

PUBLISHER'S CHOICE FINANCE CASES

Featured Finance Cases

9B19N022

The \$85.4 Billion Merger of AT&T and Time Warner: Valuation Analysis

Xiaokang Zhao; Zhichuan (Frank) Li

On October 22, 2016, U.S. telecom operator AT&T Inc. and television media giant Time Warner Group announced that AT&T Inc. would acquire Time Warner Group for \$107.50 per share, using half cash and half stock, to a total equity value of \$85.4 billion. Although the chief executive officers from both companies were very confident about the future prospects for their shareholders once the transaction was approved and completed, there was much controversy surrounding the acquisition. A portfolio manager with a significant portion of her investment portfolios tied up in AT&T Inc. equity wondered if the price was fair. She needed to make a thorough valuation analysis to ensure that she could anticipate the future value of the merged firm and mitigate any possible loss in value for her investors.

Learning Objective: This case is suitable for both postgraduate- and undergraduate-level courses in business administration, as the first case study for beginners in the area of business valuation. It is mainly applicable to discussions of the time value of money, stock valuation, and corporate value assessment in courses on financial management, corporate valuation methods, analysis of corporate business activities, and asset assessment. After working through the case and assignment questions, students will be able to

- explain the mechanisms of the popular mergers and acquisitions valuation methods;
- analyze and understand the assumptions of various mergers and acquisitions valuation methods; and
- compare applicable conditions of various mergers and acquisitions valuation methods and their advantages and disadvantages.

Publication Date: November 26, 2019**Discipline:** Finance;**Issues:** discounted cash flow, mergers and acquisitions, valuation, weighted average cost of capital**Industry:** Information, Media & Telecommunications;**Setting:** United States, Large organization, 2016**Difficulty:** Undergraduate/MBA

9B19N011

Estimating Walmart's Cost of Capital

Stephen R. Foerster

In March 2019, two senior managers attending an executive education program had been assigned the task of applying their learnings from readings in order to estimate the costs of capital for Walmart Inc. (Walmart). They also needed to discuss why the cost of capital was such an important topic. The managers had with them background information, including a recent Walmart balance sheet and income statement; a U.S. Department of Treasury yield curve; Walmart's earnings, dividend, and stock price information; historical U.S. capital market returns; interest rates; and a detailed description of a long-term Walmart bond. Based on this information, the managers needed to estimate Walmart's cost of capital and be sure they understood why this mattered.

Learning Objective: This case has been designed for use in finance courses at both the undergraduate and graduate levels to discuss cost of capital. It can be placed in a section on capital investments and projects or near the beginning of a section on valuation. The case may be preceded by a 30- to 45-minute lecture or discussion on cost of capital theory. The case focuses on estimation of the cost of capital—a fairly straightforward concept that can be much more difficult to apply in practice. Following the discussion, students will have developed their ability to do the following:

- Explain why the cost of capital is an important topic.
- Estimate the cost of various sources of financing.
- Explain the importance of the yield curve.
- Explain how bonds are priced.
- Explain the nature and estimation of risk premiums.
- Explain the importance of the capital asset pricing model.
- Determine how to weight various costs of financing.
- Relate the cost of capital to hurdle rates.

Publication Date: May 17, 2019**Discipline:** Finance;**Issues:** Capital costs;Capital structure;Investment risks;Yield curve;Bond valuation;Hurdle rate**Industry:** Retail Trade;**Setting:** United States, Large organization, 2019**Difficulty:** Undergraduate/MBA

9B19N009

ChimpChange: How to Raise Capital to Grow

Stephen Sapp

In early 2016, ChimpChange Limited, a financial technology (fintech) start-up, had started operations in California and already had more than 80,000 customers. The company needed capital to acquire more customers in order to become cash-flow positive, as was the case with most start-ups. ChimpChange Limited should have been able to attain the break-even number of customers within another year or so, but it needed capital to execute a marketing campaign to attract these customers. It had already undergone several series of funding rounds. At this point, should it return for a series C funding round or should it raise funds through an initial public offering (IPO)? If it were to opt for an IPO, where should this take place?

