SPECIAL TOPICS IN FINANCE

Course ID: Finance B493-051  
Course Credit Hours: 3.0  
Class Time: Wednesdays, 6:20 p.m. – 9:05 p.m., Miller Hall 112

V.M. Wheeler  
(w) 569-1667  
(h) 833-9942  
email – vmw3rd@aol.com

Text:

Harvard Business School Cases (See List Below)

Course Description:  Uses case approach for developing financial decision-making skills in a wide variety of situations. Includes cases on venture capital, mergers & acquisitions, capital markets, project finance, valuation, risk arbitrage, real estate investment and real estate finance.

Grading:  Case discussions, lectures, written case analyses, and guest speakers. Class grade will be based on your contribution to class discussion, class attendance and written case analyses. Approximately half of class grade will be based upon your class discussion contribution and class attendance.

Cox Communications, Inc. – 1999

Publication Date:  Aug 22, 2000  
Revision Date:  Aug 8, 2003  
Author(s):  George Chacko, Peter Tufano  
Product Number:  9-201-003

Covers the decision of how much external financing a firm needs and what securities the firm should issue to raise this financing. Cox Communications is a major player in the cable industry, which is consolidating due to technological changes/capabilities brought about by the Internet. The corporate treasury of Cox Communications needs to decide how much external financing is necessary to finance a series of intra-industry acquisitions that Cox has recently undertaken.
The choices are plain-vanilla equity, debt, asset sales, and a new equity-linked derivative known as FELINE PRIDES, offered by Merrill Lynch. The treasurer and his team must make this decision facing the usual market constraints. There are also some special constraints including the need to maintain financial flexibility for further acquisitions and the need to limit the dilution of Cox's largest shareholder, who owns nearly 70% of the firm. Teaching Purpose: How to make long- and short-term financing decisions, taking into account specific business conditions and risk.

Car Wash Partners, Inc.

Publication Date: Feb 1, 1999
Author(s): Paul A. Gompers
Product Number: 9-299-034

Examines the investment decision of Cabot Brown and Bill Burgin, two venture capitalists, to finance Car Wash Partners (CWP). CWP intends to purchase automatic car washes around the country. Investment strategy and deal structuring are discussed.

BioTransplant, Inc.: Initial Public Offering, January 1996

Publication Date: Mar 24, 1997
Author(s): Paul A. Gompers, Alexander Tsai
Product Number: 9-297-095

Examines the decision to go public. BioTransplant is an early stage biotechnology company that must decide how to finance its research and development. The pros and cons of public offerings are analyzed versus alternative financing sources.

Service Corp. International

Publication Date: Mar 18, 1996
Revision Date: Jul 24, 1996
Author(s): Benjamin C. Esty, Craig F. Schreiber
Product Number: 9-296-080

The CFO of a high-growth company in the low-growth and fragmented funeral services industry must decide how to optimize capital structure and earnings growth while maximizing the company's market value. Teaching Purpose:
Provides an example of value creation through growth and industry consolidation, but asks students to question when and how growth adds value.

Health Development Corp.

Publication Date: May 4, 2000
Revision Date: Jan 9, 2003
Author(s): Richard S. Ruback
Product Number: 9-200-049

Health Development Corp. (HDC) owns and operates health clubs in the Greater Boston Area. HDC engaged a local investment banker to explore a sale of the company. The most likely buyer views HDC’s prior purchase of real estate as a negative. HDC’s management is convinced the purchase enhanced value, and a discounted cash flow analysis confirms that it was a substantially positive net present value decision. Nevertheless, the real estate reduces the valuation according to the approach used by the potential buyer. The challenge is to structure a transaction that allows HDC to realize its full value. Teaching Purpose: Shows the relation between discounted cash flow techniques and multiples.

A-Rod: Signing the Best Player in Baseball

Publication Date: Sep 23, 2002
Revision Date: Jan 27, 2003
Author(s): Randolph B. Cohen, Jason Wallace
Product Number: 9-203-047

Analyzes a large investment decision considered by the Texas Rangers in 2000: whether to spend $252 million for the services of shortstop Alex Rodriguez. The signing was probably the most controversial sports contract of the past decade. Teaching Purpose: 1) To teach students to evaluate a complex investment decision—the signing of the largest player contract in baseball history (was $252 million too high a price to pay?)—as well as to look at regression analysis, complex conditional cash flows, and discounting; and 2) to consider the difference between correlation and causation, the nature of insurance, and the long-run benefits of brand improvement.
The American Dream

Publication Date: Nov 9, 1989  
Revision Date: Nov 26, 2002  
Author(s): William J. Poorvu, Donald A. Brown, Richard E. Crum  
Product Number: 9-390-089

Explores the process of purchasing a single family house through the eyes of a young couple. The couple is trying to determine what type of home to buy as well as how to finance it.

