



THE GEORGE WASHINGTON UNIVERSITY
SCHOOL OF
BUSINESS

Department of Finance
Spring 2012

FINA 6224-10 (Financial Management)
CASE STUDIES IN CORPORATE FINANCE AND INVESTMENT BANKING

Wednesdays 7:10-9:40 PM
CRN 60224

Professor: **Neil G. Cohen, DBA, CFA**

Office: 501B Fungler Hall; 2201 G St. NW; Washington, DC 20052; USA

Office Hours: email any time, or Wednesdays 1:30-2:30 PM

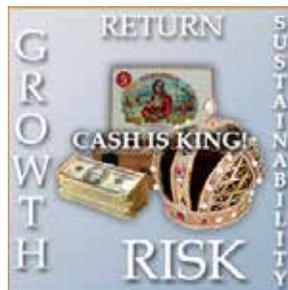
Phone: 202-994-7276

Fax: 202-994-5014

Email: ngcohen@gwu.edu

Course Description

The framework for the course is the creation, transfer, and destruction of shareholder value, as practiced by corporate financial managers (inside the company) and the commercial and investment bankers (outside the company) who advise and assist them in raising the funds they need, and structure merger and acquisition deals for them. All assignments are case studies about these topics: working capital policy, capital budgeting, financing with debt and equity, project finance, valuation, and investment banking in the context of venture capital, private equity, initial public offering, leveraged buyout, and management buyout.



Who Should Take The Course

- Students who want to extend their financial analysis skills for career tracks as financial managers in companies, in the so-called *Wall Street* career tracks of investment banking and private equity, and in traditional commercial banking.
- Students who want to learn and/or extend their modeling skills with Excel will get plenty of practice.
- Students who want to learn/and or extend their skills in making convincing written and oral presentations will get plenty of practice.
- All of the above enhance performance in job interviews.

Prerequisites

- MBAD 6233/6234 Financial Markets/Financial Management, MBAD 250 or equivalent
- Ability to use Excel

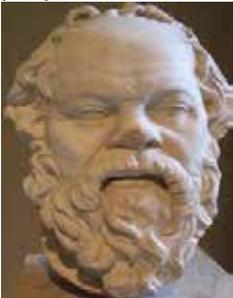
Materials

1. **REQUIRED:** *Financial Analysis and Decision Making Handbook: Text & Templates, 2012 Version*, Neil G. Cohen. PDF download from Blackboard.
2. **REQUIRED:** Download case studies using this link to Harvard Business Publishing; register first, then pay with credit card: <http://cb.hbsp.harvard.edu/cb/access/11837963>
3. **REQUIRED:** Financial Analysis Template Set 2012.xls (download from Blackboard)
4. **REQUIRED: NAME CARD - bring to every class (if you lose it, make a new one)**
5. **HANDY:** Textbook from your basic finance course such as MBAD 6233/6234 if you still have it.
6. **RECOMMENDED:** *The Wall Street Journal*

HOW THIS COURSE WORKS

FINA 6224 IS 100% CASE STUDIES: As a capstone course, all assignments are case studies. You come to class after preparing an analysis of the case with a write-up of your results and recommendations. You participate in the discussion and debate, based on your preparation and summary. You learn by doing, by practicing and improving your skill at financial analysis and decision making.

FINA 6224 IS NOT A LECTURE COURSE – IT’S A WORKSHOP: Don’t expect formal lectures. Teaching and learning is a partnership...both the professor and the student come to class prepared and ready for discussion, questions, and Socratic-style debate.



You are expected to be an active participant. You are expected to take the initiative for your own learning. View the classroom as a hands-on workshop. Mini-lectures are delivered as needed, to explain concepts and techniques.

TEACHING/LEARNING OBJECTIVES: At the end of the course, you will have working knowledge of these six techniques of financial analysis and decision making:

1. Interpreting financial statements using ratios
2. Determining weighted average cost of capital
3. Determining if project proposals create value, i.e., capital budgeting
4. Forecasting financial statements to determine external financing needs
5. Putting a value on common shares
6. Should debt or equity be issued to finance the business?

Also, you will have an understanding of the role of the CFO (viewpoint from inside the company), and the role of bankers and capital markets (viewpoint from outside the company).

PREPARATION IS WORK-IN-PROCESS – NOT FINISHED PRODUCT: You are not expected to produce perfect results in your case write-ups and recommendations. They will come out less than perfect, especially early in the course. They are the basis for your learning via asking questions in class and debating the case with other students and the professor. It is all about ***practice***. Your ability will escalate as the course progresses. Think of financial analysis and decision making as a skill like playing tennis; the more you practice, the better you get. Did Venus Williams become a tennis champion by listening to lectures and watching others?