Learning Objective: This case is intended for use in advanced undergraduate- or graduate-level finance courses in international finance, advanced corporate finance, and investment banking. The case deals with a decision about how to raise capital and the issues involved in valuing an early stage venture. It introduces some of the issues involved in valuing high-growth technology companies while they are still in their rapid growth phase (i.e., before they are consistently generating positive cash flows). The case allows for interesting discussions regarding fintech, disruption, corporate governance, and valuation. After working through the case and assignment questions, students will have developed their ability to do the following:

Compare and contrast various methods financial technology start-ups can use to raise capital.
Identify qualitative differences between various financing alternatives (e.g., private versus public investors and domestic versus international capital markets).
Outline methods for valuing a project or company, and describe the effects on a company's valuation of the choice of investors and the location for raising capital.

Publication Date: May 10, 2019

Discipline: Finance; Entrepreneurship;

Issues: Finance; Technology; Valuation; Technology; IPO

Industry: Finance and Insurance;

Setting: Australia; United States, Small organization, 2016

Difficulty: Undergraduate/MBA

9B19N007

Berkshire Hathaway: Dividend Policy Paradigm

Diwahar Nadar

Berkshire Hathaway Inc., a goliath enterprise that had grown tremendously over a half century, had never paid a dividend. The chairman of Berkshire Hathaway inc., advocated an investment policy of reinvesting in existing assets, acquiring diversified assets, and buying back shares in the company, but never paying a dividend. However, in 2017, excess cash and short-term reserves were earning a yield value that was less than the inflation rate, effectively decreasing the real value of the reserves. The company was not finding suitable new acquisitions, and shares in the company were trading above the company's limit for repurchase. Amid public speculation, Buffett began musing that perhaps the best course of action for Berkshire Hathaway Inc. at that point was to pay a dividend after all.

Learning Objective: This case is suitable for undergraduate- and graduate-level courses on corporate finance to analyze Berkshire Hathaway's dividend policy; the strategic use of share repurchase as an alternative to dividends; and the factors relevant to deciding whether to pay a dividend. Students must analyze the rationale behind the chairman's investment approach, the history of Berkshire Hathaway's growth through mergers and acquisitions, and the financial data outlining the company's growth. Students must decide what the company should do and whether it ought to change its investment policies.

Publication Date: April 16, 2019

Discipline: Finance;

Issues: Dividends;

Industry: Finance and Insurance;

Setting: United States, Large organization, 2018

Difficulty: Undergraduate/MBA

9B18N027

Ford Motor Company: Basic Financial Ratios

Zhichuan (Frank) Li; Xiaojun Zhu; Daniela Zapata; Tabish Munir

In January 2018, an investment portfolio manager learned of a safety recall for Ford Motor Company (Ford) involving faulty airbags that failed to deploy upon collision. An investigation by U.S. regulators found that the company had been aware of these faulty airbags but had not taken proactive measures to mitigate the potential damage. As a result, in just one day, the share price for Ford dropped from \$13.10 to \$12.18 per share. The portfolio manager needed to anticipate the future of Ford and come up with a plan to protect his investors' wealth.

Learning Objective: This case is suitable for finance and

accounting courses at the undergraduate or graduate level. After completing the case, students will be able to do the following:

conduct a business size up and financial ratio analysis;
understand the differences and similarities between comparable firms; and
assess a company's financial statements and use ratios to understand the company's financial position.
Identify any major issues with a company and suggest an appropriate investment strategy.

Publication Date: January 14, 2019

Discipline: Finance;

Issues: financial ratios; ratio analysis; size up; financial statement

Industry: Manufacturing;

Setting: United States, Large organization, 2018

Difficulty: Undergraduate/MBA

9B18N022

Under Armour Under Pressure: Ratio Analysis

Zhichuan (Frank) Li; Michael Saunders

An analyst at Vaux Gibson Inc., a fund that managed a portfolio of North American equities, was tasked with reviewing the fund's holdings of Under Armour Inc. (Under Armour) and providing recommendations for the fund's prospective investment strategy with the company. Under Armour had experienced significant revenues and bottom-line growth over the past three years, but this growth slowed significantly in 2017 and the company reported a net loss, resulting in the significant depreciation of its stock price. The analyst wondered if it was time to exit the investment, providing investors with an above-market return, or if there was still room for Under Armour to recover and grow.

Learning Objective: This case is suitable for finance courses at the undergraduate level. After completion of this case, students will be able to
analyze industry and economic factors to determine their effect on a firm's performance;
conduct granular analysis of three-statement models and determine how these statements work together;
assess a firm's financial performance with a focus on financial ratio analysis;
identify cash flow and profit drivers;
identify the determinants of value and stock price; and
discuss the selection of a peer group for the purposes of financial comparison.