Revere Street

Publication Date: Nov 10, 1999  
Revision Date: Dec 4, 2003  
Author(s): William J. Poorvu, Arthur I. Segel  
Product Number: 9-800-147

Although inexperienced in real estate, Edward Alexander hopes in June 1999 that youthful enthusiasm and an $80,000 inheritance will help him enter the real estate business. His experience chronicles the process of finding, evaluating, and acquiring a four-unit brownstone in need of renovation in the Beacon Hill area of Boston. The case also identifies the various players in the process.

503 Cricket Road

Publication Date: Aug 29, 1995  
Revision Date: Dec 5, 2003  
Author(s): William J. Poorvu, Donald A. Brown  
Product Number: 9-396-001

In September 2003, Mason Sexton, a young, inexperienced developer, was making plans to replace a rooming house he had inherited next to the University of Virginia campus in Charlottesville with a new 14-unit, 5-story apartment house. His attempts to assemble the information, approvals, and resources necessary to go ahead point up the steps and risks inherent in the development process. Using the example of a small-scale residential project, this case illustrates development
lessons applicable to projects of any scale. Teaching Purpose: Traces the development process from the precommitment to the construction phase on a small scale. Serves as an excellent introduction to the real estate development process.

SouthPark IV

Publication Date: Apr 25, 1990  Revision Date: Dec 6, 1995  Author(s): William J. Poorvu, Richard E. Crum  Product Number: 9-390-181

A young entrepreneur examines an 80,000 square foot office/warehouse building as a potential acquisition. The building is currently fully leased but all four leases will expire shortly. Due to changing market conditions, the protagonist has to look at current market conditions as well as trying to estimate future conditions in order to complete his analysis. The case is designed to explore basic issues in real estate valuations. The emphasis is on developing a simple set-up based on the project's cash flows and then examining how returns and values are affected by changing certain assumptions.

Bourland Companies

Publication Date: Feb 14, 1995  Revision Date: Sep 13, 1995  Author(s): William J. Poorvu, John H. Vogel Jr.  Product Number: 9-395-151

Michael Bourland, the president of the Bourland Companies, needs to refinance two properties, an office building in Southern New Hampshire and a retail property in Massachusetts. He is considering three alternatives: a renewal of a bank mini-perm, a 15-year mortgage from an insurance company, and a new securitized loan offered by the Bank of Boston. The case focuses on issues related to mortgage securitization and how it stacks up against other products in the market. Also raises issues about family real estate businesses. Teaching Purpose: Mortgage securitization is a growing and important part of the real estate industry. This case provides a basis for learning about securitization and discussing the implications for the real estate industry.
Jonathan Potter is considering an investment in the newly formed McArthur/Glen Real Estate Investment Trust. The case gives some background on real estate investment trusts and their history. Also discusses manufacturers' outlet shopping centers, which is the type of real estate that McArthur/Glen Realty owns and develops. Teaching Purpose: To look at real estate investment trusts (REITs) from the point of view of the sponsor and the investor. The REIT industry is experiencing explosive growth and it is important to assess its role and viability both as part of the real estate industry and as part of the overall market for public securities.

Financing PPL Corp.'s Growth Strategy

PPL Corp., an electric utility in Pennsylvania, needs to finance $1 billion of peaking plants as part of its new growth strategy. In February 2001, Steve May, director of finance for PPL's Global Division, is responsible for recommending a finance plan. After considering all the options, May decides that a synthetic lease is the best option, but he must decide whether to recommend a traditional or a limited recourse synthetic lease and how to structure the specific terms. The limited synthetic lease, in contrast to the traditional structure, requires a smaller corporate guarantee on the assets and has greater off-credit treatment, which is important given the company's growth strategy and limited debt capacity. However, finding investors willing to accept greater project risk will cost more and take more time. The timing is an issue for May because he only has two months to close the financing or else PPL will lose a valuable option to buy turbines for its peaking plants. Failure to exercise the option could delay the company's construction schedule, something PPL wants to avoid given the nationwide race to build new generating plants. Teaching Purpose: 1) Shows how corporate financial managers today must be familiar with and ready to use a wide
range of financing techniques, including corporate finance (bank loans and corporate bonds), project finance, asset securitization, and leasing; 2) describes various leasing structures (operating leases, capital leases, leveraged leases, and synthetic leases) and the motivations for using them; and 3) explores the advantages and disadvantages of two kinds of synthetic leases--the traditional and the limited recourse--and asks students to select the more appropriate one given PPL's high-growth strategy.

**Risk Arbitrage: Abbott Labs and Alza (A)**

**Publication Date:** Mar 28, 2003  
**Revision Date:** Jun 19, 2003  
**Author(s):** George Chacko, Randolph B. Cohen, Andrew Kuhlman, Marc Chennault  
**Product Number:** 9-203-003

A hedge fund is trying to decide whether to capitalize on a seeming risk arbitrage opportunity that exists during the Abbott Labs acquisition of ALZA.