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# 财务金融学案例（第十一版）

正版

## 哈佛商学院案例教程

# Case Problems in Finance

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# 出 版 者 的 话

当今的世界是一个变革的世界，政治体制在变革，经济结构在变革，管理方式在变革，思想观念在变革……从东方到西方，从中国到世界，一切无不处在变革之中。毫不例外，管理教育也正面临着一场深刻的变革。在以MBA（Master of Business Administration，通常译为“工商管理硕士”）教育为主干的应用型管理教育大行其道的同时，一种以经典案例为主要素材、强调培养实务操作能力、反对一味灌输抽象理论的所谓“案例教学法”（Cases Methods）逐渐取代了传统的管理教学模式，并以惊人的速度风靡全球。

作为世界MBA教育发祥地的美国哈佛大学工商管理研究生院（Graduate School of Business Administration，Harvard University，通常简称Harvard Business School，即“哈佛商学院”），同时也是管理专业案例教学的首创者和积极倡导者。哈佛商学院经过近一个世纪的发展，已经无可争辩地登上了全世界MBA教育的制高点，哈佛商学院MBA已经成为全球企业管理界一块光芒四射的“金字招牌”。个中原因除了素来坚持严格的学员遴选制度之外，主要应归功于独具一格的案例教学方法。

毋庸讳言，我国的管理教育尚处于“初级阶段”，亟待借鉴发达国家的成功经验，包括先进的教学方法、权威的教学素材和科学的教学体系。为此，我们通过多方努力，终于开通了一条通过合法途径引进哈佛商学院案例教程的渠道，并及时推出了首批十余种图书。按照预定计划，我们将在今后两到三年内，陆续推出哈佛商学院MBA其他主干课程案例教程的英文（影印）版和相应的中译版，以满足国内管理教育尤其是MBA、经理培训项目（ETP）师生和其他有关人士的迫切需要，为推动我国管理教育改革和向国际接轨的步伐贡献一份绵薄之力。

对于本套系列教材在选题策划、翻译、编辑、出版以及发行工作中存在的缺点和不足，恳请广大读者不吝指正，我们在此先致谢忱！

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# *Introduction*

Many readers might be meeting the case method of instruction for the first time. More often than not, the experience is a frustrating one, for cases typically end at the critical point, in the words of some, "just when they seem to be getting someplace." At that point, readers are left to make their own way. It may be helpful, therefore, to know from the outset what case problems are and what advantages we believe can be gained from their use.

The heart of the case method of instruction is the use of problems to train students to discover, and then to fix in mind, ways of thinking that are productive in the subject area. Appropriate use of theory and the acquisition of factual material and procedural skills are also important goals, but the main objective is an ability to handle different types of managerial problems intelligently.

The word *decisional* is sometimes used to contrast the case method with *expository* teaching. For example, most of the cases in this book are descriptions of actual business situations. The facts are those known to some executive or other decision maker; they present an immediate financial problem needing resolution. Some cases emphasize the preliminaries of decision making—the difficulty of isolating and defining the crucial problem or of determining whether enough information is at hand to make an intelligent decision. The majority of cases, however, are "issue" cases; they present reasonable alternative courses of action that might have been followed in the given situation. Sufficient information is given to place readers in the decision makers' positions. From this vantage point, students are challenged to analyze the problem and to decide on the course of action to be taken.

The cases themselves depict a wide range of financial problems and business situations. Reference to the Contents will show that problems have been drawn from most of the major areas covered in financial courses. Cases have been selected from a variety of industries and from different time periods. Cases are also included that illustrate different phases in the life cycle of business firms and problems of cyclical decline as well as of prosperity.

## Organization of the Book

The sequence of this book's major sections reflects our decisional approach. We begin in Part I with **Estimating Funds Requirements,** a topic that is typically either omitted from a first expository course in finance or would occur at the end of such a course. We begin with this topic because obtaining sufficient funds to maintain ongoing operations is the first responsibility of a financial manager. Although this subject is not glamorous, it enables students to focus on concrete problems that require decisions.