Question: “How do you get to Carnegie Hall?” Answer: “Practice!”



ATTENDANCE IS REQUIRED: Class time is the central learning experience of this course. Therefore, you must attend. There are no excused absences – if you must be absent, the decision is yours. If you are absent, email your case write-up to the professor ***before*** the class begins.

USE OF LAPTOP COMPUTER DURING CLASS: This course has a ‘laptop screen down’ policy except when you are displaying spreadsheets under discussion and/or taking notes. It’s very good to use a laptop for classwork; don’t abuse the privilege.

DEADLINES: Late write-ups are not accepted. It is not equitable to students who finish their work on time, nor is it equitable to accept work after it is discussed in class. Have a hard copy of your write-up ready to hand in if the professor asks for it. If you have written on it during class, that’s okay.

NO EXTRA WORK: The case studies are the only assignments. Extra work is not possible.

GRADES ARE BASED ON PERFORMANCE OF INDIVIDUALS – NOT GROUPS: While group work is encouraged because developing teamwork is a vital skill, grading is always based on individual performance. You build an impression during the entire semester. One missed class, one missed write-up, one incomplete write-up...won't be a problem if the overall impression is strong. The professor takes notes on your contributions to class discussion, looking for:

1. level of understanding of case facts
2. most important case facts at fingertips
3. awareness of issue(s) to be decided
4. clear recommendation supported by analysis
5. depth of analysis
6. ability to reason, engage in critical thinking, think on your feet, push discussion to higher level, convince other people in the room to accept your analysis and recommendation
7. understanding of finance.

You have many graded opportunities during the semester so you can make a positive impression and build a solid record: recitations during 14 class sessions, some graded case write-ups, a quiz, and possibly a final exam.

- Your write-ups will be collected at random and graded a few times during the semester. When they are not collected and graded, the class time spent discussing each case gives you plenty of information about how your work stacks up. **No late write-ups will be accepted.**
- **No make-up of missed quiz**
- If you must miss a class, that's your decision. An otherwise strong record will not be harmed by one absence. You are responsible for anything missed.
- Class Participation 50%
- Case Write-Ups 25%
- Quiz 25%

Grading Scale

100-95	A
94-90	A-
89-86	B+
85-81	B
80-78	B-
77-74	C+
73-70	C
69-65	C-
Below 65	F

GWU CODE OF ACADEMIC INTEGRITY: This course observes the regulations for academic integrity published by the University. <http://www.gwu.edu/~ntegrity/code.html> Any violation of the code is grounds for a course grade of "F". It's your responsibility to be aware of the Code, especially what it says about plagiarism.

HOW TO USE THE COHEN FINANCE BOOK TO ANALYZE A CASE STUDY

- The Cohen Finance Book is a **recipe book** for doing case analysis. Use it as a reference book, not as a textbook. If you read the chapters all the way through, the material will seem familiar, you will think you already know it, and you won't learn much of anything. Instead,

use the book selectively, looking for the material that applies to the case you are working on, reading only that material to help you go step-by-step through the analysis.

- Read the case first, starting with the first and last paragraphs that summarize the situation and identify the problem(s) to be solved. Know what is in the exhibits and figure out how that information aids your analysis.
- Think about how you should approach the problem by using the related material in Higgins.
- Perform the analysis by going back-and-forth between the example provided by Higgins and the information provided in the case. The more you blindly plug case information into a Higgins example, the more you will struggle and the less you will learn. Go for an understanding that will allow you to do the analysis from scratch without looking at Higgins. Ask the questions in class you need to have answered, so you can figure out what to do.

