



## Case Seminar Advanced Corporate Finance

Tuesday 10:00 – 13:00, Room 23

Team: Prof. Tim Adam & Jan Wilimzig

This case seminar discusses real-world business cases, which relate to the materials covered in *Finance Theory* and *Advanced Corporate Finance*. The main topics are company valuation, capital structure, bankruptcy, corporate governance, project finance and corporate risk management. The main objective of the seminar is to apply the theoretical concepts of corporate finance and corporate governance to real-world situations. To do so we will discuss five Harvard Business School cases. In addition, there will be several company presentations of real-world business cases.

This seminar has a high level of practical relevance, but it is also very time intensive. Expect to spend at least eight hours each week on case preparations.

### Prerequisites

All participants must have successfully passed *Finance Theory*, and take *Advanced Corporate Finance* parallel or prior to this case seminar.

### Registration

Students need to register for this seminar. Please submit your applications electronically (CV, most recent transcript) to Mrs. Bauer by April 10. If you do not attend the first session, your place may be given to other students on the waiting list.

### Evaluation

Four case reports (80%), class participation (20%). Seminar attendance is obligatory.

## Course materials

Cases can be purchased from HBSP for a total cost of US\$ 21.25 using a credit card: <https://hbsp.harvard.edu/import/612402>

Additional readings are available from Moodle (Password: TBA)

## Preliminary Outline

Date	Topic	HBS Case No.
April 9	Introduction - Learning with cases	
April 16	Team formation	
April 23	Lecture: International Valuations	
April 30	Vereinigung Hamburger Schiffsmakler und Schiffsagenten e.V. (VHSS): Valuing Ships	9-210-058
May 7	Company presentation: Axel Springer <i>Axel Springer's Divestiture of Pramana</i>	Nils Krüger Andreas Jaron Andreas Noth
May 14	Kennecott Copper Corp.	9-278-143
May 21	TBA	
May 28	Company presentation: b-to-v Partners AG Principal-Agent Problems in Venture Capital Investments	Jochen Gutbrod
Jun 4	FAG Kugelfischer – A German Restructuring	9-298-046
Jun 11	Company presentation: Argonas <i>Acquisition of Italpresse Group by a German Private Equity Fund</i>	Sebastian Bauch
Jun 18	Dürr: Disintermediation in the German Mid-cap Corporate Bond Market	INS223
Jun 25	TBA	
Jul 2	Airbus A3XX: Developing the World's Largest Commercial Jet	9-201-028
Jul 9	No class	

## Case teams

All seminar participants must form teams consisting of four students. You can make use of the bulletin board on Moodle to find teammates. Students who are not part of a complete team by the end of the first week of class will be allocated randomly to other incomplete teams.

Each team should try to find reasonable answers to all cases and be prepared to present their solutions in class. Since the cases are challenging, you are unlikely to grasp the main ideas/problems within a few days. You should therefore start working on each case two weeks ahead of the case discussion in class. It is advisable that teams meet at least twice to discuss a particular case. The discussion of the case questions within your team is crucial for understanding and “solving” a case. Therefore, it is not advisable to assign different questions to different team members, but to work on all questions together. Note, there is not always a right or wrong answer.

The workload for preparing the case reports and presenting a case question in class should be shared equally among all members of a team. If you experience any free-rider problems you should inform Prof. Adam as soon as possible. All complaints will be handled absolutely confidentially. At the end of the semester there will be a confidential peer evaluation, which may affect your grade for the case reports and hence your overall seminar grade.

## **Case reports**

Case reports must be submitted for at least four of the five cases. They consist of answers to the study questions below. Good case reports are concise, brief, and to the point. The maximum number of pages for a case report is 6-9 pages, using a 12-point font. Make sure you adequately address all study questions. If the strategy options given are insufficient in your opinion then feel free to consider additional options.

Support any claims you make by references to the information given in a case, graphs, or figures. Good case reports do not contain vague statements or guesses. It is possible that the information in a case does not provide enough information to form a clear judgment. It is common that decision makers need to make decisions under incomplete and imperfect information. Try to refrain from making wild guesses.

The purpose of the cases is to **apply** the financial concepts covered in *Finance Theory* and *Advanced Corporate Finance*. You need not explain these concepts in your case reports, but can assume that the reader is familiar with the relevant theory.

Any spreadsheet printouts provided should be *self-contained*, i.e., one should be able to understand the information given in a table without relying on the main text of the analysis. Tables should include all your assumptions as well as the formulas that are not immediately transparent.