Publication Date: October 17, 2018

Discipline: Finance; Entrepreneurship;

Issues: ratio analysis, financial statement, financial ratio, business size up, financial performance

Industry: Finance and Insurance;

Setting: United States, Small organization, 2018

Difficulty: Intro/Undergraduate

9B18N006

Spotify's Direct-Listing IPO

Craig Dunbar; Stephen R. Foerster; Ken Mark

In early April 2018, Spotify Technology SA (Spotify) had planned a rare direct listing on the New York Stock Exchange. Unlike typical initial public offerings (IPOs), which used investment banks as underwriters to help set an IPO price, Spotify's direct listing would allow market participants to determine the initial price. In a typical IPO, investment banks shopped the potential offer to various clients and, in the process of book building, determined a range for the offer when it started trading. They also often provided support for the issue on the day it started to trade, limiting the downside for shareholders if demand was low. In Spotify's case, the investment banks were only being paid a nominal fee, and Spotify was not raising capital in the offering. The stock simply started trading on the prescribed day. A portfolio manager with a hedge fund that focused on growing technology companies was considering investing in the firm, but faced a challenge: how could she estimate Spotify's value when it started to trade?

Learning Objective: This case has been designed for use in finance courses at both the undergraduate and graduate levels to discuss valuation. It can be used in a variety of places in a course, specifically, to introduce valuation methodologies and the development of financial estimates under various scenarios. Students should be familiar with relative valuation methods such as enterprise value-to-operating profit or earnings before interest, taxes, depreciation, and amortization and discounted cash flow analysis. The discounted cash flow method is briefly described in the case and presented in the teaching note. After completion of this case, students will be able to understand the music streaming industry and Spotify as a key participant;
conduct an assessment of a firm's current strategy and future prospects; and
estimate the market value of a firm given estimates and past financial statements.

Publication Date: April 11, 2018

Discipline: Finance; Entrepreneurship; International Business;

Issues: direct-listing, IPO, valuation, comparables

Industry: Information, Media & Telecommunications;

Setting: Sweden; United States, Large organization, 2018

Difficulty: Undergraduate/MBA

9B17M182

Bayer-Monsanto: The Challenges of a Mega Merger

Wiboon Kittilaksanawong; Gabrielle Gaté

In September 2016, German-based Bayer AG (Bayer) and U.S.-based Monsanto Company (Monsanto) agreed to merge entities to create a global leader in agriculture. The combined entity would benefit from Monsanto's expertise in seeds and traits, and from Bayer's wide range of crop protection products. Bayer would acquire Monsanto for \$128 per share, a high 44 per cent premium in an all-cash transaction. There were issues with the deal, which included antitrust concerns, which could require subsequent divestments, and Monsanto's brand image, owing to its involvement in controversial business operations. Given these issues, would Bayer's diversification into agrochemicals by merging with Monsanto be able to create sufficient synergies and deliver economic benefits to shareholders, while meeting expectations from other stakeholders at different levels?

Learning Objective: This case is intended for senior undergraduate and graduate-level business school students in courses on mergers and acquisitions, corporate finance, competitive strategies, industry analysis, business ethics, and stakeholder management. After completing the case, students should be able to do the following:

Understand the challenges faced by companies diversifying and competing in high-tech consolidated industries that are subject to strong regulatory controls and highly involved with the sustainability of society.

Analyze and give recommendations on how the merger deal during the due diligence phase and the post-merger integration could generate sufficient synergistic benefits for shareholders, while meeting the expectations of other stakeholders at different levels.

Understand the ethical challenges and risks of oligarchy in the seed industry.

Publication Date: December 15, 2017

Discipline: General Management/Strategy; International Business; Finance;

Issues: mergers and acquisitions, industry consolidation, business ethics, stakeholder management, valuation

Industry: Agriculture, Forestry, Fishing and Hunting;

Setting: Germany; United States, Large organization, 2016

Difficulty: Undergraduate/MBA

9B17N021

Square, Inc.: Financing a Unicorn

Mark Simonson

In 2014, mobile payment company Square, Inc., based in San Francisco, California, was one of an increasing number of venture capital financed firms with valuations above US\$1 billion, which had become known as unicorns. By September 2014, the company had raised \$371 million over five rounds of venture capital financing. Since the first funding round had been almost five years previous, it was possible that venture funding investors would be pushing for an exit. The firm considered an acquisition offer and an initial public offering, but it was apparent that neither option would yield its desired \$6 billion exit value. With \$139 million in cash on hand, Square, Inc., was on track to use \$138 million of cash in 2014. It approached venture capital investors for a sixth round of financing. It was then up to the investors to determine if they could agree to suitable terms.

