



FINANCIAL MANAGEMENT & POLICY

TWELFTH EDITION

▶ JAMES C. VAN HORNE

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To My Family

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Preface

This edition remains dedicated to showing how a rich body of financial theory can be applied to corporate decision making, whether it be strategic, analytical, or simply the routine decisions a financial manager faces everyday. The landscape of finance has changed a good deal since the last edition, and in this edition I try to capture the changing environment. In this regard, it is useful to review the important changes.

One change you will note is the inclusion of a number of sidebars in the margins of chapters. These sidebars define important terms as well as give alternative explanations and embellishment. Nine new boxed presentations appear, mostly of an international nature, which add practical interest to various aspects of corporate finance. Three new cases are in this edition, and an existing case has been revised. In total there now are eight cases, covering major issues in financial analysis, valuation, and financing. Extensive references to the literature, many of which are new, appear at the end of each chapter.

By chapter, the important changes follow. In Chapter 1, a new vignette on Gillette appears, as do quotes on what companies say about their corporate objectives. The chapter has been streamlined. In Chapter 3, efficient markets are better explained. An improved treatment of the tax effect appears in Chapter 4, "Multivariable and Factor Valuation." In Chapter 6, the use of EBITDA in analyzing an acquisition candidate is presented. A number of changes appear in Chapters 8 and 9, which deal with required rates of return and capital structure. Such things as market value added, adjusting costs of capital, and the discipline of the capital markets on management appear. In Chapter 10, the EBIT/EPS breakeven analysis section has been redone.

Chapter 11, "Dividends and Share Repurchase: Theory and Practice," has been substantially revised. There is a new and extended treatment of share repurchase and its important and changing effect. The review of empirical evidence is largely redone, and there is an extended treatment of the managerial implications for dividends and share repurchase. Chapters 12 and 13, "Financial Ratio Analysis" and "Financial Planning," have been moved from the back of the book to precede chapters on working capital management and financing. Chapter 14 contains

a new discussion of electronic funds transfers, and Chapter 15 has new sections dealing with credit scoring, outsourcing credit and collection procedures, and B2B exchanges for acquiring inventories in the overall management of the supply chain.

Chapter 16, "Liability Management and Short/Medium-Term Financing," consolidates and streamlines two previous chapters. In addition, there is new discussion of loan pricing. In Chapter 17, the section on inflation and interest rates has been redone. The tax treatment of lease financing has been changed in Chapter 18 to reflect the current situation. Also in this chapter, the lease versus buy/borrow example is completely redone. Finally, there is more emphasis on how changing tax rates and residual values affect the relative value of a lease contract. In Chapter 19, "Issuing Securities," there is a new section on SEC registration procedures and an entirely new treatment of venture capital and its role in financing the new enterprise.

The high-yield debt section in Chapter 20 has been extensively revised, in keeping with changing conditions. The bond refunding example in this chapter has been changed, and there is a revised treatment of private placements. Finally, there is a new section on the tax treatment of preferred-stock dividends and on tax-deductible preferred stock. Chapter 21, "Hybrid Financing through Equity-Linked Securities," is importantly changed. A major new section on more exotic securities used in corporate finance has been written, which includes PERCS, DECS, CEPPS, YEELDS, LYONs, and CEPS. In addition, the growth option as it relates to the value of a convertible security is explored, and there is a crisper treatment of the option value of the stock component. Chapter 22 contains an important new section on credit derivatives. Also in this chapter, the interest-rate swap example has been changed, and there is additional discussion of replacement risk.

The last three chapters of the book have been extensively revised as well. In Chapter 23, "Mergers and the Market for Corporate Control," new sections appear on control premiums and on valuation analyses to determine the worth of a prospective acquisition. There is a new treatment of anti-takeover amendments, with particular attention to the poison pill. Many new empirical studies on acquisitions are explored. In Chapter 24, the sections on spin-offs and on equity carve-outs have been largely rewritten. Also in this chapter, many changes have been made to the section on leveraged buyouts. With respect to distress restructuring, there is a new section on the role played by "vulture" capitalists. The last chapter of the book, "International Financial Management," has a new section on economic exposure to unexpected currency movements and how to analyze the direction and magnitude of the effect. There is a new treatment of currency forward and futures contracts. A new example of interest-rate parity and covered interest arbitrage appear in this chapter as well.