This analysis naturally leads to a discussion in Part II of **Long-Term Financing and Liability Management.** The cases in this section begin with an exploration of **debt policy.** This is followed by an examination of **capital markets** and specific types of **financial securities.** Here we address the question, "In what markets and in which specific ways should companies raise new funds, or distribute cash back to providers of capital?" An important new module included in this edition of *Case Problems in Finance* is **Derivative Instruments and Risk Management.** It is incorporated in the Long-Term Financing and Liability Management section, because knowledge of derivative instruments and risk-management techniques enhances students' understanding of how companies might lower their cost of capital by issuing securities in whatever form and market that affords them a pricing advantage (e.g., yen-dollar dual currency and Eurobonds), then—using derivative instruments—transforming the liability into a liability consistent with their debt.

Part III, **Valuation and Investment,** exploits the capital markets and financing foundation developed in Part II, and the forecasting skills developed in Part I, to build a valuation paradigm based on discounted cash flow and cost-of-capital concepts. The valuation skills built in the **Investment Decisions** and **Cost-of-Capital** modules are then applied to a variety of major corporate finance problems found in the **Mergers, Acquisitions, Restructurings, and Corporate Governance** module. The book concludes with three new cases that provide a **Comprehensive Overview** of the course. Each of these cases involves a major investment decision and an associated financing decision.

The order of the individual cases also reflects our managerial focus, which contrasts with the capital market focus that underlies the organization of most expository textbooks and courses in finance. We believe that the ordering of materials from the managerial viewpoint is the most effective way to teach managerial corporate finance. One cost of this approach, however, is that it is often difficult to relate readings in popular textbooks to specific cases. We have therefore included several notes to provide students with essential background materials.

## New Cases and Notes

In this edition, 34 of the 63 cases and notes are new. Of these 34 cases and notes, 30 are completely new to this edition and 4 are updates of notes and cases from the tenth edition. The new materials in this eleventh edition of *Case Problems in Finance* reflect the changing financial environment as well as advances in the theory and practice of financial management. In our judgment, the materials in the **Introductory** section and the sections on **Estimating Funds Requirements** and **Debt Policy** consist of well-tested cases providing a very teachable sequence that offers a good opportunity to stress fundamental techniques of analysis.

The **Capital Market Efficiency and Security Pricing** section retains a core of material from the tenth edition, but adds to this core some successful new material. The sequence of cases provided in this module affords an examination of weak- and semistrong-form market efficiency ("Jupiter Management Company"), and strong-form market efficiency ("Anheuser-Busch and Campbell Taggart"). These cases are followed by others that examine opportunities to create value through financial execution arising from various real-world deviations from market efficiency. A new case in the module, "Dividend Policy at FPL Group, Inc.," deals not only with the topic of cash distribution policy, but also with the broader issue of information asymmetries

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and the potential signaling effects of changes in financial policies and various other financial execution decisions.

The new **Derivative Instruments and Risk Management** module introduces students to three basic classes of derivative financial contracts: options ("The Keller Fund's Option Investment Strategies"), forwards and futures ("Tiffany & Company"), and swaps ("The B.F. Goodrich–Rabobank Interest Rate Swap"). Once considered financial esoterica, these derivative instruments are now common tools of financial management. Their use by managers is addressed in this module within the context of three major types of risk—foreign exchange risk, interest rate risk, and commodity price risk—that modern financial executives are often called upon to control. The use of corporate diversification as a risk management device is also examined in the "Phelps Dodge Corporation" case.

Several of the cases included in the **Financial Execution** module make use of this foundation in derivative instruments. Knowledge of options, for example, aids in the analysis of the convertible bond and warrant-bond financing alternatives confronted in the "MCI Communications Corporation (1983)" case. The "Intel Corporation (1992)" case primarily concerns a dividend and share-repurchase policy decision faced by Intel in 1992. However, a basic knowledge of puts and calls will aid students' understanding of some of the innovative financial execution alternatives facing Intel and discussed at the conclusion of that case. Likewise, analysis of the financing alternatives described in the "R.J. Reynolds International Financing" case depends on an understanding of how swaps and forwards can be used to hedge exchange-rate risk. Knowledge of options also comes into play in the **Investment Decisions** module, where a new case, "Arundel Partners: The Sequel Project" and a new note, "Capital Projects as Real Options: An Introduction," are used to introduce the application of option-pricing techniques to the valuation of **real options.**

