Fin 4413 – college essay

Finance 725Spring 2006 J. E. Hodder Corporation Finance Course Schedule Tuesday, January 17: Introduction Thursday, January 19: Clarkson Lumber Company Reading: Note on Financial Analysis a. How is the company's financial performance? (Examine appropriate financial ratios.) b. Why has Clarkson Lumber borrowed increasing amounts despite its consistent profitability? c. How has Mr. Clarkson met the financing needs of the company during the period 1993 through 1995? Has the financial strength of Clarkson Lumber improved or deteriorated? d. How attractive is it to take trade discounts?

Tuesday, January 24: Clarkson Lumber Company (continued) Reading: a. Note on Financial Forecasting b. Note on Bank Loans a. How much of a loan will Mr. Clarkson need to finance the expected expansion in sales to $5. 5 million in 1996 and to take all the trade discounts? (Prepare a projected income statement for 1996 and a pro forma balance sheet as of December 31, 1996.) b. As Mr. Clarkson's financial adviser, would you urge him to go ahead with, or to reconsider, his anticipated expansion and plans for additional debt financing? . As the banker, would you approve Mr. Clarkson's loan request; and if so, what conditions would you put on the loan? Thursday, January 26: SureCut Shears, Inc. a. Evaluate SureCut's financial performance using standard ratios. b. Why can't SureCut repay it's loan on time? In addressing this question, you may find it useful to construct a " sources and uses" statement for the period June 30, 1995 – March 31, 1996. Tuesday, January 31: SureCut Shears (continued) a. What actions would you recommend that SureCut take in order to address its financial problems? If Mr.

Stewart agrees to a loan extension and your recommendations are implemented, when will SureCut be able to repay the loan in full? b. Would you, as Mr. Stewart, agree to a loan extension? What conditions or terms would you require? c. Compare the nature of the financial problems facing SureCut with those of Clarkson Lumber. Thursday, February 2: Advanced Technologies, Inc. Case Submission #1 Due a. In a volatile industry such as semiconductor equipment manufacturing, how useful is long-term financial planning? b. What are the key characteristics of ATI's markets and operating policies?

How do these characteristics influence the company's financial structure? c. Has Mr. Michaels done a good job of financial planning? What set of possible conditions would place ATI under the greatest financing pressure, and how great would that pressure be? d. Should ATI sell equity in 1998, thereby bringing its financial structure more in line with those of its main competitors? Tuesday, February 7: Continental Carriers, Inc. a. How is the company's financial performance? (Examine appropriate financial ratios.) b. Given the nature of CCI's business, how much debt can it support? . What are the respective costs of the different financing alternatives suggested? Thursday, February 9: Continental Carriers (continued) a. What information does the EBIT chart (Exhibit 3) provide? What inferences can we draw from it? b. What are the qualitative advantages and disadvantages of each of the forms of financing under consideration? c. How should the acquisition of Midland Freight be financed, taking into account the explicit costs of the different alternatives as well as other relevant considerations? Tuesday, February 14: Debt Policy at UST Inc . a.

From the perspective of a bondholder, what are the primary attributes and business risks for UST? b. Why is UST considering a leveraged recapitalization after such a long history of conservative debt policy? c. Estimate the incremental effect on UST's value if the entire $1 billion recapitalization is implemented immediately (January 1, 1999). Assume a 38% tax rate and perpetual debt. Also analyze, via a pro forma income statement, whether UST will be able to make interest payments. d. Would UST be better off with a different initial debt level? Should it adjust the debt level through time? e.

Will the recapitalization hamper UST's ability to maintain its long history of dividend payments? Thursday, February 16: No Class Meeting A " make-up" session is tentatively scheduled for 7: 00 PM on Thursday February 2nd. The topic will be a brief review of Capital Structure Theory. Tuesday, February 21: Stone Container Corporation (A) a. Compare Roger Stone's growth and financial strategies with those of his predecessors. b. Examine the sensitivity of Stone Container's earnings and cash flow to the paper and linerboard pricing cycle. Assume sales volume of 7. 5 million tons per year and a 35% marginal tax rate.

What would be the effect of a $50 per ton price increase? Is such an industry-wide price increase plausible? c. What should be Stone Container's financial priorities in 1993? d. Of the financing alternatives described in the case, which would be in the best interests of Stone's shareholders? Which would be in the best interests of its high-yield debt holders? Which would be favored by its bank creditors? Thursday, February 23: Stone Container

Corporation (continued) Case Submission #2 Due Tuesday, February 28:. Pioneer Petroleum Corporation a.

Does Pioneer estimate its overall corporate weighted average cost of capital correctly? b. When evaluating projects and allocating investment funds among divisions, should Pioneer use a single corporate cost of capital or multiple divisional hurdle rates? If multiple rates are used, how should they be determined? c. Should all projects within a single division use the same hurdle rate? If not, how should different standards be determined? Thursday, March 2: Marriott Corporation: The Cost of Capital (Abridged) a. Are the four components of Marriott’s financial strategy consistent with its growth objective? b.