Learning Objective: The case is suitable for core corporate finance courses at the undergraduate and graduate level. It illustrates the venture capital fundraising process and complements a module on raising equity and the initial public offering process. The case is also suitable for courses in entrepreneurship, venture capital, valuation, and mergers and acquisitions. After working through the case and assignment questions, students will be able to do the following:

Explain how venture capital limited partnerships operate and how private equity funds are structured.

Describe how to construct a capitalization table after a round of financing.

Describe common provisions in venture capital term sheets and their effects on shareholder returns.

Summarize the state of the venture capital market in 2014 and the rise of unicorns.

Publication Date: October 16, 2017

Discipline: Finance; Entrepreneurship;

Issues: venture capital, private equity firms, private equity funds, venture capital term sheets

Industry: Finance and Insurance;

Setting: United States, Large organization, 2014

Difficulty: Undergraduate/MBA

9B17N011

Tesla: The SolarCity Acquisition

Zhichuan (Frank) Li; Tomiwa Ademidun

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.

Learning Objective: This case is suitable for undergraduate and MBA courses in finance and strategy. After completion of the case, students will be able to analyze the reasoning required when determining the inputs and assumptions in a discounted cash flow analysis; understand the similarities and differences (e.g., synergies, debt and enterprise value, control premium, and other metrics) between valuing a stock for a minority equity ownership and for the strategic acquisition of an entire company; appreciate the strengths and limitations of using precedent transactions and comparable analysis when valuing young companies that may not yet be profitable; and recognize the signs of good and bad corporate governance by analyzing the management and board structures to ensure that there are no conflicts of interests and that the goals of the board, management, and shareholders are aligned.

Publication Date: July 03, 2017

Discipline: Finance;

Issues: DCF, M&A, mergers and acquisitions, valuation; discounted cash flow

Industry: Manufacturing;

Setting: United States, Large organization, 2016

Difficulty: Undergraduate/MBA

9B17B004

Tesco: From Troubles to Turnaround

Anupam Mehta; Utkarsh Goyal; Sanchit Taneja

In 2016, Tesco PLC, a leading U.K. retail chain, had undergone tremendous financial turmoil. Profitability had been decreasing since 2013 with heavy losses registered during fiscal year (FY) 2014/15. Net profit had decreased by 304 per cent from 2012 to 2015. However, after the appointment of a new chief executive officer in 2014, Tesco managed to register a net profit of £138 million in FY 2015/16: an astonishing turnaround. Evidently, Tesco was recovering from its losses, but the share price of the company had fallen by more than 20 per cent from 2015 to 2016. What course of action would enable Tesco to maintain and improve its value for shareholders? What areas should the chief executive officer focus on in order to change Tesco's financial performance?

Learning Objective: Using this case, students will be able to do the following:

Understand the retail trends in the U.K. supermarket industry

Identify the challenges faced by Tesco

Understand and apply various financial assessment tools and techniques, and conduct a financial ratio analysis

Prepare and review the trend analysis and common size statements to determine the best course of action for Tesco going forward

Publication Date: March 13, 2017

Discipline: Accounting; International Business; Finance;

Issues: financial evaluation, financial analysis, strategic focus, grocery, department stores

Industry: Retail Trade;

Setting: United Kingdom, Large organization, 2016

Difficulty: Undergraduate/MBA

9B17N001

Alibaba's Bonds Dilemma: Location, Timing, and Pricing

Emir Hrnjić

In 2014, Alibaba—the Chinese e-commerce giant who, in September 2014, completed the largest initial public offering (IPO) in New York Stock Exchange (NYSE) history—was preparing itself for an additional round of capital fundraising. This time, Alibaba focused its efforts on a new, large bond issue. Its chief executive officer would lead Alibaba's finance team in meetings with investors in Hong Kong, Singapore, and London to gather information about this pending bond issue.

Although Alibaba was listed on the NYSE, an overwhelming majority of its revenues originated in China. Most U.S.

investors had not heard of Alibaba until just a few months prior to its IPO in September 2014. Also, being a high-tech company, Alibaba was subject to the potential for large swings in valuations typical for the industry. Fluid valuations and matters related to country risk premia meant pricing the bond issue was going to be a challenge. How would Alibaba estimate the bonds' pricing? Further, how should the firm determine the location and timing of the new bond issue?