This edition of *Case Problems in Finance* includes five new cases that deal with problems of **international finance** or **international capital markets,** or are international in the scope of their administrative setting. Among these are "Tiffany & Company," "The B.F. Goodrich–Rabobank Interest Rate Swap," and "R.J. Reynolds International Financing," the contents of which were briefly described above. In addition, the "Compañia de Teléfonos de Chile" case in the **Financial Execution** module introduces students to the use of American Depository Receipts (ADRs) by non-American companies to escape the constraints of illiquid and partially segmented capital markets at home. "MSDI—Alcala de Henares, Spain" in the Investment Decisions module provides students with an introduction to problems of **cross-border valuation.**

This new edition also includes four new cases that focus on financial problems and decisions commonly faced by **new ventures and private corporations.** 'Kochman, Reidt & Haigh, Inc." focuses on the problem of estimating and financing the external funding needs of a small, rapidly growing, working capital-intensive cabinetry maker. "U.S. Bank of Washington," while broadly about the subject of bank lending, also gives students an appreciation of the challenges faced by new ventures in trying to source capital in a form well suited to their needs and opportunities. "Netscape's Initial Public Offering" and "Eskimo Pie Corporation" are cases concerning the unique problems of valuing and selling stock in **initial public offerings** (IPOs).

Finally, three new cases have been added to the **Mergers, Acquisitions, Restructurings, and Corporate Governance** section. "Time, Inc.'s Entry into the Entertainment Industry (A)" examines the much-publicized 1989 bid for Time, Inc., by Paramount Communications in the wake of Time's announced merger with Warner Communications. This case raises issues about company valuation, acquisition strategies, bidding strategies, and corporate governance. The "Marriott Corporation: The Cost of Capital" case concerns Marriott's Project Chariot, which involved the restructuring of Marriott's businesses and, more importantly, its debt in such a way as to affect the value of many of its outstanding bonds. The "Duckworth Industries, Inc.—Incentive Compensation Programs" case examines the general topic of **value-based management** and, in particular, focuses on the use of **economic value added** (EVA) as a basis of establishing incentive compensation programs.

Inevitably some instructors will regret that some of their favorite cases have been omitted in this edition. The editors share this feeling. If an instructor is especially eager to continue to use certain cases that were dropped in this edition, they can be ordered separately from Harvard Business Publishing, 60 Harvard Way, Box 230–5C, Boston, MA 02163 (www.hbsp.harvard.edu).

## Using This Book

All of these cases are designed to provide a basis for class discussion; as such they are not intended to illustrate correct or incorrect solutions to management problems. It need hardly be added that the discussion they provoke will move along more realistic lines if students also have a standard finance text or reference book available and use it freely for background information not provided by this casebook. In addition, students will need to acquire proficiency in a number of analytical techniques useful in handling the quantitative aspects of cases.

Case problems confront students with the necessity of making decisions, and this is perhaps their greatest value. Students cannot stop with an understanding of the facts and a listing of items that deserve consideration. Mastery of these matters is merely the jumping-off point for class discussion. To be effective, students must actually think the problem through to a decision, explain their analyses to classmates, and defend their ideas. The need to choose among balanced alternatives and to discuss the decision intelligently is a great force in learning. It helps to provide that elusive quality of judgment that is often missed when excessive reliance is placed on the application of theoretical models.

Since the cases present business situations that post debatable alternatives of action, they contain problems that can be narrowed but not settled by the usual techniques of financial analysis. Judgment must enter into the process of decision making, so unanimous agreement as to the best decision is neither expected nor desired. This ambiguity also contributes to the initial frustration of many students who have been working with scientific and technical problems in which a mechanistic approach can more frequently be counted on to yield a single "right" conclusion.

When analyzing case problems, readers should not overlook intangible human factors. The choice between financial alternatives in many, if not all, cases depends in part on the decision maker's disposition for risk taking and on other matters of judgment and taste.

Work with cases might require more student time than normal textbook reading assignments. However, the satisfaction of handling problems that introduce the complexities involved in actual business decisions is normally sufficient to compensate for the extra time required.

