Richard Ivey School of Business
The University of Western Ontario
Executive MBA - Videoconference

2000
Fourth Quarter

Course Information Sheet

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A. COURSE GRADING SCHEME

The components of the overall course grade and the weighting of each component are as follows:

- Participation: 15 %
- Group Exercises (three; assignments from textbook for classes 4, 5 and 6): 15 %
- Group Case Report (regularly scheduled case, ED TEL, class 4): 30 %
- Individual Final Exam (case): 40 %

B. CLASSROOM CONTRIBUTION

The daily classroom discussion represents a unique opportunity for you to develop and enhance your confidence and skill in articulating a personal position, reacting “on the spot” to new ideas and receiving and providing critical feedback from a group of assertive and demanding colleagues. This is an opportunity that I would encourage all of you to seize.

The grade I assign for your classroom contribution is a careful, subjective (on my part) assessment of the value of your input to the classroom learning. That contribution can take many forms including a good assessment of the problem, identification of imaginative yet realistic alternative solutions to the problem, a carefully thought out analysis of the alternatives or an effective strategy for implementation of the alternative chosen. A contribution can also be achieved through a level of questioning that causes the class to rethink its analysis and position. Emphasis will be placed on the quality of contribution as opposed to quantity and frequency.

C. FINAL EXAM

The final examination will be a take-home, based on a case. It will be an open book exam, but individual case analysis and write-up is required.

D. CASE REPORT

This will be a group report, with normally no more than five persons per group. The purpose is to provide an opportunity to do a comprehensive and detailed preparation, in advance of the class, on a case, which will be subsequently taken up in the class. The particular case to be used will be designated by the instructor.

E. TEXTBOOK


F. ASSIGNMENT SHEETS
1. **Topic:** Risk Assessment and Cost of Capital  
   **Case:** The Gillette Company’s Acquisition of Duracell International Inc. - Cost of Capital  
   **Readings:** 1. VH, Chapters 3, 4 and 8.  
   **Questions:**  
   1. In principle, which entity’s cost of capital is relevant? Why?  
   2. Has Duracell’s risk profile changed over the period 1988 to 1996? Historical versus future? Implications for risk measurement?  
   3. What industry is Duracell in?  
   4. What is your estimate of Duracell’s cost of capital as of September 15, 1996? Note, assume that Gillette’s target capital structure does not include preferred stock (vehicle for ESOP).

2. **Topic:** Long-term Financing Decision; Bought Deals, Special Warrants and Notes; Financial Flexibility  
   **Case:** Ventra Group Inc. - Peerless-Cascade  
   **Readings:** 1. VH, Chapters 2 and 6.  
   **Questions:**  
   1. Why does Ventra Group Inc. want to acquire Peerless Cascade? Why are the owners of Peerless Cascade willing to sell?  
   2. What valuation methods can be used? What are the advantages and disadvantages of each method?  
   3. Is the asking price of $26 million reasonable? Are exchange rate changes a significant concern?  
   4. Which financing alternative should Ventra use? What should the remaining terms be? If any?
Strategic Financial Planning - Session 2
Robert White
Sunday, January 16, 2000

1. **Topic:** Long-term Financing Decision; Bought Deals, Special Warrants and Notes; Financial Flexibility  
   **Case:** Ventra Group Inc. - Peerless-Cascade  
   **Readings:**  
   1. VH, Chapter 9  
   2. Canadian Listing of Securities.  
   **Questions:**

   For the purposes of this class assume that Ventra has decided to purchase Peerless-Cascade.

   1. Why does Ventra Group Inc. want to acquire Peerless Cascade? Why are the owners of Peerless Cascade willing to sell?  
   2. What valuation methods can be used? What are the advantages and disadvantages of each method?  
   3. Is the asking price of $26 million reasonable? Are exchange rate changes a significant concern?  
   4. Which financing alternative should Ventra use? What should the remaining terms be? If any?

2. **Topic:** Restructuring - Pure Play  
   **Case:** HealthVISION Corporation  
   **Readings:** 1. VH, Chapter 23.  
   **Spreadsheet:** 1. health.xls  
   **Questions:**  
   1. Should Biomira sell its 75% interest in HealthVISION? If so, why?  
   2. Assume Biomira should sell its interest in HealthVISION. How should Biomira accomplish this divestment?  
   3. What are the likely proceeds to Biomira from such a divestment?
1. **Topic:** Emerging Markets  
   **Case:** ICN Pharmaceuticals Inc.  
   **Readings:**  
   **Questions:**  
   1. Why has ICN acquired firms in Eastern Europe? Does Polfa Rzeszow fit the objectives of the strategy?  
   2. Is the previous bid of US$29 million “low?”  
   3. As Teodor Olic, how would you respond to the Polish Government’s request to submit a revised bid for Polfa Rzeszow?  