Both a hardcopy of your report and a computer file containing the report are due at the beginning of the class the case is scheduled for discussion.

The computer file that contains the report should be sent as an e-mail attachment to [tim.adam@hu-berlin.de](mailto:tim.adam@hu-berlin.de). Use the following file name convention: **Case x Team y.pdf**. Since we discuss the case solutions in class, late reports cannot be accepted.

No external information should be used to solve the case questions. Case reports that include plagiarism will receive zero credit. Each case report must contain the following statement, signed by all team members.

*"We hereby declare that we as a team have worked on this report independently and have not received any help from others or used any unauthorized materials, such as internet solutions, answer keys, reports submitted by others, etc. We understand that violations of these principles will result in proceedings regarding deception or attempted deception."*

### **Class participation**

Your class participation grade will depend on your presentations and the quality (not the quantity!) of your comments/remarks in class, which are a function of the depth of your preparation. Quality includes sound, rigorous, and insightful diagnoses, sharpening of key issues under discussion, relating theory to a particular case, asking relevant questions, etc. To make sure you receive credit for your class participation, you should **display your name card at all times** during the class. Given that there is no exam in this course, class participation is the main way of individual evaluation.

## Case questions

### **Vereinigung Hamburger Schiffsmakler und Schiffsagenten e.V. (VHSS): Valuing Ships**

1. Based on prices from comparable transactions, how would you assess the reasonableness of the Bet Performer's \$133 million purchase price in May 2008? How much was the golden Wing worth in January 2009? Is this value more, less, or the same as its purchase price of \$27 million?
2. Which valuation method, using comparable ship prices or DCF, is more appropriate for the valuation of ships?
  - a. Under what conditions are market prices for ships likely to equal their fundamental values?
  - b. Under what conditions are market prices likely to deviate from fundamental values in the market for ships specifically and in markets for other assets more generally (e.g., houses, shares of stock, etc.)? Consider both positive and negative deviations.
  - c. What permits or prevents large and long-lasting deviations in the shipping market?
3. As a ship owner or a ship lender (e.g., Deutsche Schiffsbank), would you adopt the Hamburg Ship Evaluation Standard? What are the arguments for and against adoption? What are the alternatives?
4. As a German bank regulator (e.g., an executive at the BaFin), would you approve the use of the Hamburg, Ship Evaluation Standard (HSES)? Why, or why not?

### **Kennecott Copper Corp.**

1. Analyze the economic rationale of the Carborundum acquisition. Under what conditions would an acquisition be expected to add to shareholder value in general? Do any of these reasons apply to the Carborundum acquisition?
2. Kennecott's management team determined, based on Exhibit 7, that the value of Carborundum to Kennecott would be about \$70-\$85 per share (page 7). Critically evaluate the methodology used to determine this value.
3. Use the information given in Exhibit 7 to determine the value of Carborundum to Kennecott using the **Flow-to-Equity Method**. Assume that the market risk premium ( $E_{r_M} - r_f$ ) based on short-term rates equals 8.3%. The betas given in Exhibit 4 and 5 refer to equity betas.

4. Review management's decisions over the 10 years covered by the case, including the acquisition of Peabody, its divestiture, the proposed use of the proceeds of the Peabody sale and the selection of Carborundum as an acquisition target. What were the motivations underlying these decisions? Were they in the best interest of shareholders?
5. Why is management pursuing the acquisition? As an outside director of the board, how would you argue and vote on the resolution to tender for Carborundum?
6. Optional: Critically evaluate the actions and recommendations by Kennecott's financial advisors (Morgan Stanley and First Boston) and its legal advisors (Sullivan and Cromwell).

### **FAG Kugelfischer – A German Restructuring**

1. Does Kugelfischer need to be restructured at the present time? Is Kugelfischer performing significantly worse than its competitors? What would happen if Kugelfischer simply “did nothing”?
2. What measures should Kajo Neukirchen take to address the company's financial problems? Can Kugelfischer be restructured without resorting to large-scale layoffs?
3. How will your proposed restructuring plan affect Kugelfischer's (equity) market value?
4. What are the main impediments to introducing “U.S.-style” shareholder-oriented restructuring in Germany? Does Kugelfischer's restructuring represent an approach that could be adopted by other German companies?
5. What weight should managers give the interests of employees and other stakeholders in setting corporate policy?

