

Warren E. Buffett, 2005

Case Questions:

1. What is the possible meaning of the changes in stock price for Berkshire Hathaway and Scottish Power plc on the day of the acquisition announcement? Specifically, what does the \$2.17-billion gain in Berkshire's market value of equity imply about the intrinsic value of PacifiCorp?
2. Based on the multiples for comparable regulated utilities, what is the range of possible values for PacifiCorp? What questions might you have about this range?
3. Assess the bid for PacifiCorp. How does it compare with the firm's intrinsic value? As an alternative, the instructor could suggest that students perform a simple discounted cash flow (DCF) analysis.
4. How well has Berkshire Hathaway performed? How well has it performed in the aggregate? What about its investment in MidAmerican Energy Holdings?
5. What is your assessment of Berkshire's investments in Buffett's "Big Four": American Express, Coca-Cola, Gillette, and Wells Fargo?
6. From Warren Buffett's perspective, what is the intrinsic value? Why is it accorded such importance? How is it estimated? What are the alternatives to intrinsic value? Why does Buffett reject them?
7. Critically assess Buffett's investment philosophy. Be prepared to identify points where you agree and disagree with him.
8. Should Berkshire Hathaway's shareholders endorse the acquisition of PacifiCorp?

The Battle for Value, 2004: FedEx Corp. vs. United Parcel Service, Inc

Case Questions:

1. Prepare to describe in class the competition in the overnight package delivery industry, and the strategies by which those two firms are meeting the competition. What are the enabling and inhibiting factors facing the two firms as they pursue their goals? Do you think that either firm can attain a sustainable competitive advantage in this business?
2. Why did FedEx's stock price outstrip UPS's during the initiation of talks over liberalized air cargo routes between the U.S. and China? Assuming a perfectly efficient stock market, how might one interpret a 14% increase in FedEx's market value of equity?
3. How have FedEx and UPS performed since the early 1990s? Which firm is doing better? In class, prepare to discuss the insights you derived from the two firms' financial statements, financial ratios, stock-price performance, and economic profit (economic value added or EVA). Also, prepare to describe how EVA is estimated, and its strengths and weaknesses as a measure of performance.
4. If you had to identify *one* of those companies as *excellent*, which company would you choose? On what basis did you make your decision? More generally, what is *excellence* in business?

Krispy Kreme Doughnuts, Inc

Case Questions:

1. What can the historical income statements (case Exhibit 1) and balance sheets (case Exhibit 2) tell you about the financial health and current condition of Krispy Kreme Doughnuts, Inc.?
2. How can financial ratios extend your understanding of financial statements? What questions do the time series of ratios in case Exhibit 7 raise? What questions do the ratios on peer firms in case Exhibits 8 and 9 raise?
3. Is Krispy Kreme financially healthy at year-end 2004?
4. In light of your answer to question 3, what accounts for the firm's recent share price decline?
5. What is the source of intrinsic investment value in this company? Does this source appear on the financial statements?

The Body Shop International PLC 2001: An Introduction to Financial Modeling

Case Instructions:

Please work through the exercises in this case, first using pencil and paper and then using your personal computer. Then follow the directions in the case to make the three-year forecast, and prepare responses to the questions posed at the end of the case.

Coke versus. Pepsi, 2001

Case Questions:

1. What is EVA? What are the advantages and disadvantages of using EVA as a measure of company performance?
2. Please examine the historical performances of Coca-Cola and PepsiCo in terms of EVA. What trends do you observe? What are the factors behind these trends? What do you think are the key drivers of EVA?
3. What is the weighted average cost of capital (WACC) and why is it important to estimate it? Is the cost of capital something that managers set? Who sets it?
4. Calculate the WACCs for Coca-Cola and PepsiCo. Assume a tax rate of 35 percent. Be prepared to explain your assumptions for the following components:
 - a. K_d
 - b. K_e
 - c. R_f
 - d. Beta
 - e. Market risk premium
 - f. Weights of debt and equity capital
5. Interpret the results of your WACC calculations. What observations can you make?
6. Calculate EVA for 2001 to 2003 using the forecasts given in the case and the WACCs you have estimated.
7. Interpret the results of your EVA calculation. If you had to choose between Coca-Cola Co. and PepsiCo, which one would you choose? Why?

The Boeing 7E7

Case Questions:

1. What is an appropriate required rate of return against which to evaluate the prospective IRRs from the Boeing 7E7?
 - a. Please use the capital asset pricing model to estimate the cost of equity. At the date of the case, the 74-year equity market risk premium (EMRP) was estimated to be _____. Which beta and risk-free rate did you use? Why?
 - b. When you used the capital asset pricing model, which risk-premium and risk-free rate did you use? Why?
 - c. Which capital-structure weights did you use? Why?
2. Judged against your WACC, how attractive is the Boeing 7E7 project?
 - a. Under what circumstances is the project economically attractive?
 - b. What does sensitivity analysis (your own and/or that shown in the case) reveal about the nature of Boeing's gamble on the 7E7?
3. Should the board approve the 7E7?

Compass Records

Case Questions:

1. Please assess the economic benefits of owning and producing an album versus licensing an artist's recording. What are the initial outlays under either scenario? What are the benefits over time? Do the NPV and IRR results suggest that one scenario is superior to the other?
2. *What uncertainties or qualitative considerations might influence your recommendation? How do variations in the forecasted sales affect the decision? Please estimate the impact on NPV from a change in your estimate of future sales for Adair Roscommon's album.*
3. What should Alison Brown do? Prepare a recommendation as to whether Compass Records should license Adair Roscommon's next recording, or produce and own it.