2. **Topic:** Issuing Securities, Organization and Structure of Markets  
   **Case:** The Oralife Group, Inc.  
   **Readings:**  
   1. Canadian Listing of Securities  
   2. VH, Chapters 18.  
   **Questions:**  
   1. What is the role/function of an investment dealer (U.S. terminology investment banker)?  
   2. Examine IPO time line in Exhibit 1 and the letter of engagement in Exhibit 2. What do the following mean/purpose: underwriting; due diligence; private placement; red herring; road show; Rule 144A; primary offering; secondary offering; broker warrant; over-allotment?  
   3. As an institutional investor what price are you willing to offer per common share and for what order size (number of shares)?  
   4. As Denny what price per common share to the public would you recommend for the final prospectus?
Strategic Financial Planning - Session 4
Robert White
Friday, February 11, 2000

1. Topic: Initial public offerings; Creating Price Tension; Techniques for Valuing New and Emerging Businesses; Sum-of-parts Valuation
   Case: Edmonton Telephones Corporation
   Spreadsheet: 1. edtel.xls
   Readings: 
   Questions: 1. Why was Scott so enthusiastic about the directive?
               2. What is your estimate of ED TEL’s 1994 book equity?
               3. What was the market value of ED TEL?
               4. As Mr. Scott what would you recommend?

2. Topic: Introduction to Option Pricing
   Lecture: ldbops.ppt
   Software: 1. Windows Option Pricing Software, WinOPA
   Readings: 1. VH, Chapters 5.
   Exercise: 1. VH, pages 124-5 ; Problems 1, 2, 3, 7 and 9.
1. **Topic:** Security Design - High Yield Debt Market
   
   **Case:** Nesbitt Thomson Deacon Inc. - The Sceptre Resources Debenture
   
   **Readings:**
   1. VH, Chapter 20
   
   **Questions:**
   1. Perform a credit analysis on Sceptre. Would you invest in this issue?
   2. What is the significance of a lack of covenants?
   3. How would you determine the yield on the issue?
   4. What yield would the market require on the issue?
   5. As David Gluskin, would you bid on the issue?
   6. What bid would you recommend?

2. **Topic:** Interest Rates
   
   **Lecture:** Idintrates.ppt
   
   **Readings:**
   1. VH, Chapter 16.
   
   **Exercise:**
   1. VH, pages 464; Problems 5, 6, 7 and 8.
1. **Topic:** Complex Securities in a Multi-jurisdictional Setting  
   **Case:** Rogers Communications Inc.  
   **Readings:** 1. VH, Chapter 20.  
   **Questions:** 1. What is Rogers Communications Inc.’s business risk? Given that Rogers is regulated by DOC and CRTC, is there any upside potential for Rogers’ share price?  
      2. Is Rogers’ credit investment grade? What is the appropriate measure to determine Rogers’ ability to service its debt?  
      3. What is Rogers’ tax status and what implications does this have on its preferred method of financing?  
      4. What is your assessment of Rogers? What is the assessment of the Canadian financial markets?  
      5. What are the attributes/features of a LYON? What primitive securities can be used to describe a LYON?  
      6. As Graham Savage, what recommendation would you make? Why?

2. **Topic:** Introduction to Hedging and Hedging Products  
   **Lecture:** ldhedgederv.ppt  
   **Readings:** 1. VH, Chapters 21.  
   **Exercise:** 1. VH, pages 583; Problems 1, 4, 5 and 9.
Strategic Financial Planning - Session 7
Robert White
Thursday, April 6, 2000

1. Topic: High yield/junk debt; Foreign exchange; Forwards, SWAPs; Hedging strategy
Case: Vidéotron Ltée
Readings: 1. VH, Chapters 19 and 24.
Spreadsheet: 1. videotron.xls
Questions: 1. How does a financial institution create a foreign exchange forward contract?
2. Given the relative interest rates why would Vidéotron ever borrow in its domestic market?
3. What are Vidéotron’s FX exposures?
4. What are Vidéotron’s alternatives to hedge its risks?
5. What alternative would you recommend? Why?

