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 in the Course Strategic Corporate Finance (the "Course") 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
- Aparticipant 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 4 mandatory individual hand-ins
    - 9 points for each of 3 mandatory group hand-ins
    - +5 bonus points for a class presentation

<u>Attitude</u>

The course is intense and will require time, effort, energy and concentration, but basically we want to learn and also have 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;
    - **<u>On a USB stick</u>** (and not anywhere else …) the presentation material of the respective Financial Modeling Assignment and the Case Study Assignment

<u>Financial Modeling Assignments</u>

- 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)
    - What is your recommendation and how would it be implemented (1 slide)
    - Snapshots of the Financial Model (up to 3 slides: 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 **<u>on a USB stick</u>** 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

<u>Case Study Assignments</u>

- You are required to hand in presentations for a total of 7 case studies, whereby the case study for Session #3, #4 & #5 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 & #5) will be on a group basis, for which you will form groups of a maximum of 4 individuals

  - Please note: Grading will be driven by your analytical insights, creativity, precision … and **not** just by summarizing facts from the case …
- Volume / page numbers / structure of the presentations are up to you (ideally not more than 7-10 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:
  - What are the issues?
  - What are the alternatives?
  - 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: **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 2: **Blaine Kitchenware** is a diversified mid-sized manufacturer of kitchen tools and contemplates a stock repurchase in response to an unsolicited takeover. The company must determine the optimal debt capacity and capital structure, and subsequently estimate the resulting change in firm value and stock price

Case Study 3 (Group Assignment): In mid-2016, the chief executive officer of **Tesla**, a U.S. manufacturer of electric cars, was interested in acquiring **SolarCity**, a U.S. solar power manufacturer and distributor. Both Tesla and SolarCity operated in young, high-growth industries; however, despite their high growth rates, both companies were also losing money every year. Both companies had similar products and could be a strong strategic fit. The chief executive officer needed to convince Tesla's shareholders that SolarCity would be a good acquisition target and then determine a fair price to offer.

Case Study 4 (Group Assignment): The chief financial officer (CFO) of **Fuyao Glass** Industry Group., Ltd. had to recommend dividend distributions prior to the company's global initial public offering in Hong Kong. Fuyao was China's largest automotive-glass manufacturer and the second-largest, most profitable, and fastest-growing automotive-glass manufacturer in the world. Controlled by its founder and largest minority shareholder, Mr. Cho Tak Wong, Fuyao was in the midst of substantial global expansion into the United States and Russia. The CFO had to project cash flows from operations, as well as substantial investment needs and the potential effects of the IPO, all while taking into consideration the effect of Fuyao's dividends on existing and planned investors.

Case Study 5 (Group Assignment): Franz Humer, CEO of the **Roche** Group, must decide whether to mount a hostile tender offer for the publicly-owned shares of Roche's biotechnology subsidiary, **Genentech**. The case provides opportunities to analyze Roche's strategy with respect to Genentech, the pros and cons of merging the two companies with different cultures, the value of Genentech, and the tactics of a hostile tender offer.

Case Study 6: This case examines the 2012 decision by **American Greetings** (AG), the greeting card company, to repurchase shares. At the time of the decision, the greeting card industry was facing an important structural shift; AG stock was trading at valuation multiples that were the lowest among its peer group. You are invited to build a simple model of the company's future cash flows and derive an implied value. Because the company is arguably in a state of maturity or decline, a discussion of steady-state economics is particularly germane.

Case Study 7: The case examines the liquidity issues that **J. C. Penney** (JCP) experienced in 2012 and 2013 following a decline in sales and profits over several years. Despite once being a highly profitable and growing company, the increasing pressures of competition led to changes in strategy and in management that were insufficient to return the company to the consistent financial results it had previously enjoyed. While sales and profits waned, the cash balance also suffered, and Wall Street analysts began expressing liquidity concerns as the company wrestled with having enough cash on hand to cover daily operating needs. You are asked to calculate a time series of quarterly liquidity and leverage ratios to illustrate the declining financial condition of the company. They are further challenged to weigh the benefits and drawbacks of raising equity versus debt as a solution for the company's lack of liquidity. To assess the amount of external capital required, you are asked to use a sources and uses analysis that provides intuition for the cash flow challenges facing the company. Set against the background of an iconic retailer, the case provides an engaging context in which to discuss the need for a major capital structure decision due to operational challenges.

<u>Interim Tests</u>

- 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

<u>Content</u>

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

<u>Learning Approach</u>
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

<u>Learning Outcomes</u>
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.

<u>Schedule</u>
The topics allocated to certain days are indicative only and may be adapted, as required

	Session 1	Session 2	Session 3	Session 4	Session 5	Session 6	Session 7
	TBD	TBD	TBD	TBD	TBD	TBD	TBD
	TBD	TBD	TBD	TBD	TBD	TBD	TBD
	Intro / Concepts	**Concepts / Early Stage**	**Early Stage / Growth**	**Growth**	**Growth / Maturity**	**Maturity / Decline**	**Decline**
	Creative Funding	Cost of Capital Optimisation	M&A - Growth Consolidation	Dividend Policy	M&A Growth Rejuvenation	Buyback Strategy	Liquidity in Crisis
1	Intro to Financial Model	**Case Study** - Blaine Kitchenware	Funding Startups	**Model**- Maturity	**Case Study** - Roche / Genentech	**Model**- Decline	**Case Study** - JC Penney
2	**Case Study** - Pacific Grove	CoC Optimisation	**Model**- Growth	**Case Study** - Fuyao	M&A Tactics	**Case Study** - American Greetings	Working Capital Management
3	Strategy drives Finance	**Model**- Start Up	**Case Study** - Tesla / SolarCity	Dividends	Stakeholder Analysis	Buybacks	Wrap Up
	= Individual Case Study Assignments						
	= Group Case Study Assignment						
	= Financial Modeling Assignments						

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.