Although these are the important changes, all materials have been updated and there are a number of minor changes in presentation. Collectively, these should make the book more readable and interesting.

ANCILLARY MATERIALS

A number of materials supplement the main text. For the student, select end-of-chapter problems are set up in Excel format and are available from the Prentice Hall Web site: www.prenhall.com/financecenter. These problems are denoted by the computer symbol. In addition, each chapter, save for the first, contains self-cor-

rection problems. In a handful of chapters, reference is made to FinCoach exercises. This math practice software program is available for viewing and purchase at the PH Web site: www.prenhall.com/financecenter. A new Power Point feature will be available off the PH Web site. The presentation has been credited by Richard Gendreau, Bemidji State University, and can be accessed under student Resources. At the end of each chapter, I make reference to John Wachowicz's wonderful Web site: www.prenhall.com/wachowicz. He is a co-author of mine for another text, and his constantly revised site provides links to hundreds of financial management Web sites, grouped according to major subject areas. Extensive references to other literature also appear at the end of each chapter. Finally, Craig Holden, Indiana University, provides students with instructions for building financial models through his Spreadsheet Modeling book and CD series. Spreadsheet Modeling comes as a book and a browser-accessed CD-ROM that teaches students how to build financial models in Excel. This saleable product will be shrink-wrapped with the text or available on its own.

For the instructor, there is a comprehensive Instructor's Manual, which contains suggestions for organizing the course, solutions to all the problems that appear at the end of the chapters, and teaching notes for the cases. Also available in the Instructor's Manual are transparency masters of most of the figures in the text (these also are available through the aforementioned Prentice Hall Web site). Solutions to the Excel problems in the text are available on the Prentice Hall Web site under Instructor Resources. These Excel problems and solutions have been updated by Marbury Fagan, University of Richmond. Another aid is a Test-Item File of extensive questions and problems. This is available in both hard copy and custom computerized test bank format, revised by Sharon H. Garrison, University of Arizona, through your Prentice Hall sales representative.

The finance area is constantly changing. It is both stimulating and far reaching. I hope that *Financial Management and Policy*, 12th edition, imparts some of this excitement and contributes to a better understanding of corporate finance. If so, I will regard the book as successful.

