

BMGT 741 – ADVANCED FINANCIAL MANAGEMENT

Cases: Guideline Questions

The course packet includes eleven cases (listed below). Nine of these cases require team presentations. The other two cases (asterisked), *Bronson Electronics* and the *Super Project*, will not be subject to team presentations. The case of Bronson Electronics (valuation of convertible bonds) requires an *individual* effort.

The Super Project (9 – 112- 034)*

Pioneer Petroleum Corporation (9-292-011)

Southport Minerals (0-274-110)

Hospital Corporation of America (9-283-053)

Netscape Corporation IPO (IES047)

Bronson Electronics*

Arundel Parnters: The Sequel Project (9-292-140)

Marriott Corporation (A) (9-394-085)

Intel Corporation (1992) (9-292-106)

Massey Ferguson, 1980 (9-282-043)

Liability Management at General Motors (9-293-123)

There are no absolute right answers to the issues raised in the cases. However, there are good and bad arguments, and the case preparation and class discussion, as well as the case briefs (write-ups), should help distinguish between sensible and senseless arguments. Generally your presentations should include: (a) clear statement of the problem and the salient issues raised in the case, (b) clear analysis, and (c) recommended solutions or actions. You should consider yourself as a *consulting group*, and your audience (the class) is the *management team* of the company. Your continued employment as consultants will be critically dependent on your ability to *communicate* clearly, the rigor in your *analysis*, and clear and forceful *justification* for the recommended actions.

The following questions are designed to serve as *guidelines* for case analysis. However, you are not limited to these questions, and you may address other issues that you think are relevant. It is important that you take a *position* regarding the case problem and make specific recommendations. Provide an effective and clear support for your recommendations.

The Super Project

1. What are the relevant cash flows for General Foods to use in evaluating the Super project? In particular, how should management deal with issues such as (a) test-market expenses, (b) overhead expenses, (c) erosion of jell-O contribution margin, and (d) allocation of charges for the use of excess agglomerator capacity?
2. How attractive is the investment as measured by various capital budgeting techniques (i.e., net present value, internal rate of return, payback method, accounting rate of return)? How useful is each of these techniques?
3. How attractive is the Super project in strategic and competitive terms? What potential risks and benefits does General Foods incur by either accepting or rejecting the project?
4. Should General Foods proceed with the Super project? Why?

Pioneer Petroleum Corporation

1. How should Pioneer's cost of equity capital be estimated?
2. Does Pioneer estimate its overall corporate weighted average cost of capital correctly? Consider the technique, the rates, and weights.
3. Should Pioneer use a single corporate cost of capital or multiple divisional hurdle rates in evaluating projects and allocating investment funds among divisions?
4. How should Pioneer set capital budgeting criteria for different projects within a given division? How should these different standards be determined?
5. Should the discount rate for environmental projects vary by division or be the same throughout Pioneer?

Southport Minerals

1. What are the risks of the Firstburg investment proposal?
2. How did the specific financing choice available to Southport Minerals alter both the risk and return potential of the Firstburg investment proposal? How effective was it in dealing with the project risks?
3. If you were trying to negotiate an improvement in the terms of the Firstburg financing proposals, in which of the following areas would you concentrate your efforts, and why would you concentrate them there? (a) interest rates; (b) debt maturities; (c) allowable dividends; (d) price terms?
4. Which method of analyzing the value of the Firstburg investments proposal to Southport Minerals is most reasonable? Why are the other methods less reasonable? Provide your best estimate of the project's value by using the adjusted present value approach.

Hospital Corporation of America

1. Assess HCA's performance and business strategy. What is the likely impact of the changing regulatory environment? Should HCA push for growth or profitability?
2. How does HCA's financial strategy affect its product market strategy? How important is finance to HCA?
3. Evaluate HCA's set of financial goals. Are they achievable as a group? How might the debt policy affect HCA's ability to achieve these goals?
4. Should HCA be concerned about losing its single-A bond rating? In general, how much importance should a company attach to credit ratings when establishing its target debt policy?
5. How much financing does HCA need over the next few years? What target debt ratio do you recommend? What mix of securities seems best?