Learning Objective: This case is designed for an MBA or advanced undergraduate course in corporate finance, dealing with the topic of raising funds by issuing bonds. After completion of this case, students will be able to

assess the complexities related to issuing bonds, especially complexities related to risk, pricing, timing, and location of bonds issue;
understand emerging markets (in particular, China) and bond pricing differences (country risk premia) between China and the United States; and
evaluate the potential effect of certain governance structures (specifically, dual class ownership structures and VIEs).

Publication Date: February 21, 2017

Discipline: Finance; International Business;

Issues: bonds, fund raising, Internet, pricing

Industry: Information, Media & Telecommunications;

Setting: China, Large organization, 2014

Difficulty: Undergraduate/MBA

9B16N010

Magic Timber and Steel: Investment Evaluation with Net Present Value

Scott McCarthy

Magic Timber and Steel (Magic) was formed in Caloundra, a community on Queensland, Australia's Sunshine Coast. Magic's business peaked in terms of sales revenue in about 2011 and went on to experience a steady decrease in turnover that was attributed to a number of causes, including infrastructure issues on the coast and a drop in tourism. Hoping to reinvigorate the business in early 2015, Magic's owner believed his company required an investment in fixed assets — specifically, a large finisher that would increase capacity and reduce maintenance. Because the new machine required a significant financial investment, the owner had to use the net present value method to determine whether the purchase would add value to the firm.

Learning Objective: The case has a number of objectives aimed at enhancing student learning:

It provides a real-world example of a company that must

make a significant investment decision.

It has been designed as a repair-versus-replace decision rather than as a simple investment decision, so students gain an understanding of the practice of making a choice between two alternative investments.

It requires students to think outside the strict net present value analysis and consider qualitative factors that may override the net present value decision.

It requires that students communicate their final decision through a brief report, so it is necessary that they understand what the analysis is telling them.

Publication Date: April 21, 2016

Discipline: Finance;

Issues: Net present value, NPV, investment evaluation

Industry: Retail Trade;

Setting: Australia, Small organization, 2015

Difficulty: MBA/Postgraduate

9B15N028

United Bank of India: Present Fiasco and Future Plans

Debasish Maitra; Pradip Banerjee

In 2013, United Bank of India (UBI), predominantly present in the eastern and northeastern parts of India, faces considerable difficulty in managing its swelling amounts of bad debt. A forensic enquiry by an external agency has identified some serious problems in the bank's credit appraisal process, loan disbursement procedures, and non-performing assets (NPA) detection system. With the bank's year-over-year growth of NPAs surpassing the growth of its credit, the management team faces the urgent task of developing an effective turnaround strategy to bring the bank back into a profit position.

Learning Objective: The case is suitable for senior undergraduate or graduate courses on corporate financial strategy, management of financial institutions/services, and commercial lending and financial structuring. The scope of this case is not restricted to the finance domain alone; it could effectively be used in general management and strategy courses to examine organizational transformation and the strategies behind it. Objectives include the following:

To provide an overview of the general banking industry in India.

To help students understand the operations, management, and ownership structure of the public- and private-sector banks in India.

To illustrate the challenges faced by management in the public-sector banks in dealing with NPL problems.

To evaluate UBI's performance.

To identify the factors contributing to the NPL fiasco at UBI.

To analyze the possible action plans for UBI to resolve its NPL problems.

Publication Date: January 22, 2016
Discipline: Finance; International Business;
Issues: Banking, non-performing assets, performance, capital
Industry: Finance and Insurance;
Setting: India, Large organization, 2013
Difficulty: MBA/Postgraduate

9B15N012

Jaguar Land Rover plc: Bond Valuation

S. Veena Iyer

Jaguar Land Rover Automotive plc, a wholly owned subsidiary of the Indian company Tata Motors Limited, announced bond issue worth US\$500 million. The proceeds of this issue were to be used to refinance costlier outstanding bonds. The company was able to raise new debt at substantially lower interest rates than its outstanding debt as a result of its sustained good performance, which led to strong company fundamentals and improved credit ratings. Students will analyze the various motivations for such a financial strategy, whether it will lead to cost savings or cash flow savings and, if so, the extent of the savings.

