Aims and Objectives
The main aim of this course is to enable you to apply the fundamental ideas of finance to make strategic financial decisions in the area of corporate finance with all the complexities the real world entails. Through four cases and class discussions, we will cover a number of strategic issues such as how to manage sustainable growth, raise financing, time the harvest option, and what to do in financial distress.

Through cases and discussions of topical issues, the course will give you the opportunity to analyze strategic financial situations and problems, on the assumption that you are already familiar with a lot of basic concepts from the core corporate course.

Although the cases will require technical knowledge, our discussion will be centered on strategic, non-technical issues. Real decision-makers have to make decisions in uncertain, complex, vague, ambiguous environments. We will work on how to bridge the gap between fundamental ideas of finance and these complex situations and will develop and illustrate a number of useful rules of thumb to analyze “the big picture,” make and evaluate decisions.

Format and Teaching Methods
There are four sessions. Each session we will work on one case and discuss a lot of related issues. Again, the stress in the discussion will be on qualitative issues, financial strategy, and applications.

All students are expected to participate in the discussion and students will be frequently cold called upon to illuminate their view on the topic, provide their vision, suggest, justify and defend their decision, as well as evaluate proposed courses of action by their classmates. Constructive class participation is a significant part of the class.
The course is very intensive and will require students to carefully prepare all cases. The class is demanding: On average, Stanford Graduate School of Business students spend between 5 and 10 hours preparing for each case (including discussion in groups). You should expect intensive and demanding cold calling. You should come with your proposed solution for each case and be ready to answer any questions related to the case and the solution.

All cases should be done in groups of students’ choice, between 3 and 5 people. (Note: I do not allow less than 3 people in the group. I generally frown upon 6 people in the group but 6 is still OK; 7 and more is not). I expect the group to come with a complete solution of the case and be ready to defend the view. There is no need to submit a solution but I will cold call most of you every class. Please note, however, that in class you are individually responsible for the group solution.

You should treat class as you would a professional meeting. Be on time. Do not read extraneous material. Do not engage in side conversations. Put all cell phones/PDAs into silent mode. Laptops and PDAs could be used during class only to help with case discussions.

The final exam is a take-home and will consist of one case. Details will be provided on the first day of classes.

**Final Grade Break-down**

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class participation</td>
<td>20%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>80%</td>
</tr>
</tbody>
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**Contacts**

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Session 1
Private Equity and Venture Capital
Strategic Decisions of All Parties

Day: November 8 2011

Case

Palamon Capital Partners.

You have been asked by Palamon Capital Partners (PCP) to provide an independent assessment of the proposed investment.

1. Describe briefly PCP’s investment strategy. In your view, what are the major attractive features of the fund? What are the major risks involved?

2. Discuss the proposed investment in TeamSystem. What are the major risks involved?

3. What are the benchmark valuation assumptions given in the case? Do the assumptions seem reasonable? How aggressive are they in terms of what Palamon think they can do to improve the business?

4. Do you think that a discount rate of 14% is reasonable for this valuation? What explains the difference between this discount rate and the 'target rates' of 35% on a single investment and 20–25% on the portfolio mentioned in the case?

5. Determine the value of the 51 percent stake in TeamSystem. Explain the valuation results.

6. How much of the value is coming from the terminal value? What’s the growth rate of free cash flow over the eight years? Where is this coming from, revenue growth, margin improvement, or elsewhere?

7. Discuss the sensitivity of your valuation results. What considerations should PCP take into account when making a decision? Are their non-price risks that should be considered seriously?

8. How much would you adjust the value for the fact that this is a private equity investment rather than a publicly traded share?
9. Can you use the data in Exhibits 10 and 11 of the case to estimate a value based on multiples? Which companies would you choose? Which multiples? Would you apply the multiples, to the terminal value or to get the current value directly? How confident would you be about the resulting valuation?

10. Deliver your advice to PCP. Should PCP invest in TeamSystem?

11. If you were Giovanni Rannochi, would you value your 20% share differently from the way Palamon values its 51%?

12. If you are the owner of TeamSystem, would you go along with PCP? Why or why not?
Session 2
Financial Distress

Day: November 10 2011

Case

Iridium LLC.

Your team of experts has been brought in to do a post-mortem on the Iridium experience. Prepare a discussion to address the following questions.

1. Describe briefly Iridium’s financial strategy. How did Iridium justify its target debt-to-total book capitalization ratio of 60%? Was it a good strategy?

2. Assess Iridium’s financial strategy. In your view, did it have the wrong target capital structure, issue the wrong kind of capital, or issue capital in the wrong sequence?

3. Based on DCF analysis and using the forecast in Exhibit 5, determine Iridium’s enterprise value, equity value and per share value. What are the important determinants of your DCF valuation of Iridium? How confident are you in your valuation?

4. What were the major factors that caused Iridium to fail?

5. What lessons for the financing of large green field projects do you draw from Iridium’s experience?

NOTE: There is a typo in Exhibit 5: in 2000 Total Debt should be 3,437 not 4,437.
Session 3
Managing Fast Growth

Day: November 12 2011

Case

Innocent Drinks

This case concerns strategic and financial issues of a high-growth company operating in the premium segment of the pre-packaged juices and smoothies industry. The biggest issue confronted by the founders is how to expand most effectively. The options include: remain focused on the U.K. but expand to other product lines; expand in the beverage domain to the rest of Europe; expand in the beverage domain to the U.S. There is less data in the case to explore the U.S. option but we should keep the possibility open. An important question, in addition to all of the rest: Which dimensions/criteria would we need to make these decisions and how can we get such information?

1. Why has Innocent Drinks succeeded (where so many others have failed)?

2. What does the company really sell?

3. Should Innocent expand its geographic territory to Europe or the U.S.? Should it extend its current product line? Do they need a different growth strategy at all? Where is the best/most attractive opportunity for Innocent?

4. If Innocent is thinking of expanding its product line in the U.K., why is it going after dairy products, rather than beverages like soda or water?

5. How should the company finance its expansion?

6. How would you value Innocent Drinks at the time of the case? Should the company consider a purchase offer at this time? If so, what would the minimum terms be?

7. Should the founders change their organizational structure?

8. You are Richard Reed, Jon Wright, or Adam Balon. What will you do?
Session 4
Optimal Time to Harvest

Day: November 15 2011

Case

IRONPORT

1. How should IronPort inform its employees about a possible acquisition? Who are the stakeholders, what and when do you tell them? What communications, if any, should senior managers have with IronPort’s overall workforce at this time?

2. What do you think about Cisco’s final offer? Is it a fair valuation for IronPort?

3. What is Cisco’s strategic view of the deal?

4. You are IronPort’s CEO/CFO. Should IronPort go public or be acquired? Why? What were the key factors in your decision?