### **Dürr: Disintermediation in the German Midcap Corporate Bond Market**

1. What is the fundamental issue with bank lending for non-financial firms in Europe? Compare the trend of funding through corporate bonds as opposed to loans in Europe to the situation in the US: international evidence and comparison. In Germany specifically, is the debt financing of German non-financial large-cap, mid-cap and small-cap firms converging to that of their US Counterparts?
2. If corporate bonds are the solution for German small- and mid-caps, what is the most attractive form of issuance?

- i. Hire investment banks, get a rating and place the bonds to international investors. What are the costs?
  - ii. List the bonds in Germany on Bondm. What is Bondm? How does it work? What services and safeguards are foregone by listing on Bondm relative to an international listing?
- 2.1. How much did Dürr save in funding costs by refinancing its 2004/11 international bond with its Bondm issue?
  - 2.2. Referring to Appendix 17, calculate the annual funding cost (reflected as cost per year in Appendix 17) for the €150 million tranche of Dürr's Bondm issuance. How should the issuance costs be amortized? Provide an amortization schedule.
  - 2.3. Discuss the pros and cons for investors on Bondm. How are investors protected given the lack of ratings and limited track-record of many firms on the segment? How have Bondm issues performed?
  - 2.4. Discuss the implications of reputational damage for Bondm. Given the untested nature of the trading segment, is there a potential for moral hazard? How can strong issuers differentiate themselves from weak issuers?
3. Issues on credit risk
- 3.1. How are bank loans typically priced? The cost of borrowing has increased for banks (higher capital adequacy ratios); was this increase passed on to non-financial firms?
  - 3.2. How do we calculate credit spreads for European corporate bonds? Should they be calculated relative to German bunds or the Euro swap curve?
  - 3.3. What is the relationship between the credit spread Dürr pays on its short-term debt (bank borrowing) and the credit spread Dürr pays on its long-term debt (listed bonds)?
  - 3.4. The yield on Dürr's bond as of June 2012 has decreased dramatically since its first bond issuance; is that due to a general decrease in (risk-free) yields over the sample period? Or to a decrease in credit spreads? Or a combination of the two?
  - 3.5. Relationship between credit spreads and equity prices: Do we observe a parallel increase in Dürr stock price, i.e., credit spreads should be decreasing when stock prices are increasing? What is the correlation between the change in credit spreads and the changes in stock prices, not just for Dür but also for all the bonds traded on Bondm?

## **Airbus A3XX: Developing the World's Largest Commercial Jet**

1. Why is Airbus interested in building the A3XX? What are its objectives? What do you need to know to judge whether the project's NPV is positive?
2. How many aircraft does Airbus need to sell per year in order to break even on the investment? Is this number greater or less than your estimate of total demand for very large aircraft (VLA) over the next 20 years? How certain is this break-even point?  
*Hint:* Consider all capital providers as a single entity and calculate the break-even return to them collectively. To calculate the break-even number of planes, calculate the present value of the required investment, and compare it to the present value of a growing perpetuity of cash flows from planes sales beginning in 2008. Assume an equity risk premium of 6 % in your analysis.
3. How likely is it that Airbus can sell more than the break-even number of aircraft per year?  
*Hint:* Consider the following questions: How large is the market for VLA, and what market share of the VLA market could Airbus capture? How do you expect Boeing to respond to the development of the A3XX?
4. Should Airbus launch development of the A3XX in 2000? How many orders should Airbus have before committing to develop the A3XX?



## Confidential Peer Evaluation

Your Name:

Team No:

This evaluation is strictly confidential. Your personal response will not be made available to the other group members or any other member of the class.

1. Please rate each group member, including yourself, on his/her contribution to the case report which you submitted using the following scale.
  - 4 *Excellent Contributor* - The person significantly contributed to our case discussions. Without this person, the quality of the final case report would have been considerably diminished.
  - 3 *Good Contributor* - The person contributed to our case discussions. Without this person, the quality of the final case report would have been diminished.
  - 2 *Marginal Contributor* - The person barely contributed to our case discussions. Without this person, the quality of the final case report would have been about the same.
  - 1 *Unsatisfactory Contributor* - The person failed to contribute in any meaningful way to our case discussions. Other members of the group had to do more because of this person's performance. Without this person, the quality of the final case reports may actually have been improved.
  - DK *Don't Know* - I don't have enough information about the person's performance to assess his/her contribution reliably.

Name (include yourself!)	Report I	Report II	Report III	Report IV	Overall

2. Please provide any additional comments if possible. In particular, explain significant differences in the evaluations of your team members, if any.