Learning Objective: This case can be used in a Corporate Finance core course or in an elective course on Investment Management, Securities Analysis or Securities Valuation in graduate and executive management programs.

Publication Date: July 31, 2015
Discipline: Finance; International Business;
Issues: Refinancing; cost of capital; bond issue
Industry: Manufacturing;
Setting: United Kingdom, Large organization, 2015
Difficulty: MBA/Postgraduate

9B14N018

Flipkart: Valuing a Venture Capital-funded Startup

S. Veena Iyer

The Indian online retail (“e-tailing”) market had seen a flurry of activity. Success stories such as Makemytrip.com and Naukri.com in the travel and job search domains, respectively, were significant catalysts for this new breed of start-ups. Of these start-ups, Flipkart stood out as one of the most successful (and audacious) — more so because of the funding the company managed to secure over a very short period of time as compared to its competitors. The firm was celebrated for its bold stance on growth versus profitability but simultaneously had its share of critics and skeptics. The latest round of venture capital funding had valued Flipkart at US\$1.6 billion, nearly eight times sales. In

less than two years, the firm had attracted nearly \$550 million in venture capital funds and its sales turnover had grown nearly 30-fold. Was Flipkart growing too big too soon? Were these valuations justified?

Learning Objective: To demonstrate alternative techniques for valuing a firm.

To demonstrate the difference between valuing an established, listed company and a start-up.

To introduce the valuation philosophy of venture capital firms.

To help students look at qualitative aspects of a firm and its environment and integrate them into the valuation framework.

Publication Date: September 24, 2014

Discipline: Finance; International Business;
Entrepreneurship;

Issues: Valuation; startup; venture capital; e-commerce; India

Industry: Other Services;

Setting: India, Large organization, 2013

Difficulty: MBA/Postgraduate

9B14N017

Canadian Pacific Ltd: Unlocking Shareholder Value in a Conglomerate

Michael R. King; Michael Zawalsky

In January 2001, the chief executive officer (CEO) of Canadian Pacific Limited (CPL) was contemplating the future of his firm. CPL was one of Canada’s oldest conglomerates with operations in railways, shipping, natural resources and hotels. Its stock market capitalization of CDN\$13.5 billion reflected a conglomerate discount, estimated at 12 to 35 per cent of the value. In order to eliminate this conglomerate discount and maximize shareholder value, the CEO weighed the pros and cons of asset divestitures or spinoffs. Would it make sense to keep some of the related business together to preserve economies of scale and scope and to maintain synergies? What would be the tax implications of each option? There were numerous operational and legal implications to consider. Knowing he had to make a decision quickly, the CEO looked for the option that would unlock the most value for CPL’s shareholders.

Learning Objective: This case can be used in an undergraduate business or MBA program in a variety of contexts including an advanced course on corporate finance, a course on investment banking or a course on valuation. The case provides an introduction to the topic of corporate divestitures and spinoffs. It provides students the opportunity to practise sum-of-the-parts valuation using trading multiples of comparable companies to derive the implied market valuation. This valuation can be contrasted

with the actual price of the company's shares to measure conglomerate discount. The case highlights how financial strategy can add shareholder value to a company through asset restructuring. It also examines how taxes affect corporate decisions.

Publication Date: June 25, 2014

Discipline: Finance;

Issues: Financial strategy; restructuring; valuation; spinoff; Canada

Industry: Other Services;

Setting: Canada, Large organization, 2001

Difficulty: Undergraduate/MBA

9B14N005

Initial Public Offerings

Colette Southam; Craig Dunbar; Jeff Lindquist

This note provides an overview of Initial Public Offerings (IPOs) and addresses the methods used to value companies undergoing an IPO. It begins with a brief introduction to IPOs and the rationale behind going public, followed by an analysis of IPOs from the investor's perspective. Next, the IPO process is outlined and explained, including the underwriter choice, selling procedure, pricing and activities in the aftermarket. Lastly, the note examines the valuation methodology used in the pricing stage of IPOs. This includes the discounted cash flow method, the use of market multiples of comparable firms, as well as other situational considerations when determining the initial price per share range and final offering price.

Learning Objective: To introduce students to IPOs.

To understand the rationale for going public.

To address the IPO process and valuation of a start-up firm.