Netscape Corporation

1. Why has Netscape been successful to date? How risky is its competitive position? What must it do to remain successful in the long-run.
2. Does Netscape need to go public to satisfy its capital needs? What would you estimate might be the magnitude of its capital needs over the next 3-5 years? What other sources of capital might be tapped to satisfy these needs?
3. Should the Netscape board be concerned with underpricing? Why and why not?
4. Can the recommended offering price of \$28 per share be justified?

Bronson Electronics

Case in valuation of convertible bonds. Individual effort. Questions will be furnished later.

Arundel Partners: The Sequel Project

1. Why do the principals of Arundel Partners think they can make money buying movie sequel rights? Why do the partners want to buy a portfolio of rights in advance rather than negotiating film-by-film to buy them?
2. Estimate the per-film value of a portfolio of sequel rights such as Arundel proposes to buy. You may use all or parts of Exhibits 6-9. You may also find it helpful to consult the Appendix that explains how these numbers were prepared.
3. What are the primary advantages and disadvantages of the approach you took to valuing the rights? What further assistance or data would you require to refine your estimate of the rights' value?
4. What problems would you expect Arundel and a major studio to encounter in the course of a relationship like that described in the case? What contractual terms and provisions should Arundel insist on?

Marriott Corporation (A)

1. Why is Marriott's chief financial officer proposing Project Chariot? What is your assessment of MC's financial condition? Is this project necessary for the company's survival?
2. Is Project Chariot consistent with management's responsibilities? To bondholders?

To shareholders? To the public?

3. The case describes two conceptions of manager's fiduciary duty. Which do you favor: the shareholder conception or the corporate conception? Does your stance make a difference in this case?
4. Should Mr. Marriott recommend the proposed restructuring to the board?
5. Who will be affected by Project Chariot? Should MC make any concessions to the bondholders?

Intel Corporation

1. What is driving the changing competitive structure of the microprocessor market?
2. What is the role of Intel's cash and subsequent financial slack in its competitive advantage? What is about cash – as opposed to external financing – that makes Intel's precommitment more effective?
3. What are the other costs and benefits to holding cash? Consider the following issues: tax benefits of financing; managerial agency costs; signaling issues, etc.
4. Does Intel have too much cash? You may construct a simple sources and uses statement to support your argument.
5. What do you regard as an appropriate capital structure for a firm in a highly innovative business? What are the appropriate mechanisms for disbursement of cash from Intel: stock repurchases? Dividends? Justify the put-warrant and convertible bond offering.

Massey-Ferguson

1. Assess the product-market and financial strategy Massey pursued throughout 1976. How does Massey differ from its competitors?
2. As a financial advisor to Massey's management, what refinancing plan would you propose? Be specific - Hint: Use Proforma financial statements to make sure your proposed plan is viable.
3. How does the plan affect various interested parties: shareholders, lenders, employees, governments and management?
4. Why, fundamentally, did Massey get into financial trouble?

Liability Management at General Motors

1. How will changes in interest rates affect GM's business? Speculate the various ways in which changes in interest rates influence the demand for autos, the prices the firm can charge, its input costs, etc. Apart from engaging in derivative securities, like those discussed in the case, how could a firm like GM control its exposure to interest rates?
2. Evaluate each of the options that Stephane Bello faces to hedge interest rate risk. Evaluate how each of the options affects the risk of the issue.
3. How has GM measured its exposure? How would you propose that GM measures its interest rate exposure? How would you propose that GM reports the interest rate exposure of its business, and of its liabilities?
4. What should be GM's over-arching policy toward managing interest rate exposure? For example, should GM seek to ensure that changes in interest rates do not affect operating cash flow? The market value of the firm's equity? GM's ability to invest in new technologies? Be prepared to discuss GM's stated policies.