Why does Marriott use divisional hurdle rates instead of either a company-wide rate or project-specific rates? c. Estimate the WACC for Marriott as a whole. What risk-free rate and risk premium did you use in estimating the cost of equity? How did you measure the firm’s cost of debt? Tuesday, March 7: Marriott Corporation (continued) a. Estimate the cost of equity, cost of debt, and WACC for Marriott’s lodging and its restaurant divisions. b. What is the cost of capital for Marriott’s contract services division? How can you estimate that division’s equity costs without publicly traded comparable companies?

Thursday, March 9: Pressco, Inc. (1985) a. What is the Net Present Value (NPV) of the mechanical drying equipment investment opportunity (as of December 1985) assuming a 12% cost of capital for Paperco? Assume the rumored new tax proposal is not enacted and the new equipment is installed in December 1986. b. What is the NPV of the investment project assuming that the new tax proposals are enacted, the new drying equipment is installed in December 1986, and Paperco signs a binding purchase contract soon enough to be eligible for the 8% Investment Tax Credit and the use of ACRS depreciation? . Ms. Rogers knows that Paperco's management incorporated a 6% general inflation assumption into its overall cost of capital estimate. She also knows Paperco's management felt that fuel costs would remain unchanged through 1990 and then rise at 6% per year thereafter. How much, if at all, would the use of this information change the project's NPV estimate? Spring Break Tuesday, March 21:. E. I. du Pont de Nemours and Co. : Titanium Dioxide a. What are Du Pont's competitive advantages in the Titanium Dioxide market as of 1972? How permanent or defensible are they?

What must Du Pont do to retain its competitive advantages in the future? b. Given the forecasts provided in the case, estimate the incremental cash flows associated with Du Pont's growth strategy and its maintain strategy for the Titanium Dioxide market. How much risk and uncertainty surround these future cash flows? c. How might competitors respond to Du Pont's choice of either strategy? What other factors should Du Pont consider in making this decision? Which strategy do you recommend? Thursday, March 23:. Wilmington Tap and Die a. Are the inflation assumptions used in the cash flow projections onsistent with the implicit inflation assumption in a 20% hurdle rate? b. Critically evaluate the sales forecasts for Wilmington, its competitors, and the market as a whole. Why does exhibit 7 indicate a declining market share for Wilmington? Why are other competitors growing more rapidly than Wilmington? c. Is it reasonable to assume that the competition will not purchase new technology grinders (either Icahn or one of the apparent German alternatives)? If instead you assume that Wilmington's competitors purchase modern grinders, how should the sales forecast be modified? d.

What are possible implications of the higher quality taps produced on the Icahn (or similar) machines for unit sales projections and possible pricing differentials? e. Are there other aspects of the cash flow estimates which should be questioned? Tuesday, March 28: Wilmington Tap and Die (Continued) Case Submission #3 Due Thursday, March 30: Interco a. Assess Interco's financial performance. Why is the company a takeover target? b. As a member of Interco's board are you persuaded by the premiums paid analysis (exhibit 10) and the comparable transactions analysis (exhibit 11)? c.

How does Wasserstein Perella's estimated valuation range of $68 – $80 per common share for Interco result from the assumptions in exhibit 12? As a member of Interco's board, which of those assumptions would you have questioned? d. How would you advise the Interco board on the $70 per share offer? Tuesday, April 4: Bougainville Power Station Reading: Brealey & Myers, Chapter 19 OR Ross, Westerfield, & Jaffe, Chapter 17 a. What are the values of loan subsidies on the English and Japanese bids? b. What are the Present Values for the Interest Tax Shields on each bid? . Is 100% debt optimal for the power station equipment purchase? If not, how should the bid evaluations be adjusted? d. What is the appropriate discount rate for evaluating the Base Case NPV? Thursday, April 6: Southport Minerals Inc. a.

What are the pros and cons of the approaches suggested in the case for evaluating the Firstburg Project? What are the advantages of APV compared with the approaches in the case? b. How would you estimate an unlevered cost of equity for this project? c. How should anticipated inflation be incorporated in the project evaluation? . Are there any assumptions regarding projected cash flows or loan repayments that you feel are either overly optimistic or overly pessimistic? Tuesday, April 11: Southport Minerals (continued) Case Submission #4 Due Thursday, April 13: Option Pricing and Real Options I Reading: Brealey & Myers, Chapters 20-22 OR Ross, Westerfield, & Jaffe, Chapters 22 and 23 Tuesday, April 18: Option Pricing and Real Options II Thursday, April 20: Option Pricing and Real Options III Tuesday, April 25: Wire Tel a.

Estimate the value of the first generation product using APV. How much of that value is due to financing with the secured bank loan? b. What is the effect of the being able to sell the manufacturing equipment for $4 million in year three if demand for the first generation phones is low? c. What must be the minimum value of the growth option represented by the second generation product in order to justify starting Wire Tel? Thursday, April 27: MW Petroleum Corporation (A) a. Is it reasonable to expect that the MW properties are more valuable to Apache than to Amoco?

What sources of value most plausibly account for the difference between buyer and seller? b. Value all the MW reserves using APV. Is your estimate more likely to be biased high or low? What are the sources of bias? c. How would you structure an analysis of MW as a portfolio of assets-in-place and options? d. Focusing on proved undeveloped reserves, what is the strike price for the embedded option? What are the current asset value, volatility, and other input parameters needed for an option valuation? Tuesday, May 2: MW Petroleum Corporation (continued) Case Submission #5 Due Thursday, May 4: Course Review