Publication Date: May 13, 2014

Discipline: Finance; Entrepreneurship;

Issues: Capital raising; initial public offering

Industry: Finance and Insurance;

Setting: 2014

Difficulty: Undergraduate/MBA

9B12N017

Prada: To IPO or Not to IPO: That Is the Question

Stephen Sapp

Prada currently requires a significant amount of capital both to re-finance debt that is maturing in the next six to twelve months and to finance its intended growth into the Asian (especially Chinese) markets. Since financial markets are aware of Prada's pressing need to raise capital, it is important for the board of directors to develop a credible strategy for raising the necessary capital of at least €1 billion. Although the press has been suggesting that Prada will do an initial public offering, the company has tried this several times in the past with no success, mainly because of bad timing (9/11, the SARS outbreak, and the ongoing global financial crisis and European sovereign debt crisis). The board has approached Guido Santini of the investment bank Grupo Capo Milano to come up with a number of credible alternatives and a strategy for raising the needed capital.

Learning Objective: This case is designed to provide students with an opportunity to evaluate some of the wide variety of financing tools available to firms in global financial markets. The case deals with Prada's pressing need to raise a significant amount of capital. Although it is widely speculated that Prada will raise capital through an IPO, the fact that this is not the first time an IPO has been planned leaves the discussion of the pros and cons of the different alternatives open. The case takes the position of investment banker Guido Santini, who is tasked with coming up with multiple alternatives to propose to the board. He cannot just propose one alternative given Prada's past experiences with raising capital, so he needs to rank several alternatives. The case provides ample background on different debt and equity options in Europe, North America, and Asia.

Publication Date: August 17, 2012

Discipline: Finance; International Business;

Issues: International Finance; Capital Raising; IPO, Italy; Hong Kong

Setting: Italy; Hong Kong, Large organization, 2011

Difficulty: Undergraduate/MBA

9B11N004

Valuing Wal-Mart 2010

Stephen R. Foerster; James E. Hatch; Cyrus Zahedi

An equity analyst uses a variety of methods to value Wal-Mart shares with a view to making a buy/sell or hold recommendation for the stock. Her key task is to use an intrinsic value approach to price the shares and to then compare the resulting price with the price at which the stock is traded in the market.

Learning Objective: The case achieves the following objectives:

Discusses the role of, and techniques employed by, equity analysts.

Introduces students to the valuation of a stock using variants of the dividend discount model.

Introduces students to the price-to-earnings (P/E) multiple model.

Illustrates the application of the capital asset pricing model.

Introduces students to the use of a variety of data sources, such as analysts' forecasts, Bloomberg, and Value Line.

Publication Date: April 08, 2011

Discipline: Finance;

Issues: Stock Valuation; Equity Analysts; Price to Earnings; Capital Asset Pricing; Forecasting

Industry: Retail Trade;

Setting: United States, Large organization, 2010

Difficulty: Undergraduate/MBA

9B10N004

Rudy Wong, Investment Advisor

Stephen R. Foerster; Jimmy Rogers

With stock markets in major decline, Rudy Wong, an investment advisor for a wealth management firm had to decide how best to reassure each of his clients in upcoming meetings: by communicating logical arguments based on his portfolio management expertise and analysis, or by managing emotions and attempting to re-establish his clients' faith in the markets. He also needed to re-examine the investment strategy he had developed for each client and recommend that they either stay the course with current strategies or make changes. The case allows for a rich discussion of the role of investment advisors, the importance of asset allocation, active versus passive management, investment goal setting, the global financial crisis of 2007-2009, and application of behavioral finance issues such as biases, reliance on heuristics, and framing.

Publication Date: January 15, 2010

Discipline: Finance;

Issues: Investments; Financial Crisis; Stock Market; Personal

Financial Planning

Industry: Finance and Insurance;

Setting: Canada, Medium organization, 2009

Difficulty: Undergraduate/MBA

9B00N022

Lufthansa: To Hedge or Not to Hedge . . .

Stephen Sapp

Lufthansa, the flagship German airline, was undertaking an aggressive expansion program. The chairman of the board had negotiated a deal with Boeing for the purchase of 20 new aircraft at a cost of US\$500 million. The U.S. dollar was at historic highs and he had to decide how much, if any, of the US\$500 million purchase price to hedge and best method to use. Since Lufthansa's revenues were mainly in deutsche marks and this amount was payable in one year, he needed to determine how to deal with the resulting foreign exchange risk by examining principle foreign exchange hedging strategies. Covenants restricting Lufthansa to take on new debt made it critical that he be sure of the financing and risk exposure before finalizing the deal.

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