2. Topic: Structured financing; Targeting a deal; Commodity SWAPS
Case: Citibank Canada Ltd. – Monetization of Future Oil Production
Readings: 1. VH, Chapters 15 and 21.
Questions: 1. Why does Petrolia want to monetize oil production? Why oil?
2. What is the primary risk in managing the special purpose trust (SPT)? How can this be managed?
3. What are the benefits of monetization to Petrolia?
4. What are the major risks in the structure?
5. Who would you target to place the paper with? Would you adjust the structure?
6. What are the benefits of the deal over a straight loan?
1. Topic: Financial Restructuring  
   Case: PPL Forest Products Inc.  
   Readings: 1. VH, Chapter 10  
   Spreadsheet: 1. ppl.xls  
   Questions: 1. What are the primary factors generating PPL’s business risk?  
               2. What are the funding requirements?  
               3. What debt policy would you recommend?  
               4. How would you structure the financing?  

2. Topic: Comprehensive Case: Bankruptcy, Reorganization, Capital Structure, Valuation  
   Case: Cadillac Fairview Inc.  
   Readings: 1. VH, Chapters 9 and 21.  
   Spreadsheet: 1. cadillac.xls  
   Questions: 1. Is Cadillac Fairview a viable company?  
               2. What is the bargaining position of each of the stakeholders?  
               3. What trade-offs are possible to reach a deal?  
               4. What strategy would you recommend?
1. **Topic:** Signalling; Debt Policy; Reorganization  
   **Case:** Four Seasons Hotels and Resorts Inc.  
   **Readings:** 1. VH, Chapter 16.  
   **Questions:**  
   1. Characterize Four Seasons’ positioning relative to Doubletree, Renaissance and Marriott; prospects, bond rating, etc.  
   2. As of January 2, 1997, what are Four Seasons’ near term funding requirements?  
   3. What advantages do the financial markets outside Canada offer Four Seasons? Do the alternatives present any disadvantages?  
   4. What are the critical factors in selecting an investment banker to complete an offering(s) for Four Seasons in January 1997?  
   5. Evaluate the financing alternatives facing Four Seasons in 1997 with respect to shareholder value and future ability to raise funds?  
   6. As Doug Ludwig what proposal would you put forward to Four Seasons’ Board of directors?  

2. **Topic:** Signalling; Dividend Policy; Share Buybacks  
   **Case:** Torstar Corporation  
   **Readings:** 1. VH, Chapter 11.  
   **Questions:**  
   1. Why do firms pay dividends? What is dividend policy? Are dividends irrelevant?  
   2. What is the logic underlying the conjectures that information is conveyed, i.e., signalling via dividend policy, share repurchases and stock splits? Evidence?  
   3. As a Torstar shareholder would you prefer regular dividends, special dividends or irregular share repurchases as a means of gaining a return on your investment?  
   4. As Robert Steacy, what recommendation would you make?
1. **Topic:** Mergers and Acquisitions; Creating price tension; Internal/External Audit  
   **Case:** Sun Media Corporation  
   **Readings:** 1. VH, Chapter 22.  
   **Questions:** 1. Why was Sun Media in play? Implications for enhancement of shareholder value?  
                     2. What was Sun Media’s core business? Implications?  
                     3. Is there potential to create price tension? If so, how?  
                     4. As a member of the CIBC World Markets’ team, what course of action would you recommend?

2. **Topic:** Mergers and Acquisitions; Income Trusts; Securitization; Preventing price Tension; Exit strategy  
   **Case:** BC Sugar Refinery, Limited  
   **Readings:** 1. VH, Chapter 8.  
   **Questions:** 1. What would be the benefits and drawbacks of the deal to a strategic investor? To a financial investor?  
                     2. How much is BC Sugar worth to Onex?  
                     3. With what strategy would you as Seth Mersky and Onex approach the current situation?
1. Topic: Comprehensive Deal, External Audit; M&A and Creating Price Tension
   Case: CIBC Wood Gundy Corporation – John Labatt Limited
   Readings: 1. VH, Chapter 22.
   Questions:
   1. What are the ramifications of John Labatt’s portfolio of operations?
   2. What strategy would you recommend, to the current shareholders, to divest of John Labatt in order to maximize their wealth?
   3. How would you approach valuing John Labatt?
   4. What would be the key aspect of your presentation to a perspective client as to why purchase John Labatt?

2. Topic: Comprehensive Deal; Determining the Terms of a Merger/Acquisition
   Case: Rogers Communications Inc. – Maclean Hunter Limited
   Readings: 1. Canadian Merger and Acquisition Regulation
            2. VH, Chapter 22.
   Questions:
   1. If you were Ted Rogers, would you try to gain control of MHL in February 1994?
   2. What is the maximum price that RCI can afford to pay for MHL and still keep the acquisition attractive from the standpoint of RCI?
   3. What are the concerns and what is the bargaining position of each “player.” What must RCI offer each player in order to acquire their support?
   4. On the assumption that RCI management wants to acquire all the shares of MHL, what offer must RCI management make? What strategy would you propose?
   5. What would you recommend that the management of RCI do?