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Richard S. Ruback

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Thirty-five members or former members of the faculty of the Harvard University Graduate School of Business Administration authored, coauthored, or supervised the writing of the cases used in this edition or earlier versions of these cases. In addition to the editors of previous editions of this volume, we wish to thank Carliss Y. Baldwin, Robert W. Bruner, William J. Bruns, Michael E. Edleson, Benjamin C. Esty, Kenneth A. Froot, Robert R. Glauber, John P. Goldsberry III, Bruce C. Greenwald, Samuel L. Hayes III, Timothy A. Luehrman, Ronald W. Moore, Lynn Sharp Paine, Kevin R. Rock, Erik R. Sirri, and Peter Tufano for the use of cases for which they are responsible as author, coauthor, or supervisor. We also extend our thanks to the research associates and students of the Harvard University Graduate School of Business Administration who assisted in the writing of the cases in this volume under the supervision of faculty members.

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Most of all, we would like to express our special appreciation to Jane Manilych for her expert editorial support, and to Brenda L. Fucillo and Rita D. Colella for their invaluable assistance in the preparation of this volume. Their care and expertise in editing the manuscript and putting it into proper form for publication has contributed importantly to its quality.

The editors assume full responsibility for the contents of this edition, but they are keenly aware of their obligation to their predecessors and colleagues.

W.C.K.
W.E.F., Jr.
T.R.P.
R.S.R.

# Contents

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# Part I

# Financing Current Operations

# *Assessing a Company's Future Financial Health*

Assessing the long-term financial health of a company is an important task for outsiders considering the extension of credit and for insiders in their formulation of strategy. History abounds with examples of firms that embarked upon overly ambitious programs and that subsequently discovered that their portfolio of programs could not be financed on acceptable terms. The outcome frequently was the abandonment of programs in midstream at considerable financial and organizational cost to the company, its vendors, its employees, or its creditors.

The key issue in assessing the long-term financial health of a company is whether the corporate system of goals, product market strategies, investment requirements, and financing capabilities are in balance.

> At any given period every enterprise has a defined business mission which is realized in its established competitive positions in particular product markets. Corporate strategy centers on these competitive positions. This strategy may include a harvesting mode for a few mature and relatively unprofitable business units. But for most of the firm's product markets it is designed to maintain an existing market position or expand that position against primary competitors. Competitive strategy therefore dictates that the firm grow at least as rapidly as aggregate industry demand grows. The firm's targeted growth rate of sales must meet (or exceed) the expected growth rate of the industry.[1]

Thus, the starting point for assessing a firm's long-term health must be a thorough investigation of (1) management's goals for the company and for each of the product markets; (2) the strategy planned for each product market; (3) the likely response of competitors; and (4) the market, competitive, and operating characteristics of each product market. The analyst is well advised to devote substantial time to exploring these areas, as the entire financial system of the company is driven by the economic and competitive environment of its established product markets. The firm's strategy and sales growth in each of its product markets will heavily determine the investments

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Harvard Business School case 297–063.

