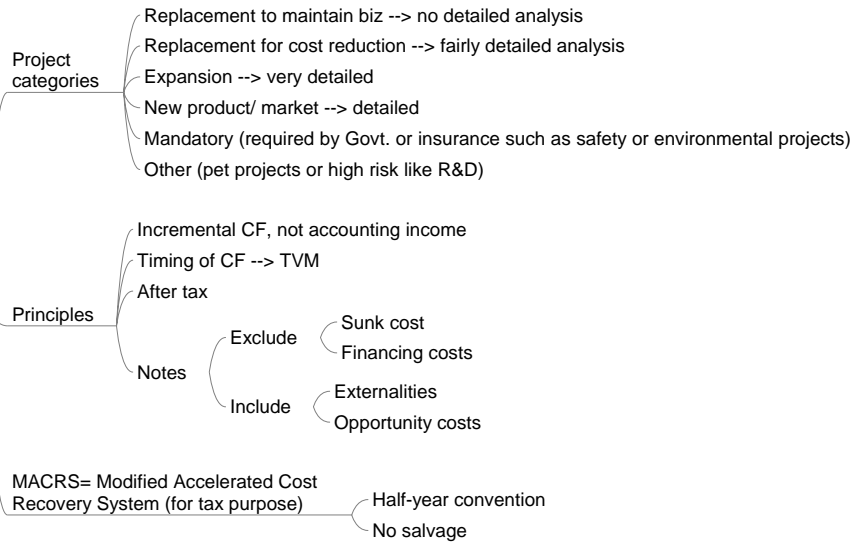
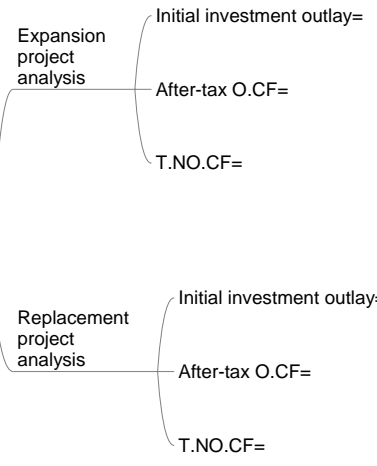


29.1. Capital Budgeting

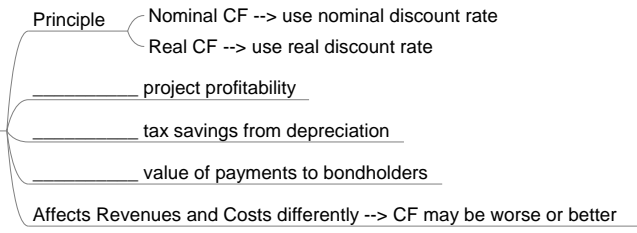
Warm-up: Basics



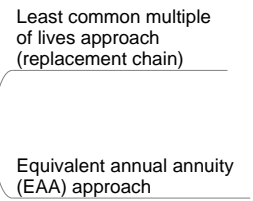
a. Capital budgeting project evaluation



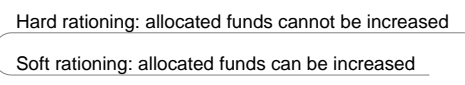
b. Inflation effects (if actual inflation higher than expected)



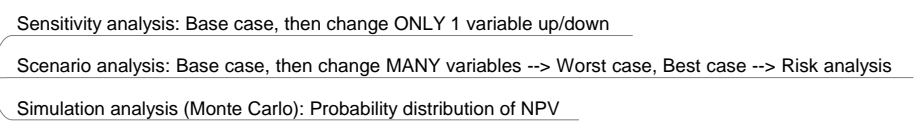
c1. Projects with different lives



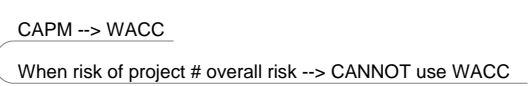
c2. Capital rationing= insufficient capital --> violate market efficiency