Genzyme / Gel Tex Pharmaceuticals Joint Venture

Case Questions:

1. Why is Genzyme engaged in joint venture negotiations with GelTex? How does a joint venture compare to other possible forms of corporate affiliation such as acquisition and supplier-customer relationships?
2. Please assess Exhibits 3 and 4 of the case. What is the maximum that Genzyme should be willing to pay for its interest in the joint venture? On what assumptions is it based?
3. What would you guess to be the key assumptions that drive the venture's enterprise value? Are there any qualitative issues that might affect value?
- 4.
5. What should Greg Phelps recommend?
6. How can you determine expected value of NPV?

JetBlue Airways IPO Valuation

Case Questions:

1. What are the advantages and disadvantages of going public?
2. What different approaches can be used to value JetBlue's shares?
3. At what price would you recommend that JetBlue offer their shares?

An Introduction to Debt Policy and Value

Case Instructions:

The case is self-explanatory and can be used without the benefit of additional study questions.

The Wm. Wrigley Jr. Company: Capital Structure, Valuation, and Cost of Capital

Case Questions:

1. In the abstract, what is Blanka Dobrynin hoping to accomplish through her active-investor strategy?
2. What will be the effects of issuing \$3 billion of new debt and using the proceeds either to pay a dividend or to repurchase shares on:
 - a. Wrigley's outstanding shares?
 - b. Wrigley's book value of equity?
 - c. The price per share of Wrigley stock?
 - d. Earnings per share?
 - e. Debt interest coverage ratios and financial flexibility?
 - f. Voting control by the Wrigley family?
3. What is Wrigley's current (prerecapitalization) weighted-average cost of capital (WACC)?
4. What would you expect to happen to Wrigley's WACC if it issued \$3 billion in debt and used the proceeds to pay a dividend or to repurchase shares?
5. Should Blanka Dobrynin try to convince Wrigley's directors to undertake the recapitalization?

Merton Electronics

Case Questions:

1. What is currency-risk exposure? How is it measured?
2. Consider, in terms of cost and risk, the relative advantage of each hedging method described in the case:
 - a. Forward contract hedge
 - b. Money market hedge
 - c. Currency futures hedge
 - d. Currency option hedge
3. How are forward-exchange rates, currency futures, and option prices determined by the banks and/or the markets?
4. What happens if the company hedges a particular exposure but subsequently finds that the period at risk changes (the exposure is shorter or longer than the hedge, or the amount at risk changes)?
5. In the situation facing Merton Electronics, if an exposure is to be hedged, *when* should it be done? At the time the order is placed? When the goods and the invoice are received? Periodically, when budgets or operating plans are prepared? Should all of the identified exposure be hedged, or part of it?
6. Under what conditions should a *nonfinancial* company try to make money from currency, interest-rate, or commodity-price movements - in other words, *speculate, trade, or take views*?

National Railroad Passenger Corporation ("Amtrak"): Acela Financing

Case Questions:

1. What is a financial lease? What advantages or disadvantages does it have over debt?
2. What are the pros and cons of each of the three financing alternatives given in the case?
3. Which alternative did you choose? Why? Provide quantitative support for your answer.

General Mills' Acquisition of Pillsbury from Diageo PLC

Case Questions:

1. What are General Mills' motives for this deal? Please estimate the present value of the expected cost savings.
2. Why was the contingent payment included in this transaction? How does the clawback affect the attractiveness of the deal from the standpoints of General Mills and Diageo?
3. How does the contingent payment work? Prepare a payoff diagram (i.e., hockey stick diagram) of the clawback feature.
4. What is the contingent payment worth in early December 2000? Be prepared to outline your assumptions and specific findings.
5. Is this deal economically attractive to General Mills shareholders? Would you recommend that shareholders approve or reject this deal?

General Electric's Proposed Acquisition of Honeywell

Case Questions:

1. Why did Jessica Gallinelli simultaneously buy shares in Honeywell and short shares in GE?
2. Consider the information in case Exhibits 4 through 10. What is a reasonable share value range for Honeywell?
3. What is the return on Gallinelli's arbitrage position to date?
4. How does the European Commission's recent announcement change the investors' outlook about the consummation of this deal?
5. What should Gallinelli do?

The Hilton-ITT Wars

Case Questions:

1. Why might Bollenbach have opened his bidding for ITT at \$55 per share? What was his likely strategy?
2. Why did Bollenbach not raise the bid between January and July?
3. What is the stand-alone value of ITT's equity? How did this compare to ITT's historical market value? What was ITT's "break-up" value? What was ITT's value to Hilton?
4. What do you expect the price of ITT's equity would be if Hilton's bid were to fail? Would it collapse to its pre-tender-offer trading value of around \$44? Would it remain stable at its existing level of around \$60, or would it rise to meet ITT's share-repurchase price of \$70?
5. What are the implications of an EVNT analysis in determination of the next bid? At what bid would risk arbitrageurs be inclined to tender their shares to Hilton? How much do they expect to earn from the new bid?
6. How should Bollenbach react to ITT's trivestiture defense? Should he change the bid or walk away?