HOW TO PREPARE YOUR CASE WRITE-UP

- Your write-ups are the basis for what you are able to say and do in class. The emphasis is on class discussion - not the piece of paper, but realize that good preparation leads to good discussion. Everyone will have many chances to participate.
- Group work is a good idea if used efficiently and not abused. Properly organized, group study improves the quality of preparation, saves time, and builds teamwork skills. After the group meets, **your own** write-up is necessary for you learn financial analysis and to set up your ability to recite well in class. Therefore, ***you must write case study write-ups independently***, alone. Anything in your case write-up that is not your own independent work must be cited as such.
- Write-ups will be collected and graded a few times during the semester. When they are not graded, the discussion time gives you ample opportunity to appraise the quality of your work and ask the necessary questions.
- The write-up has a **two-page maximum**, plus **relevant** exhibits.
- Cite the issue(s) involved very briefly.
- Cite the recommendation(s) you are making, and make it **unambiguous**
- Briefly discuss the type of analysis performed and the results. Do not say, "see the exhibit." Explain the meaning of the exhibit.
- Cite the pros and cons of your recommendation(s)
- **Do not repeat the facts** of the case that everybody has read, except as necessary, selectively, to make your points
- If and when you use sensitivity analysis, it is not necessary to submit a separate exhibit for each run – show the base case analysis and prepare a summary exhibit with the results
- The write-up can be in any form you choose - paragraphs, outline, bullet points, sentence fragments. It must be word-processed. Eliminate cover sheets, plastic covers, etc...it's just a homework assignment. Put your name and the name of the case at the top of the first page and staple it.]
- You can make notes on your write-up during class – it's your homework. If it is collected, turn it in.

ABOUT PROFESSOR COHEN



On the finance faculty at GWU since 1979, Professor Cohen specializes in an active style of teaching using the case method, where students learn-by-doing as they evaluate real financial problems and make recommendations for action. He uses this pedagogy in programs throughout the School: BBA, MBA, Executive MBA, and Master's of Science in Finance, as well as in short courses for managers and executives.

Professor Cohen is the author, co-author, or supervising advisor of case studies in the fields of corporate finance, investments and portfolio management, and personal finance. He is a member of the Editorial Board of the Case Research Journal. Many of his cases and collaborations were written about companies in Central and Eastern Europe.

Professor Cohen wrote one of the first books combining computerized spreadsheets and financial analysis. This book was translated into Hungarian and published by the Hungarian-American Enterprise Fund. He was the impresario and editor for a casebook "Obstacles to Trade, Growth, Investment and Competitiveness" about businesses in Albania, Bulgaria, Kosovo, Macedonia, and Montenegro, guiding local experts who assembled data and interviewed managers. His manuscript "Personal Financial Advising: Concepts and Cases" is the basis of an academic course designed to train professional personal financial advisors. An innovator in online teaching, he designed and directs two courses for the Business School's Health Care MBA (HCMBA) Program using video and audio modules to enhance the text-based 'lectures'. In 2010, he won the best professor award in the HCMBA.

He was a visiting professor at the Central European University Business School in Budapest, where he first taught in 1994 as a Fulbright professor. He lead management development programs in business finance and investments for companies such as ABB Prague, Coca-Cola Moscow, Creditanstalt, Kraft Jacobs Suchard, MOL (Hungarian Oil & Gas Company), US Steel Slovakia, and Oracle, as well as open programs in Bratislava, Prague, Riga, and Zagreb. He has taught in the MBA program at Zagreb School of Economics and Management and teaches in the EMBA program at the Stockholm School of Economics-Riga.

Neil G. Cohen earned his MBA from the University of Michigan and DBA from the Darden School at the University of Virginia. He is a CFA (Chartered Financial Analyst).

ASSIGNMENTS

If bad weather causes the University to be closed on any Wednesday night, that session will be conducted online beginning at 7:10 PM.

I. Financial Statement Analysis and Forecasting Cohen Finance Book Chapters 1-3

January 18

CASE: Ceres Gardening Company: Funding Growth – download Ceres Assignment Template (Excel) from Blackboard

LEARNING OBJECTIVES: This case further develops your financial statement analysis and forecasting skills. You will deal with the use of accounts receivable (credit policy) as a marketing tool, and the relationship between inventory accumulations and debt on the balance sheet.

1. What financial risks does Ceres face as it considers its 2007 strategy? How has the stock market responded to its performance?
2. As a CFO, describe your approach to a marketing plan for 2007, emphasizing the credit terms you would make available to customers.
3. Prepare a presentation to the bank including forecasted financial statements and make an incisive analysis of your forecasts to get ready for discussions with the bank. Follow the directions in the Ceres Assignment Template.

January 25

CASE: McCormick Spice – see Blackboard course menu

II. Capital Budgeting (synonyms: Investment Analysis & Cost-Benefit Analysis) Cohen Finance Book Chapters 4 & 5

February 1

CASE: New Heritage Doll Company – download New Heritage Doll Assignment Template from Blackboard

LEARNING OBJECTIVES: Learn the classic method for identifying and valuing the cash flows of proposed projects using cash flow forecasts and sensitivity analysis and the decision metrics of Net Present Value, Profitability Index, Internal Rate of Return, and Payback Period.