d. Project risk analysis

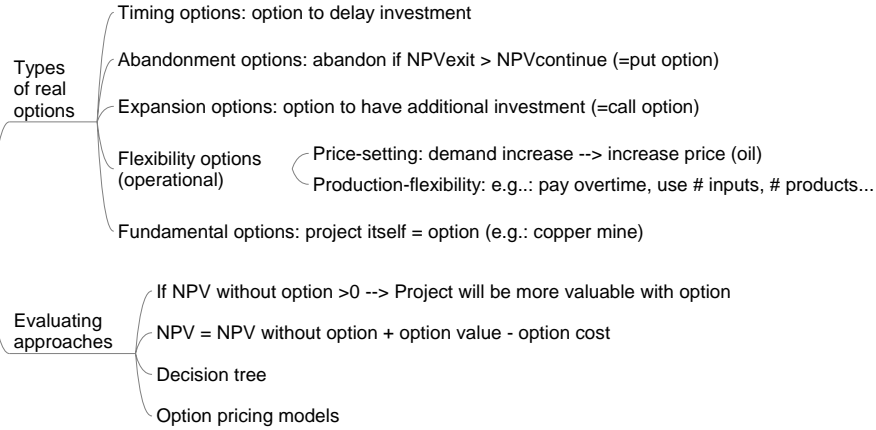


e. Determine discount rate

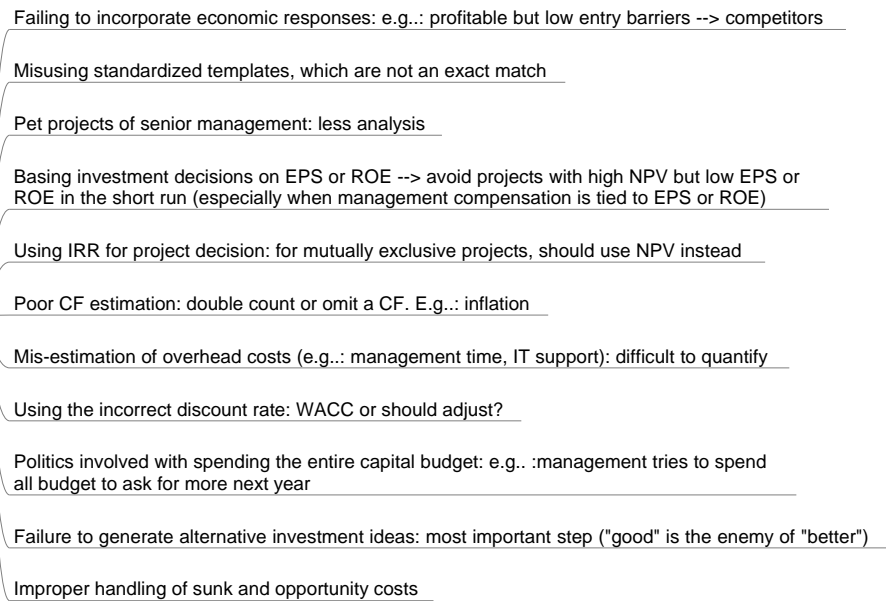


29.2. Capital Budgeting (cont.)

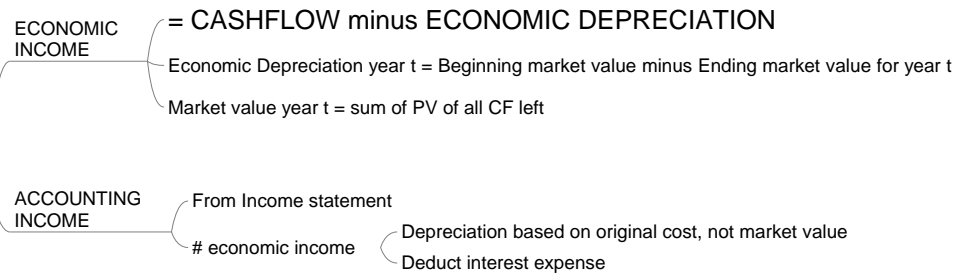
f. Evaluating projects with real options



