Ventures</i> <i>Topic: Private Equity, Venture Capital and Unicorns</i>	See Blackboard for readings
Mar 14	Spring Break – No Class Scheduled	
Mar 16		
Mar 21	<i>Special Topic/Guest Speaker</i>	
Mar 23	Private Company Valuation and Analysis of Strategic Alternatives for High Growth Company	Case Assignment: Spyder Active Sports 2004
Mar 28	Mergers and Acquisitions	
Mar 30	Mergers and Acquisitions	Case Assignment: Disney Pixar
Apr 4	Final Project Introduction	See Blackboard for Readings
Apr 6	Leveraged Buyouts	Chapter 10 Titman Martin
Apr 11	<i>Special Topic/Guest Speaker</i>	
Apr 13	Real Options Analysis	Chapters 11-12 Titman Martin
Apr 18	Heinz LBO	Case Assignment: H. J. Heinz M&A
Apr 20	Midterm 2 Exam	
Apr 25	<i>Guest Speaker: Felix Bernshteyn, Solstein Capital</i> <i>Topic: Value Investing</i>	See Blackboard for Readings
Apr 27	Course Wrap-Up	
Final Exam	Final Project Presentations and Debrief – Attendance is Mandatory	
May 6 (Fri)	11am-1pm (12noon section)	
May 9 (Mon)	8-10am (10am section)	

Note: Dates are subject to change based on speaker availability

Jan 13 - Foundations of Value

The goal of the firm is value creation. Return on capital and growth drive value creation. Value creation is fundamentally more important than that of growing revenues, earnings per share, maximizing volume and/or market share. Firms create value by investing capital in positive net present value (NPV) projects.

The reading for this session can be found online.

- Review Online article “Creating value: An interactive tutorial” November 2010 <http://tinyurl.com/qd5hdf> In this video presentation, McKinsey partner Tim Koller explores the four guiding principles of corporate finance that all executives can use to home in on value creation when they make strategic decisions. If you don’t have time to watch the entire video be sure to watch the first two segments: 1) The four cornerstones of corporate finance and 2) the core-of-value principle

Individual Class Participation Assignment:

Analyze two comparable publicly traded companies to gain familiarity with their business model and strategy. Perform a quick financial analysis and review any trends in performance. Consider financial metrics such as ROE, ROIC, growth, etc. Perform a benchmarking comparison of financial performance.

Identify any potential competitive advantages for the companies you have selected and state your position as to whether these companies will sustain high ROE and ROIC over a long period of time. *Drivers of ROIC include a company’s ability to charge premium prices, realize low costs, economies of scale and capital efficiency. All of these factors lead to sustaining persistent and higher levels of ROIC over time.*

What business characteristics justify either a high or low valuation? In the video about the core-of-value principle, Koller mentions that a typical large company in the U.S. and Europe is valued at 15-16x Price/Earnings.

Observe each company’s valuation multiples such as P/E. Provide your observations and build a case as to why you believe the market has valued your two companies correctly or incorrectly.

- What is its “story” – growth, profitability? Is it a growth stock or dividend payer? Is it generating positive cash flow?
- Using Crocker resources, locate a recent Equity Research Report on your companies. Instructions for accessing ThomsonONE can be found in the slides. You can also go see one of the Crocker librarians for assistance. Note: this database only works with Internet Explorer (sorry Mac users).
- What is the analyst’s rating on the stock (Buy, Sell, Hold); do they provide a price-target (analyst’s view on intrinsic value)? Does the analyst state his/her valuation approach or investment thesis? Does the analyst identify potential risks to the valuation? Does the report include a peer comparison or valuation implied from the market approach/price multiples?
- Locate the analyst’s projections for earnings per share (EPS) growth. Compare this with Yahoo! Or Google Finance “Analyst Opinion” and “Analyst Estimates.”

Jan. 27 - Group Case Deliverable:
Bed Bath and Beyond
Financial Statement Analysis

This case examines how accurately investors have incorporated information about the growth strategy of Bed Bath & Beyond (BBBY) into share price, especially given the changing competitive environment in the house wares industry and the recent Barron's article pointing to several negative indicators at BBBY.

