Strategic Corporate Finance

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Course description

Financial strategy has two components:

- **Raising the funds needed by an organization in the most appropriate manner; and**
- **Managing the employment of those funds within the organization.**

When assessing the most appropriate manner for raising funds, we take into account both, the overall strategy of the organization and requirements of its key stakeholders. It is important to realize that "most appropriate" may not mean "at the lowest cost ": A major objective of financial strategy should be to add value, which may not always be achieved by attempting to minimize costs. We include within that the decision to reinvest or distribute any profit generated by the organization.

A core part of the course will be the link to reality by walking through several small Financial Modeling Assignments and understand the complexity of strategically relevant decisions, in the course of which you will take an active managerial role. Further, the course will be built around a range of diverse Case Study Assignments which will put you into the role of a senior executive who first thoroughly analyzes and subsequently takes – sometimes tough – decisions. The Course will place special emphasis on the development of corporations, from the start -up phase over growth, maturity and decline.

Course requirements, grading, and attendance policies

Participation

- **Mandatory and conditional to be graded is a full and timely participation in all classes**
- **To actively participate, preparation of mentioned literature, handing in of all Financial Modeling Assignments and Case Study Assignments is required and mandatory**

Grading

- **Grading will be dependent upon the quality of your preparation, active participation and qualitative contribution in class room, the Financial Modeling Assignments, the Case Study Assignments as well as your scores in several small Interim Tests**
- **A student can receive a maximum of 100 points (plus additional bonus points), whereby the eventual grades will be as follows:**

Points	Grade
0 – 30	1
31 –49	2
50 – 55	3-
56 – 60	3
61 – 66	3+
67 – 72	4-
73 – 77	4
78 – 83	4+
84 – 89	5-
90 – 94	5
95 – 100	5+

- **A participant can achieve along the following criteria a certain maximum of points:**
  - **Quality of class room participation a maximum of 14 points**
    - **2 points in each of 7 sessions**

- Interim Tests a maximum of 7 points
- Financial Modeling Assignments a maximum of 16 points
  - 4 points for each of 4 hand-ins
  - +3 bonus points for a class presentation
- Case Study Assignments a maximum of 63 points
  - 9 points for each of 5 mandatory individual hand-ins
  - 9 points for each of 2 mandatory group hand-ins
  - +5 bonus points for a class presentation;

Attitude

The course is intense and will require time, effort, energy and concentration, but basically we want to learn and have also some fun … - Precondition for this is a professional attitude:

- You professionally prepare and be in class on time
- You actively participate in all class sessions, submit the Financial Modeling Assignments and Case Study Assignments and participate in the Interim Tests
- In class, you have with you
  - The case study we will walk through that session;
  - A financial calculator;
  - On a USB stick the presentation material of the respective Financial Modeling Assignment and the Case Study Assignment

Financial Modeling Assignments

- You are required to hand in presentations for a total of 4 financial models
- The Financial Modeling Assignments will be handed out in Session #1: In essence, you will be asked to optimize a balance sheet and funding structure for a company in different stages of a life-cycle by calibrating various driving parameters which will influence income statement, balance sheet and cash flow statement. This will be done on the basis of a fully integrated financial model which you will be introduced to in Session #1
- You will assume the perspective of a CFO and implement an optimal financial strategy, taking into account the requirements of debt and equity investors. You summarize your thoughts and results in the form of a Power Point presentation covering the following:
  - What are the major strategic and financial issues to be resolved (1 slide)
  - Which 2-3 alternatives are most appropriate to resolve the issues you have defined (1 slide)
  - What is your recommendation and how would it be implemented (1 slide)
  - Snapshots of the Financial Model (up to 3 slides: incl income statement, balance sheet, cash flow statement)
- You send the presentation with the financial model via email (christian.schopper@aon.at) by latest 06.00 (in the morning) prior to the session in which the Financial Modeling Assignment will be discussed and bring a copy on a USB stick to class
- 2-3 individuals will either volunteer or be chosen arbitrarily to present their analyses (each 3-5mins) in class, supporting conclusion(s)
- PLEASE NOTE: Grading for the Financial Modeling Assignments will be on an individual basis

Case Study Assignments

- You are required to hand in presentations for a total of 7 case studies, whereby the case study for Session #3 & #4 are group assignments
- Grading for the Individual Case Study Assignments will be on an individual basis