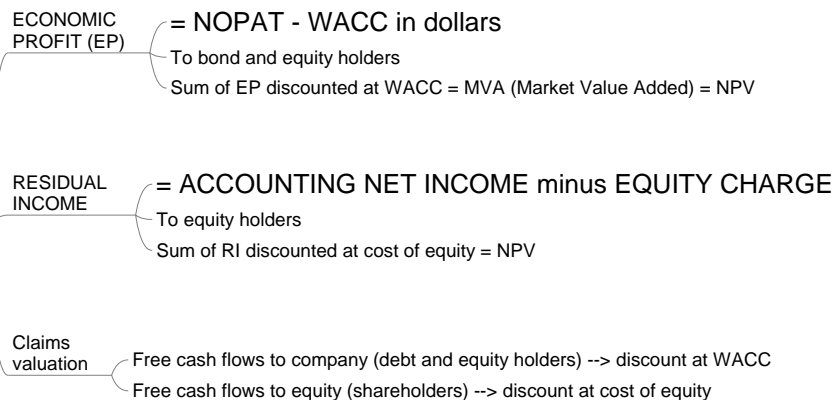
g. Common capital budgeting pitfalls



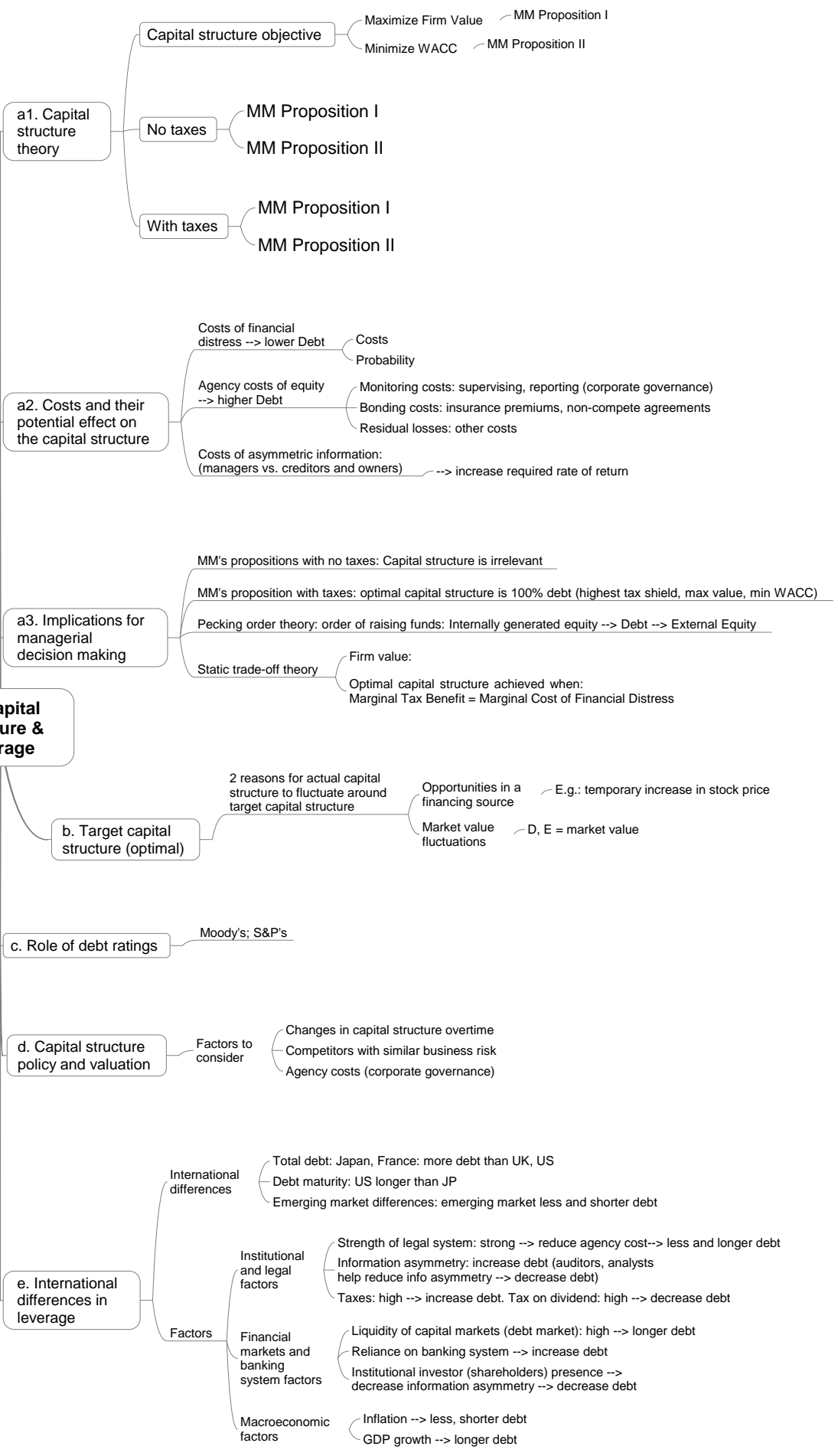
h. Measures of income and valuation models