Discussion Questions:

- It is late August 1994. You are an up and coming Equity Research Analyst at an investment banking firm and are preparing your “Initiation of Coverage” report on BBBY. You are aware of Leslie Norton’s statements that appeared in Barron’s on 8/8/94 (page 1 of the case), and the recent stock performance of BBBY (before and just after the Barron’s article). The only other materials you have are those presented in the case.
- Perform financial statement analysis and a strategic analysis of Bed Bath & Beyond while also assessing the company’s business, operating, and expansion strategy. Identify potential red flags in the financial statements. Evaluate BBBY’s performance relative to its peers/competitors.
- Is BBBY’s growth strategy sustainable?
- Evaluate the Balance Sheet and Statement of Cash Flows and footnotes including information on its capital and operating leases. In your opinion, is BBBY capable of financing its growth and expansion program for the remainder of 1994 and on into fiscal 1995?
- What is your opinion on the company’s future forecast of sales, profit margins, and cash flow? Would you advise investors to Buy, Sell or Hold BBBY stock?
- Evaluate the market valuation of BBBY stock; is it justified by the fundamentals and earnings growth prospects of the company?

Feb 10 - Group Case Deliverable:
Expansion and Risk at Hansson Private Label

DCF analysis is a key building block for valuation. In this session we will review the process for applying DCF analysis to a capital budgeting proposal. The case includes a comprehensive forecasting example that focuses on the process one goes through to link production capacity utilization, units sold, unit revenues and unit costs to investment cash flows. This case also reviews the time value of money mechanics of discounting investment cash flows to estimate project value.

We will: 1) introduce the standard financial tools for assessing the attractiveness of a proposed capital investment; 2) discuss the complementing of discounted cash flow analysis with industry analysis; 3) examine issues surrounding capital planning process, especially as it applies to a large investment.

HPL, a manufacturer of private-label personal care products must decide whether to fund an unprecedented expansion of manufacturing capacity.

- Evaluate and comment on HPL’s historical performance.
- Utilizing the data provided in the exhibits, determine whether the project is attractive in strategic and economic terms. Calculate the total project cash flows, NPV, and IRR, given the supplied project forecasts. Should Hansson accept or reject the project proposal?
- To which key assumptions is the NPV most sensitive? What are the risks of accepting the project/declining the project? What, if anything, might be done to mitigate the project risks?
- If Hansson wants to decline the expansion proposal, what practical alternative options does he have?

March 9 Guest Speaker: Luke Sikora, Vulcan Capital

Luke Sikora focuses on growth stage investing for Vulcan Capital. Prior to joining Vulcan Capital, Sikora worked in the Menlo Park Office of Battery Ventures, where he focused on growth equity and buyout investments in the Software and Internet space. Previously, he worked as an associate at Pagemill Partners, where he advised technology companies on a wide range of financial and strategic matters including mergers and acquisitions, debt and equity offerings, and leveraged buyouts. Before joining Pagemill, he worked at PricewaterhouseCoopers as a consultant in the business advisory services and assurance group. He graduated from USC with a BS in Accounting Information Systems and Corporate Finance. He also received a certificate in SAP from USC's Viterbi School of Engineering. He will provide an overview of Vulcan and the impact family offices are having on the VC/PE landscape. He will discuss the current status of the growth equity and VC market (Unicorns and valuation) and will provide a high level overview of growth equity valuation methodology and how he leverages what he learned at USC.

The February 2015 issue of Fortune featured a package of stories about the phenomenon of VC-backed startups valued at \$1 billion or more. Dan Primack and Erin Griffith wrote the primary story titled "The Age of Unicorns," explained why there are now more than 80 privately-held companies valued at \$1 billion or more, whereas there were none during the dotcom days of the late 1990s and early 2000s.

Readings for the session:

<http://fortune.com/2015/01/22/the-age-of-unicorns/> and "Is there a unicorn bubble?" published in July 2015 <http://fortune.com/2015/07/14/is-there-a-unicorn-bubble/>

"Unicorpses" and other Valley jargon, defined" <http://fortune.com/2015/09/15/silicon-valley-startup-jargon-defined/> <http://abovethecrowd.com/2015/02/25/investors-beware/>
<http://www.strictlyvc.com/2015/08/28/market-tumult-and-the-marginal-productivity-trap/>

March 23 Group Case Deliverable - Spyder Active Sports Valuing a Private, High-Growth Company and Evaluation of Strategic Alternatives

David Jacobs founded a high-end ski apparel company in 1978. He successfully built and grew the company, establishing a major international brand that appealed to ski racers and other active skiers. In 1995, he sought external financing to support further growth of the company and structured a financial deal with CHB Capital Partners, a private equity firm in Denver. By 2004, Jacobs was ready to consider alternative types of equity transactions that would provide a source of liquidity to him and his family, including sale of Spyder to another apparel company and sale of a large block of stock to a private equity firm.