1. Present the business cases for each of the two projects. Which is the most compelling?
2. For each project, based on the cash flows, calculate NPV, PI, IRR, and Payback Period.
3. How do the capital budgeting metrics in #2 above influence Emily's deliberations? Which project creates more value? Considering NPV, PI, IRR, and Payback metrics, what are the pros and cons of each metric?
4. Does Emily need additional information to complete her analysis, and if so, what questions should she put to the sponsors of each project.
5. As Emily, make the recommendation.

February 8

CASE: Euroland Foods S.A. – download case exhibits from Blackboard

LEARNING OBJECTIVES: Understand how a committee selects projects when the capital budget is lower than the price tag for all approved projects, understand uses and abuses and strengths and weaknesses of NPV, BCR, IRR, Payback Period. This will be a role-play class; roles will be distributed.

1. Be ready to discuss the strengths and weaknesses of the classic decision criteria used for capital budgeting decisions.
2. Rank the 11 proposals using the classic decision criteria. Re-rank them using your own subjective inputs. Explain your reasoning.
3. Acting in the role assigned to you, state your justified recommendations to the Board.

III. Equity Valuation Cohen Finance Book Chapter 6

February 15

CASE: Monmouth, Inc. - download case exhibits from Blackboard

LEARNING OBJECTIVES: To understand the drivers of value in a business and to learn how to use and appreciate the strengths and weaknesses of the classic valuation models: free cash flow and market multiples

1. Prepare the standard thumbnail sketch of Monmouth, making critical judgments about its business risk and financial risk (including its debt capacity).
2. Based on both free cash flow valuation and market multiples valuation, what is the maximum price that Monmouth can pay for Robertson? (Determine the value using both models.)
3. Why is Simmons eager to sell to Monmouth at \$50 per share? What are the interests of the other groups of Robertson shareholders?
4. Cite your well-justified offer, structured to gain the support of the Robertson family and its other shareholders, considering Monmouth's 5-year future EPS trend.

IV. Financing With Debt, Equity and Leasing Cohen Finance Book Chapter 7

February 22

CASE #1: Rosario Acero SA – download case exhibit file from Blackboard

LEARNING OBJECTIVES: Learn how to make the classic financing decision between debt and equity when a company raises external funds, measure debt capacity, and interpret an EBIT Chart. Know how to calculate the debt capacity of a business. Know how to perform a lease versus borrow-to-buy analysis. Guidance questions are posted on Blackboard.

CASE #2: National Railroad Passenger Corporation 'AMTRAK' Acela Financing – download case exhibit file from Blackboard

LEARNING OBJECTIVES: Preparing and interpreting a lease vs. borrow-to-buy analysis, understanding that this is a financing decision rather than an investment decision, understanding impact of income tax shield, understanding the structure of a leveraged lease, discussion of controversy over off-balance sheet financing

1. Calculate the NPV of the lease payments and the NPV of the loan payments, using the after tax cost of debt as the discount rate. (Use Excel template on Blackboard)
2. Can you discern what the driving force behind this decision is? Is it the residual values? What other factors may be involved?
3. Be ready to explain how the deal is structured, i.e., how the leveraged lease works and how the risks are apportioned. (do not include in writeup)
4. Is this lease going to be on the Amtrak balance sheet? Does it reduce Amtrak's debt capacity dollar-for-dollar as would borrowing? Is this an investment decision (capital budgeting) or a financing decision (debt vs. equity?)?
5. State your well-supported recommendation.

If you have the time and interest, read: "General Electric Sale and Leaseback" notes posted in Blackboard.

February 29

CASE: Blaine Kitchenware, Inc.: Capital Structure – download case exhibit file from Blackboard

LEARNING OBJECTIVES: Understand pros and cons of share repurchase.

1. Prepare the standard thumbnail sketch for BKI, including critical judgments about its business risk and financial risk.
2. Calculate the debt capacity for BKI.
3. Calculate the K-Wacc for BKI.
4. Should Mr. Dubinski recommend a large share repurchase to BKI's board of directors? What are the advantages and disadvantages of the share repurchase?
5. As a member of the Blaine family, would you favor the share repurchase? As a non-family shareholder, would you favor the share repurchase?

March 7

Quiz

Very limited open note, bring financial calculator.