- Grading for the Group Case Study Assignments (#3 & #4) will be on a group basis, for which you will form groups of a maximum of 4 individuals
- Volume / page numbers / structure of the presentations are up to you (ideally not more than 7 slides, though ...); be creative and come to a compelling conclusion backed up with material, analytics or else to support your arguments. In most of the cases you will expected to back your conclusions also with a (limited) financial model which you are invited to send in an appendix. A good structure may look like following: (i) What are the issues? (ii) What are the alternatives? (iii) What would you recommend to do and why?
- You will have to send the presentation via email (christian.schopper@aon.at) by latest 06.00 (in the morning) prior to the session in which the Case Study Assignment will be discussed and bring a copy on a USB stick to class
- Subsequently 2-3 individuals (or groups) will either volunteer or be chosen arbitrarily to present their conclusions (ideally each 5-7mins) in front of class, followed by approx. 2-3 questions (3-5mins), whereby you will have to support your conclusion(s)
- PLEASE NOTE: Grading for the Case Study Assignments will be either on an individual or group basis

Case Study 1: Pharmacyclics, a pharmaceutical company that manufactures products that will improve existing therapeutic treatments for cancer, arteriosclerosis, and retinal disease, was considering a $60 million private placement in February 2000. The company had more cash than ever before, but projections of R&D and marketing expenses were also unprecedented. PCYC's most promising oncology drug, a radiation enhancer called Xcytrin, was in Phase III clinical trials--the rigorous final phase before FDA approval for commercialization. Analysts gave the drug a slightly better than 50% chance of success. This case focuses on stage financing and a simple decision -tree evaluation. You have the opportunity to consider the impact of past staged financing decisions on the ownership structure of the firm and to evaluate the current stock market price in light of analyst forecasts of the cash flow and the probability of success for each drug. These two analyses help inform the private placement decision…

Case Study 2: Pacific Grove Spice Company is a profitable, rapidly growing manufacturer, marketer, and distributor of quality spices and seasonings. The company's business model requires significant investment in accounts receivable, inventory, and fixed assets to support sales. Although the company is profitable and all of its net income is reinvested in the firm, the firm must utilize significant amounts of debt to fund the necessary growth in assets to support sales. The bank is concerned about the total amount of interest-bearing debt on Pacific's balance sheet and has asked the company to provide a plan to reduce it. Debra Peterson, president and CEO, believes the current four- year financial projections are reasonable and attainable. She is also considering three opportunities: sponsoring a cable cooking show, raising new capital by selling shares of common stock, and acquiring a privately owned spice company…

Your task is among others to analyze the company's financial projections to determine if the reduction in debt meets the bank's requirements, to analyze the opportunities and consider their individual and combined impacts on the company's financial position.

Case Study 3 (Group Assignment): By the end of 2013, Apple had $137 billion dollars in cash and marketable securities. This case explores how companies can generate such large amounts of cash and how and if they should distribute it to shareholders, especially in the face of shareholder pressure …

Case Study 4 (Group Assignment): This case analyzes Dow Chemical Company's proposed acquisition of Rohm and Haas in 2008. The $18.8 billion acquisition was part of Dow's strategic transformation from a slow-growth, low-margin, and cyclical producer of basic chemicals into a higher-growth, higher-margin, and more stable producer of performance chemicals. Simultaneously, Dow had signed a joint venture agreement with Petrochemical Industries Company (PIC) of Kuwait, a deal that would generate $7 billion in cash that could be used to finance the all -cash offer to buy Rohm and Haas. Dow and Rohm announced the Rohm merger on July 10, 2008, just before the financial crisis in September 2008. The focus of the case is on what happened after the financial crisis turned into a global economic crisis. Dow, like all chemical producers, suffered as the global economy fell into recession during the second half of 2008, and as financial markets froze. To make matters worse, PIC cancelled the joint venture with Dow in December 2008. As a result, Dow was hurt on three fronts: first, it lost an important funding source for the proposed acquisition; second, Dow's financial condition and internal cash flow deteriorated dramatically (its stock price was down more than 70% during 2008); and third, Rohm's forecast sales, earnings, and value declined precipitously thereby reducing its attractiveness as an acquisition target. Given this confluence of events, Dow sued to cancel the merger agreement with Rohm in January 2009. Rohm responded with its own lawsuit to force consummation of the deal. As of February 2009, Dow's board of directors and its CEO Andrew Liveris have to decide what to do first and foremost about the Rohm acquisition and the pending lawsuits, but also about the firm's declining financial performance and the PIC joint venture.