- Identify the different "exit" options that are feasible for Spyder in 2004, and analyze the benefits and costs of each alternative. Is this a good time to sell the business? Consider the interests and needs of the owner(s), the current state and future prospects of the company, and the current state of the financial markets.
- Perform a valuation of Spyder utilizing the discounted free cash flow method (you will need to calculate WACC) and the market approach/comps method. Similar to Lululemon, Spyder is not publicly traded on a stock exchange, but we can still apply the market approach to estimate the company's implied value. Evaluate the financial data provided for Spyder and also the comparable publicly-traded company price multiples and comparable past merger and acquisition price multiples. Justify your selection of comps using the supplemental data provided in the student excel worksheets.¹
- Compare the alternative transactions described on the last page of the case. Which one would you choose if you were Jacobs? Which one would you choose if you were CHB or Shimokubo?

¹ Please see Spyder spreadsheet supplement on Blackboard. I have added a few tabs such as descriptions of the M&A transaction comps and also historical financial data for the publicly traded comps.

March 30 – Group Case Deliverable Strategic Mergers & Acquisitions
The Walt Disney Company and Pixar Inc.: To Acquire or Not to Acquire?

In this case we will introduce strategic mergers and acquisitions and critique valuation frameworks and a fairness opinion conducted by a third party. Soon after Robert Iger took over as CEO of the Walt Disney Company in late 2005, he turned his attention toward Pixar, the animation studio with which Disney had worked since 1991 and was responsible for producing hits such as Toy Story and Finding Nemo. Disney's own animated film business had been in decline since Jeffrey Katzenberg left to establish rival studio Dreamworks and the business relied on revenue from its partnership with Pixar to maintain performance. With the Co- Production Agreement between the two studios coming to a close in 2006, Pixar was looking to negotiate better terms with another distribution partner. Could Disney risk losing them?

Case Discussion Questions:

- Evaluate the strategic alternatives for Disney CEO Bob Iger. Should the company reengineer Disney Animation to better compete with Pixar? Should the company work to strike a distribution deal with another animation studio? If Disney continues to work with Pixar, should the company attempt to negotiate a new distribution deal (and at what terms)? Or should Disney instead acquire the entire company?
- If Disney decides to acquire Pixar, Iger would be betting on a small animation studio's ability to return the magic back to Disney. Was it the right move; would it restore Disney's brand image, drive continued growth into the future, and catapult Disney back on top of animation? What are the motives and potential benefits for both companies if they choose to pursue a merger?
- Critique the fairness opinion and valuation approach conducted by Credit Suisse in Exhibit 11. Note: The full text of the fairness opinion filing is included in an S-4 filed on February 17, 2006 and is available online at the SEC website:
<http://www.sec.gov/Archives/edgar/data/1001039/000119312506033910/ds4.htm>

April 18 - Group Case Deliverable – H. J. Heinz M&A²

During December 2012, Jorge Paulo Lemann, a co-founder and partner at 3G, proposed to Warren Buffett that 3G and Berkshire Hathaway acquire H. J. Heinz Company. Lemann and Buffett, who had known each other for years, jointly decided that the Heinz turnaround had been successful and that there was significant potential for continued global growth. 3G informed Heinz CEO William Johnson that it and Berkshire Hathaway were interested in jointly acquiring his company. Johnson then presented the investors' offer of \$70.00 per share of outstanding common stock to the Heinz board. After much discussion, the Heinz board and its advisors informed 3G that without better financial terms they would not continue to discuss the possibility of an acquisition. Two days later, 3G and Berkshire Hathaway returned with a revised proposal of \$72.50 per share, for a total transaction value of \$28 billion (including Heinz's outstanding debt). Following a forty-day "go-shop" period, Heinz, 3G, and Berkshire Hathaway agreed to sign the deal. But was this, in fact, a fair deal? And what might be the future consequences for shareholders, management, employees, and citizens of Pittsburgh, the location of the company's headquarters?