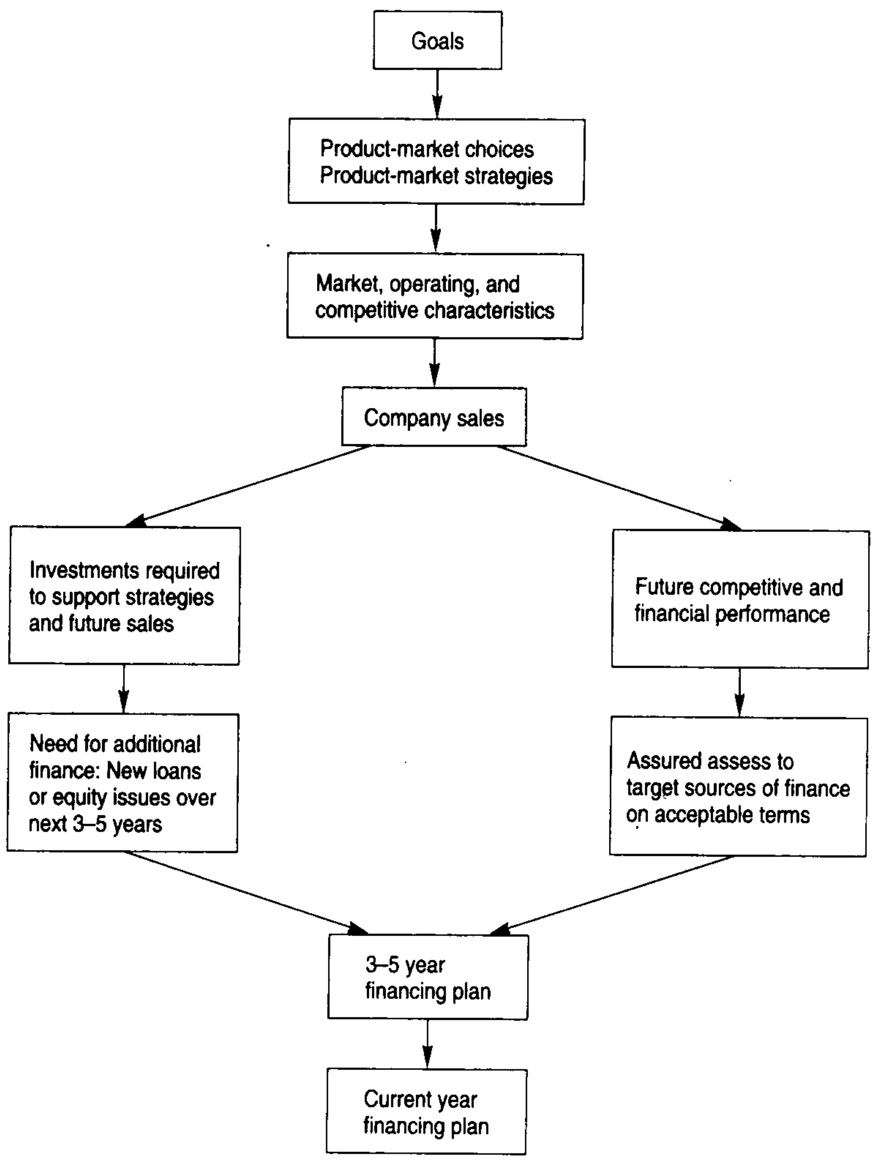
1. Gordon Donaldson, *Managing Corporate Wealth* (New York: Praeger, 1984), pp. 64–65.

in assets needed to support these strategies; and the effectiveness of the strategies, combined with the response of competitors, will strongly influence the firm's competitive and financial performance and its resultant access to funds to finance the investment in assets.

The following are some of the questions that seem important in assessing a company's future financial health. The sequencing of the questions corresponds to that suggested by Figure A.

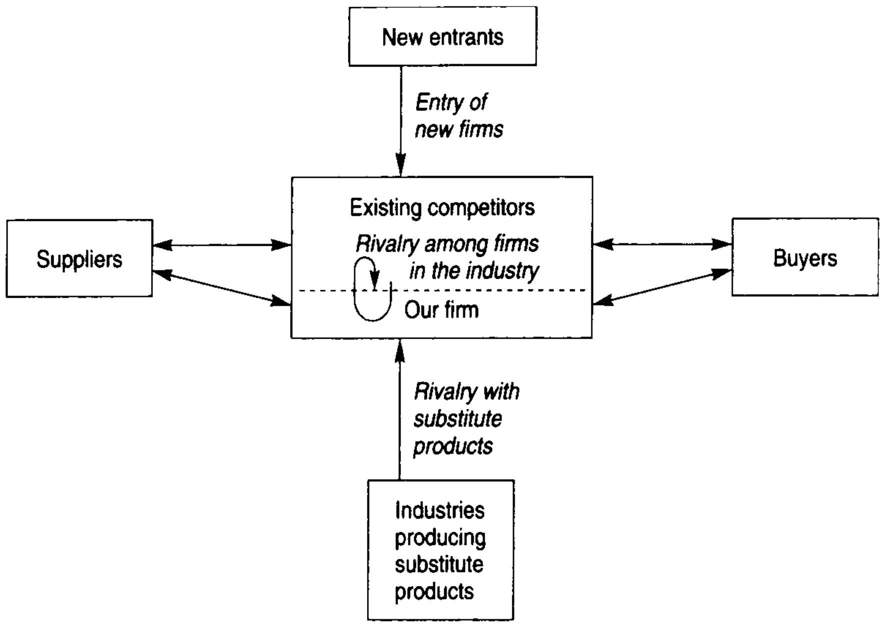
1. What are management's goals for the company?
2. In which product markets does management plan to compete?
   *a.* What are management's goals in the various product markets?
   *b.* What is the strategy in each product market?