JAMES C. VAN HORNE
Palo Alto, California

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Brief Contents

PART I

FOUNDATIONS OF FINANCE 1

- Vignette: Problems at Gillette 1

CHAPTER 1 *Goals and Functions of Finance* 3

CHAPTER 2 *Concepts in Valuation* 11

CHAPTER 3 *Market Risk and Returns* 49

CHAPTER 4 *Multivariable and Factor Valuation* 85

CHAPTER 5 *Option Valuation* 103

PART II

INVESTMENT IN ASSETS AND REQUIRED RETURNS 129

- Case: Fazio Pump Corporation 129

CHAPTER 6 *Principles of Capital Investment* 133

CHAPTER 7 *Risk and Real Options in Capital Budgeting* 165

CHAPTER 8 *Creating Value through Required Returns* 199

- Case: National Foods Corporation 241

PART III

FINANCING AND DIVIDEND POLICIES 249

- Case: Restructuring the Capital Structure at Marriott 249

CHAPTER 9 *Theory of Capital Structure* 253

CHAPTER 10 *Making Capital Structure Decisions* 289

CHAPTER 11 *Dividend and Share Repurchase: Theory and Practice* 309

PART IV

TOOLS OF FINANCIAL ANALYSIS AND CONTROL 343

- Case: Morley Industries, Inc. 343

CHAPTER 12 *Financial Ratio Analysis* 349

- Case: Financial Ratios and Industries 383

CHAPTER 13 *Financial Planning* 387

PART V

LIQUIDITY AND WORKING CAPITAL MANAGEMENT 421

- Case: Caceres Semilla S.A. de C.V. 421

CHAPTER 14 *Liquidity, Cash, and Marketable Securities* 429

CHAPTER 15 *Management of Accounts Receivable and Inventories* 449

CHAPTER 16 *Liability Management and Short/Medium-Term Financing* 483

Part VI

CAPITAL MARKET FINANCING AND RISK MANAGEMENT 521

- Case: Dougall & Gilligan Global Agency 521

CHAPTER 17 *Foundations for Longer-Term Financing* 529

CHAPTER 18 *Lease Financing* 543

CHAPTER 19 *Issuing Securities* 565

CHAPTER 20 *Fixed-Income Financing and Pension Liability* 589

CHAPTER 21 *Hybrid Financing through Equity-Linked Securities* 615

CHAPTER 22 *Managing Financial Risk* 645

PART VII

EXPANSION AND CONTRACTION 673

- Case: Rayovac Corporation 673

CHAPTER 23 *Mergers and the Market for Corporate Control* 687

CHAPTER 24 *Corporate and Distress Restructuring* 719

CHAPTER 25 *International Financial Management* 747

APPENDIX: *Present-Value Tables and Normal Probability Distribution Table* 787

Contents

Preface xix

PART I

FOUNDATIONS OF FINANCE 1

■ Vignette: Problems at Gillette 1

1 *Goals and Functions of Finance* 3

Creation of Value 3
Investment Decision 6
Financing Decision 7
Dividend/Share Repurchase Decision 7
Bringing It All Together 8
Questions 8
Selected References 9

2 *Concepts in Valuation* 11

The Time Value of Money 11
Present Values 16
Internal Rate of Return or Yield 21
Bond Returns 23
Return from a Stock Investment 27
Dividend Discount Models 30
Measuring Risk: Standard Deviation 37
Summary 39
Self-Correction Problems 41
Problems 42
Solutions to Self-Correction Problems 45
Selected References 48

3 *Market Risk and Returns* 49

- Efficient Financial Markets 49
- Security Portfolios 51
- Multiple Security Portfolio Analysis and Selection 57
- Capital Asset Pricing Model 62
- Expected Return for Individual Security 68
- Certain Issues with the CAPM 72
- Summary 75
- Self-Correction Problems 76
- Problems 77
- Solutions to Self-Correction Problems 81
- Selected References 82

4 *Multivariable and Factor Valuation* 85

- Extended CAPM 85
- Factor Models in General 90
- Arbitrage Pricing Theory 93
- Summary 96
- Self-Correction Problems 97
- Problems 98
- Solutions to Self-Correction Problems 100
- Selected References 100

5 *Option Valuation* 103

- Expiration Date Value of an Option 103
- Valuation with One Period to Expiration:
 - General Consideration 104
- Binomial Option Pricing of a Hedged Position 109
- The Black–Scholes Option Model 112
- American Options 118
- Debt and Other Options 121
- Summary 121
- Appendix: Put–Call Parity 122
- Self-Correction Problems 123
- Problems 124
- Solutions to Self-Correction Problems 126
- Selected References 128

PART II

INVESTMENT IN ASSETS AND REQUIRED RETURNS 129

- Case: Fazio Pump Corporation 129

6 *Principles of Capital Investment* 133

- Administrative Framework 133
- Methods for Evaluation 138
- NPV versus IRR 143

Depreciation and Other Refinements in Cash-Flow Information	146
What Happens When Capital Is Rationed?	148
Inflation and Capital Budgeting	150
Information to Analyze an Acquisition	152
Summary	154
Appendix: Multiple Internal Rates of Return	155
Self-Correction Problems	157
Problems	158
Solutions to Self-Correction Problems	161
Selected References	163

7 Risk and Real Options in Capital Budgeting 165

Quantifying Risk and its Appraisal	165
Total Risk for Multiple Investments	174
Real Options in Capital Investments	177
Summary	188
Self-Correction Problems	188
Problems	190
Solutions to Self-Correction Problems	195
Selected References	197