- Complete a valuation of Heinz for this acquisition based on the financial information provided.
- Why did this transaction propose zero synergies? Discuss and quantify potential synergies that could be realized.
- Complete a separate valuation based on the Heinz alternative financial assumptions found in the Heinz Exhibits Spreadsheet, under the HNZ Alt tab.

² Supplement Information: <http://www.sec.gov/Archives/edgar/data/46640/000119312513089866/d491866dprem14a.htm>
https://www.bcgperspectives.com/content/articles/mergers_acquisitions_postmerger_integration_divide_conquer_deals_split_synergies/

April 25 – Guest Speaker Felix Bernshteyn

Felix Bernshteyn is a Managing Director at Solstein Capital, where he helps source, diligence, and manage a concentrated portfolio of investments in high quality businesses run by exceptional management teams at attractive risk-adjusted returns. Prior to Solstein Capital, Mr. Bernshteyn was a Vice President in the Distressed Debt Opportunities Fund at Oaktree Capital Management, where he focused on the sourcing, due diligence, and execution of public and private investments in distressed corporate debt, structured credit, and special situations equity. Prior to Oaktree, Mr. Bernshteyn worked at Goldman Sachs as an Analyst in the Investment Banking Division, where he worked in a variety of roles including mergers and acquisitions and corporate finance. He earned a B.S. in Business Administration with a concentration in Corporate Finance from the University of Southern California, where he graduated Summa Cum Laude, was elected to Phi Beta Kappa, and was recognized as a Delta Sigma Pi Scholar. He also earned an M.B.A. from the Stanford Graduate School of Business.

Readings for the session will be posted on Blackboard:

Exposition of a New Theory on the Measurement of Risk Author(s): Daniel Bernoulli Source: Econometrica, Vol. 22, No. 1 (Jan., 1954), pp. 23-36 Published by: The Econometric Society Stable
Daniel Bernoulli was a Swiss mathematician and physicist and was one of the many prominent mathematicians in the Bernoulli family. He is particularly remembered for his applications of mathematics to mechanics, especially fluid mechanics, and for his pioneering work in probability and statistics.

A New Interpretation of Information Rate, by J. L. Kelly, Jr. (Manuscript received 3/21/56)
Probability theory and intertemporal portfolio choice the Kelly criterion, Kelly strategy, Kelly formula, or Kelly bet, is a formula used to determine the optimal size of a series of bets. In most gambling scenarios, and some investing scenarios under some simplifying assumptions, the Kelly strategy will do better than any essentially different strategy in the long run (that is, over a span of time in which the observed fraction of bets that are successful equals the probability that any given bet will be successful. Although the Kelly strategy's promise of doing better than any other strategy in the long run seems compelling, some economists have argued strenuously against it, mainly because an individual's specific investing constraints may override the desire for optimal growth rate. The conventional alternative is expected utility theory, which says bets, should be sized to maximize the expected utility of the outcome (to an individual with logarithmic utility, the Kelly bet maximizes expected utility, so there is no conflict). Even Kelly supporters usually argue for fractional Kelly (betting a fixed fraction of the amount recommended by Kelly) for a variety of practical reasons, such as wishing to reduce volatility, or protecting against non-deterministic errors in their advantage (edge) calculations. In recent years, Kelly has become a part of mainstream investment theory and the claim has been made that well-known successful investors including Warren Buffett and Bill Gross use Kelly methods.

Oaktree Chairman Howard Marks memo to Clients "Risk Revisited" Sep 3, 2014
Marks draws attention to a few key points:

- "The future should be viewed not as a fixed outcome that's destined to happen and capable of being predicted, but as a range of possibilities and, hopefully on the basis of insight into their respective likelihoods, as a probability of distributions."
- "Risk means more things can happen than will happen."
- "Knowing the probabilities doesn't mean you know what's going to happen."
- "Even though many things can happen, only one will."

His memo then goes on to outline all the various types of risks. He ends the memo by noting that investing can be like playing offense and defense and that today he's paying more attention to loss prevention than the pursuit of gain.