Case Study 5: The recently appointed treasurer of Polaroid Corporation must consider several matters concerning the firm's debt policy. An immediate concern is the company's outstanding $150 million 7.25% notes, due to mature in several months. Although investment bankers interested in doing business with Polaroid have been trying to present proposals for refunding the issue, the new treasurer believes that any refunding decision should be part of a larger review of the firm's financial policies. Accordingly, he has undertaken a review of the firm's overall debt policy, focusing primarily on the mix of debt and equity and on the maturity structure of the debt: How much flexibility will Polaroid's business require in future years. Pick a target debt ratio that provides the necessary flexibility. Evaluate, in addition to internal demands for funds, the role of bond ratings and investment-grade status in maintaining ongoing access to capital markets ...

Case Study 6: Acting as chief financial officer (CFO), you try to determine how Coleco can fend off creditors. Coleco is in default on its loans and is in a negative equity position. Your task is to:

1. Provide a full financial analysis about Coleco concluding the state of the company
2. What financing and restructuring options are available?
    a. What can you offer to your creditors, bondholders and shareholders considering the financial performance and the asset base of Coleco?
    b. What will be the position, interests and bargaining power of each cluster of creditors?
    c. What will be the creditors´ and bond holders´ position after your proposed financial restructuring? How would you expect them to react to your proposal?
    d. What impact will your proposal have on balance sheet and income statement (Draft an income statement and balance sheet on the basis of 1987 including your proposal)?
    e. How would you implement your proposal considering the market environment at that time?
3. Structure a package which will ensure that the company has a solid financial basis again
4. In implementing this structure, how would you do this? Who would talk to first? What would you say and / or offer? Who comes next? .... How would you steer the process?

Case Study 7: MRC must place a value on an acquisition prospect and also decide whether

a deal makes sense from strategic and organizational perspectives

Interim Tests

- **Interim Tests (closed books) on varying times during the course ensure that you stay motivated. An Interim Test will be a small written exam – it may be announced or not - each lasting for approx. 5-10mins**

Course contents

Content

Course objective is to provide with knowledge and skills on strategic financial decision making. We will focus on the different stages of the life cycle of a company with a view to understand how finance and its tools can support the implementation of a specific corporate strategy at each stage (start-up; growth; maturity; decline).

In the context of the life time of a company and by integrating financial modeling we study strategic alternatives and company value creation, value components and application of valuation methodologies. Particular emphasis is put on the consequences of corporate financial policy for different groups of stakeholders; analysis of optimizing capital structure and payout policy; or assessment of company risks and valuation techniques. The course includes lectures, problem solving and discussions, modeling assignments, and case study assignments. Subjects will comprise – among others:

- **The role of Corporate Finance within the overall corporate strategy of the business ("Strategy drives Finance")**
  - **Share price and its impact on corporate and financial strategies**
  - **Change of investor expectations and financial drivers change over the lifecycle of a company**
  - **Financial choices of a company over a life cycle**
- **Components of financial strategies appropriate to each stage of a company's development**
  - **Adaption of a company's strategy to changing circumstances**
  - **Changing sources of business risk, and matching dividend policies and funding sources**
  - **Examine different types of financial instruments appropriate for certain life cycle constellations**
  - **Assess companies' dividend and buyback choices**
- **Topics related to Strategic Corporate Finance**
  - **Analyzing corporate performance**
  - **Managing a corporate income statement and balance sheet**
  - **Funding and liquidity planning as well as working capital management**
  - **Transactional-related themes: restructuring, flotations, M&A**
  - **Managing risk**
  - **Valuation of corporates**

Learning Approach

Theory / concepts / techniques will be reviewed in the course of the sessions and illustrated by Modeling Assignments. – The course will also include:

- **Financial Modeling Assignments;**
- **Case Study Assignments as well as;**
- **Small Interim Tests**

When you have completed this course, you will be able to

- **Understand a corporate's financial strategy and financial aspects of strategic decisions,**
- **Link financial strategy with the interests of shareholders and with capital markets,**
- **Valuate processes and factors, influencing strategic finance management decisions,**
- **Describe company management and shareholder behavior, decision making and motivation specifics and outcomes,**
- **Analyze capital structure, investment, dividend policy processes and their relationship,**
- **Apply valuation methods,**
- **Model influence of company long-term investment, financing, capital structure, shareholder payout decisions on enterprise value,**
- **Evaluate merger, acquisition, takeover decisions,**
- **Formulate company strategic finance management decisions.**

Course materials

Preparation

- **Familiarize yourself with literature / readings about the principles of Strategic Corporate Management. Basically, you are free to select any literature which suits you. Good references in this context are the books by Damodaran – Corporate Finance or by Brealey / Myers -- Principles of Corporate Finance**

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.