8 Creating Value through Required Returns 199

Foundations of Value Creation	199
Required Market-Based Return for a Single Project	202
Modification for Leverage	206
Weighted Average Required Return	208
Adjusted Present Value	214
Divisional Required Returns	217
Company's Overall Cost of Capital	221
Diversification of Assets and Total Risk Analysis	223
Evaluation of Acquisitions	227
Summary	229
Self-Correction Problems	230
Problems	232
Solutions to Self-Correction Problems	237
Selected References	240
■ Case: National Foods Corporation	241

PART III

FINANCING AND DIVIDEND POLICIES 249

■ Case: Restructuring the Capital Structure at Marriott	249
---	-----

9 Theory of Capital Structure 253

Introduction to the Theory	253
Modigliani–Miller Position	257
Taxes and Capital Structure	261

Effect of Bankruptcy Costs	268
Other Imperfections	270
Incentive Issues and Agency Costs	271
Financial Signaling	278
Summary	279
Self-Correction Problems	279
Problems	280
Solutions to Self-Correction Problems	284
Selected References	286

10 *Making Capital Structure Decisions* 289

EBIT-EPS Analysis	289
Cash-Flow Ability to Service Debt	292
Effect on Debt Ratios	296
Effect on Security Rating	268
Timing and Flexibility	297
A Pecking Order of Financing?	298
Checklist when it Comes to Financing	299
Summary	300
Self-Correction Problems	301
Problems	302
Solutions to Self-Correction Problems	306
Selected References	307

11 *Dividends and Share Repurchase: Theory and Practice* 309

Procedural Aspects of Paying Dividends	309
Dividend Payout Irrelevance	310
Arguments for Dividend Payout Mattering	313
Financial Signaling	316
Empirical Testing and Implications for Payout	317
Share Repurchase	320
Stock Dividends and Stock Splits	324
Managerial Considerations as to Dividend/Share-Repurchase Policy	328
Summary	332
Self-Correction Problems	333
Problems	334
Solutions to Self-Correction Problems	338
Selected References	341

PART IV

TOOLS OF FINANCIAL ANALYSIS AND CONTROL 343

- Case: Morley Industries, Inc. 343

12 *Financial Ratio Analysis* 349

Introduction to Financial Analysis	349
Liquidity Ratios	351

Debt Ratios	357
Coverage Ratios	358
Profitability Ratios	360
Market-Value Ratios	363
Predictive Power of Financial Ratios	365
Common Size and Index Analysis	367
Summary	371
Self-Correction Problems	372
Problems	374
Solutions to Self-Correction Problems	380
Selected References	383

■ Case: Financial Ratios and Industries	383
---	-----

13 *Financial Planning* 387

Methods of Analysis	387
Source and Use of Funds	388
Cash Budgeting	393
Pro Forma Statements	398
Sustainable Growth Modeling	403
Summary	410
Self-Correction Problems	411
Problems	412
Solutions to Self-Correction Problems	417
Selected References	419

PART V

LIQUIDITY AND WORKING CAPITAL MANAGEMENT 421

■ Case: Caceres Semilla S.A. de C.V.	421
--------------------------------------	-----

14 *Liquidity, Cash, and Marketable Securities* 429

Liquidity and its Role	429
Cash Management and Collections	431
Control of Disbursements	434
Investment in Marketable Securities	436
Summary	442
Self-Correction Problems	442
Problems	444
Solutions to Self-Correction Problems	445
Selected References	446

15 *Management of Accounts Receivable and Inventories* 449

Credit Policies	449
Collection Policy	455
Evaluating the Credit Applicant	459
Inventory Management and Control	463
Uncertainty and Safety Stock	467

Inventory and the Financial Manager	470
Summary	471
Appendix: Application of Discriminant Analysis to the Selection of Accounts	472
Self-Correction Problems	475
Problems	476
Solutions to Self-Correction Problems	479
Selected References	481

16 *Liability Management and Short/Medium-Term Financing* 483

Liability Structure of a Company	483
Trade Credit Financing	488
Accrual Accounts as Spontaneous Financing	492
Unsecured Short-Term Loans	493
Secured Lending Arrangements	496
Intermediate-Term Debt	503
Protective Covenants and Loan Agreements	506
Summary	511
Self-Correction Problems	511
Problems	512
Solutions to Self-Correction Problems	516
Selected References	518