V. Mergers & Acquisitions

Selected Readings posted with case assignments

March 21

CASE #1: Chase's Strategy for Syndicating the Hong Kong Disney Loan (A) – download case exhibit file from Blackboard

LEARNING OBJECTIVES: Understand how project finance works from the viewpoints of the borrower (Disney) and the commercial lender and syndicator (Chase), as well as risk mitigation from the viewpoints of the borrower, lender, and syndicator

1. Be ready to explain how project finance works (do not include in write-up).
2. What is the objective of the Chase syndication team in Hong Kong and why are they wary of the Disney loan? (do not include in write-up)
3. Compare and contrast the term sheet data to the peer data shown in the case.
4. As Disney, would you sign the standard commitment letter? Which parts might concern you and why? As Chase, which parts would you change or remove?
5. As Chase, decide whether you will hold a general syndication or a sub-underwriting. Also, how many tiers and how many banks will be involved, and how much of the loan (and fees) will be allocated to them?

CASE #2: Marriott Series (download from Blackboard – read only, no write-up necessary)

LEARNING OBJECTIVES: Understand how Marriott and Disney CFOs push the financial strategy envelope, by applying and refining the traditional financial management techniques covered in this course. Ethical and corporate governance issues are developed in the discussion, i.e., is the maximizing shareholder value the appropriate goal for a publicly held corporation to seek, do aggressive financial management techniques serve senior managers interests ahead of owners interests.

March 28

READ: LBO Video handout posted on Blackboard

WATCH the VIDEO: “Anatomy of a Corporate Takeover”

READ: M&A Notes – posted on Blackboard

CASE: Norris Industries - a classic case about one of the first notable LBO deals

LEARNING OBJECTIVES: Learn how an LBO is structured and priced; consider ethical and corporate governance aspects of LBOs specifically and mergers and acquisitions generally.

1. Be ready to explain the structure of the LBO in class discussion (do not include in write-up)
2. Is \$43.05 a fair price from the viewpoint of the selling shareholders? To evaluate this issue, value the business in its pre-LBO status. Make a stab at the beta for calculating k-wacc, and set up your analysis so you can change the beta on command, i.e., it resides in its own cell on your spreadsheet. (Use Excel template on Blackboard)
3. As Sam Menco, would you accept the KKR offer? To decide, ask yourself what Menco's investment objective is, and then forecast the likelihood of this deal satisfying his objective. This requires a numerical analysis, a very simple one; see if you can figure out how to do it.

If you have the time and interest, see Damodaran: “Loose Ends in Valuation”, an AIMR presentation and/or “Alchemy of LBO's” (McKinsey) posted in Blackboard Files

April 4

CASE: The Acquisition of Consolidated Rail Corporation (A) - download case exhibit file from Blackboard

LEARNING OBJECTIVES: Understand structure of a major corporate acquisition, how synergies are justified and valued, how financing is structured, how corporate governance issues are handled, and the importance of legal issues in deal making

1. Using data in Ex. 1, explain the strategic reason(s) why CSX wants to buy Conrail? (do not include in write-up)

2. Analyze the structure of CSX's offer for Conrail: (a) Why did CSX make a two-tiered offer and what effect does this structure have on the transaction? (b) What are the economic rationales for, and the takeover implications of, the four provisions in the merger agreement, no-talk clause, lock-up options, break-up fee, and poison pill shareholder rights plan? (do not include in write-up)
3. Using Ex. 6 (template posted on Bb), what, in your opinion, backed up by analysis, is a fair price for Conrail?
4. Using Ex. 7 (template posted on Bb), what, in your opinion, backed up by analysis, is a fair price for Conrail?
5. If you are a Conrail stockholder, would you tender your shares to CSX at \$92.50 in the first-stage offer? Why or why not?
6. Starting with your best estimate of what the deal price should be, figure out if CSX has the debt capacity to borrow enough money to finance the deal. Explain fully.

April 11

CASE: Bidding for Hertz: Leveraged Buyout – download Excel file from Blackboard

LEARNING OBJECTIVES:

1. Is Hertz a good LBO target relative to the characteristics for an ideal buyout target?
2. List and briefly explain the value creating opportunities for the buyers.
3. Critically evaluate the key assumptions in case exhibits 8,9,10.
4. If the buyers make an equity investment of \$2.3 billion, what is their expected rate of return, related to the 20% return target. Is this another way of asking if \$2.3 billion is too much to pay or too little...please comment by considering the market rate of return relative to the target rate of return.
5. What is the value of Hertz?
6. Can Ford get more money with an IPO instead of a sale to a private equity group?

April 18

TBA

April 25

TBA