**FIGURE A**
Factors in Determining a Financing Plan



3. What are the market, competitive, and operating characteristics of each product market?
   *a.* What is the growth of primary demand in each product market? Are sales seasonal? cyclical?
   *b.* What are the strategies of the company's competitors?
   *c.* What are the company's operating policies?
   *d.* What are the main market, competitive, and operating risks?
4. What volume and nominal sales growth are likely for the company's units, individually and collectively?
5. What investments must be made in accounts receivables, inventory, and plant and equipment to support the various product market strategies? What will happen to the level of total assets over the next 3–5 years?
6. What is the outlook for profitability?
   *a.* What is the trend in reported profitability?
   *b.* What are the underlying financial accounting practices?
   *c.* Are there any hidden problems, such as suspiciously large levels or build-ups of accounts receivable or inventories relative to sales?
   *d.* Is the level of profitability sustainable, given the outlook for the market and for competitive and regulatory pressures? (Figure B summarizes market and industry factors that can adversely affect a firm's future performance.)
7. Will the company need to raise additional finance over the next year, or over the next 3–5 years, to carry out strategically important programs?
   *a.* Does the company have a seasonal financing need? If so, how large is it, and what will be the perceptions of suppliers of finance at the time of the need?
   *b.* Does the company have a long-term need for additional finance? If so, how large is it, and what will be the perceptions of suppliers of finance at the time of the need?
   *c.* Will the company have a need for additional finance if it encounters adversity?
8. How soundly is the company financed, given its level of profitability, its level of business risk, and its future need for additional finance? (Access to target sources of finance depends on future competitive and financial performance and on the soundness of the company's existing financial structure.)
   *a.* How current is the company in the payment of its suppliers?
   *b.* Is the company close to its borrowing limit according to restrictive covenants?
   *c.* Is the company within its capacity to service the debt? What is the maturity structure of existing debt?
   *d.* Are there any hidden problems such as unconsolidated subsidiaries with high debt levels or large contingent or unfunded liabilities?
9. Does the company have assured access on acceptable terms to external sources of funds in amounts needed to meet its seasonal, long-term, or adversity needs?
   *a.* Can the company raise equity funds?
      (1) Is there a market for the shares?
      (2) How many shares could be sold?
      (3) At what price could the shares be sold?
      (4) Would management be willing to issue new shares?

**FIGURE B**
Sources of Downward Pressure on Above-Market Returns




*b.* Can the company raise long-term debt?
(1) Who are the target suppliers?
(2) What are their criteria for lending?
(3) How well does the company meet these criteria?
(4) How much additional long-term debt can the company raise on acceptable terms?

*c.* Can the company raise short-term debt?

*d.* Does the company have assets that could be sold to raise funds? How quickly could they be sold?

**10.** Are the company's goals, product market choices and strategies, investment requirements, financing needs, and financing capabilities in balance? (Figure C diagrams the interrelation of these management and financial considerations.)

**11.** Will the company's goals, strategies, investment requirements, financing needs, and financing capabilities remain in balance if the firm is struck by adversity?

*a.* What are the main regulatory, competitive, and operating risks? What combination of them might reasonably be expected to occur?

*b.* How would management respond in strategic and operating terms?

*c.* What would be the implications for future financing needs? For future financial performance?

*d.* Will it be possible to raise the finance needed on acceptable terms, given the financial suppliers' perceptions of the firm's strategic, competitive, and financial performance?

Clearly, many of these questions cannot be answered by using only the information contained in a company's published financial statements. Many require an under-

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