PART VI

CAPITAL MARKET FINANCING AND RISK MANAGEMENT 521

- Case: Douglas & Gilligan Global Agency 521

17 *Foundations for Longer-Term Financing* 529

Purpose and Function of Financial Markets	529
Yield Curves and Their Use	533
Pricing Default Risk Off Treasuries	537
Summary	540
Self-Correction Problems	540
Problems	541
Solutions to Self-Correction Problems	542
Selected References	542

18 *Lease Financing* 543

Features of a Lease	543
Accounting and Tax Treatments of Leases	545
Return to the Lessor	548
After-Tax Analysis of Lease versus Buy/Borrow	549
Sources of Value in Leasing	556
Summary	559
Self-Correction Problems	559
Problems	560

Solutions to Self-Correction Problems	562
Selected References	564

19 *Issuing Securities* 565

Public Offering of Securities	565
Government Regulations	568
Selling Common Stock through a Rights Issue	570
Financing a Fledgling	575
Information Effects	580
Summary	582
Self-Correction Problems	583
Problems	583
Solutions to Self-Correction Problems	585
Selected References	586

20 *Fixed-Income Financing and Pension Liability* 589

Features of Debt	589
Types of Debt Financing	593
Call Feature and Refunding	595
Private Placements	601
Preferred Stock	602
Pension Fund Liability	605
Summary	608
Self-Correction Problems	609
Problems	610
Solutions to Self-Correction Problems	612
Selected References	613

21 *Hybrid Financing through Equity-Linked Securities* 615

Use of Warrants	615
Convertible Securities	619
Valuation of Convertible Securities	623
Exchangeable Debt	627
Other Hybrid Securities	629
Summary	633
Appendix: Valuing Convertible Bonds in the Face of Firm Volatility, Default Risks, and Fluctuating Interest Rates	634
Self-Correction Problems	637
Problems	638
Solutions to Self-Correction Problems	640
Selected References	641

22 *Managing Financial Risk* 645

Derivative Securities	645
Hedging Risk	646
Futures Markets	648
Forward Contracts	652

Option Contracts	654
Interest-Rate Swaps	659
Credit Derivatives	664
Commodity Contracts	666
Summary	667
Self-Correction Problems	668
Problems	669
Solutions to Self-Correction Problems	670
Selected References	671

PART VII

EXPANSION AND CONTRACTION 673

- Case: Rayovac Corporation 673

23 *Mergers and the Market for Corporate Control* 687

What Is Control Worth?	687
Features of a Merger	688
Strategic Acquisitions Involving Stock	690
Sources or Rearrangements of Value	695
Corporate Voting and Control	699
Tender Offers and Company Resistance	701
Empirical Evidence on Mergers and Takeovers	705
Summary	708
Self-Correction Problems	709
Problems	711
Solutions to Self-Correction Problems	714
Selected References	716

24 *Corporate and Distress Restructuring* 719

Divestitures in General	719
Voluntary Liquidation and Sell-Offs	721
Spin-Offs	721
Equity Carve-Outs	723
Going Private and Leveraged Buyouts	724
Leveraged Recapitalizations	729
Distress Restructuring	730
Gaming with the Rule of Absolute Priority	735
Summary	737
Self-Correction Problems	738
Problems	740
Solutions to Self-Correction Problems	743
Selected References	744

25 *International Financial Management* 747

Some Background	747
Types of Exposure	752

Economic Exposure	753
Exposure of Expected Future Cash Flows	756
Currency Market Hedges	761
Should Exposure Be Managed?	766
Macro Factors Governing Exchange-Rate Behavior	767
Structuring International Trade Transactions	773
Summary	776
Appendix: Translation Exposure	778
Self-Correction Problems	780
Problems	782
Solutions to Self-Correction Problems	784
Selected References	786

<i>Appendix: Present-Value Tables and Normal Probability Distribution Table</i>	<i>787</i>
---	------------

<i>Index</i>	<i>797</i>
--------------	------------