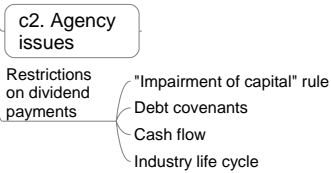
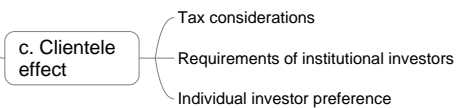
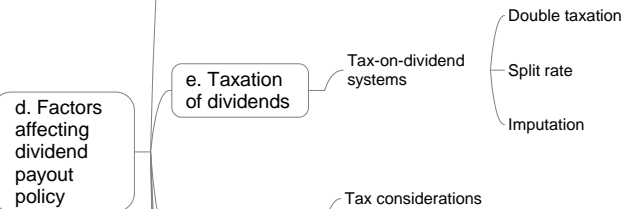
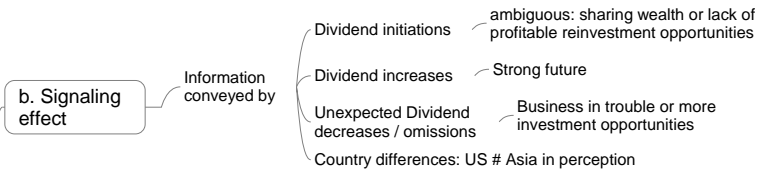
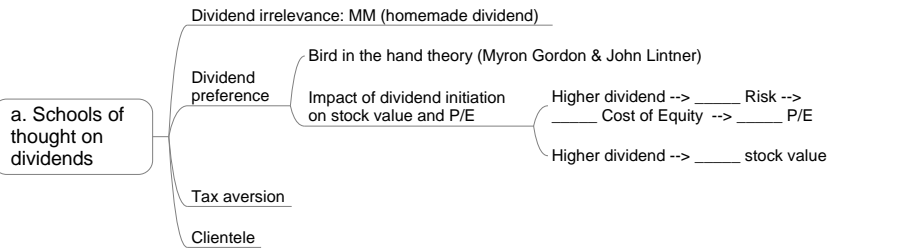
i. Other valuation models



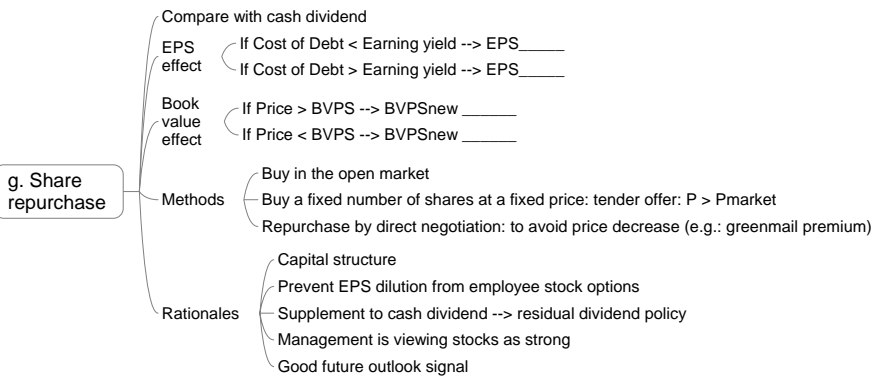
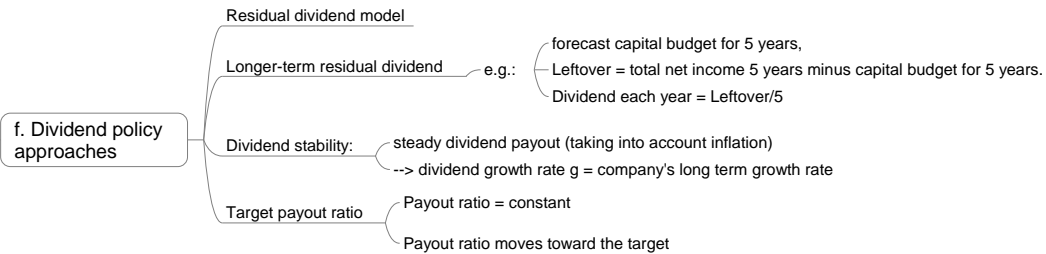
30. Capital Structure & Leverage



31. Dividends & Dividend Policy



Flotation costs on new issues vs. cost of retained earnings
 Shareholder preference for current income vs. capital gains



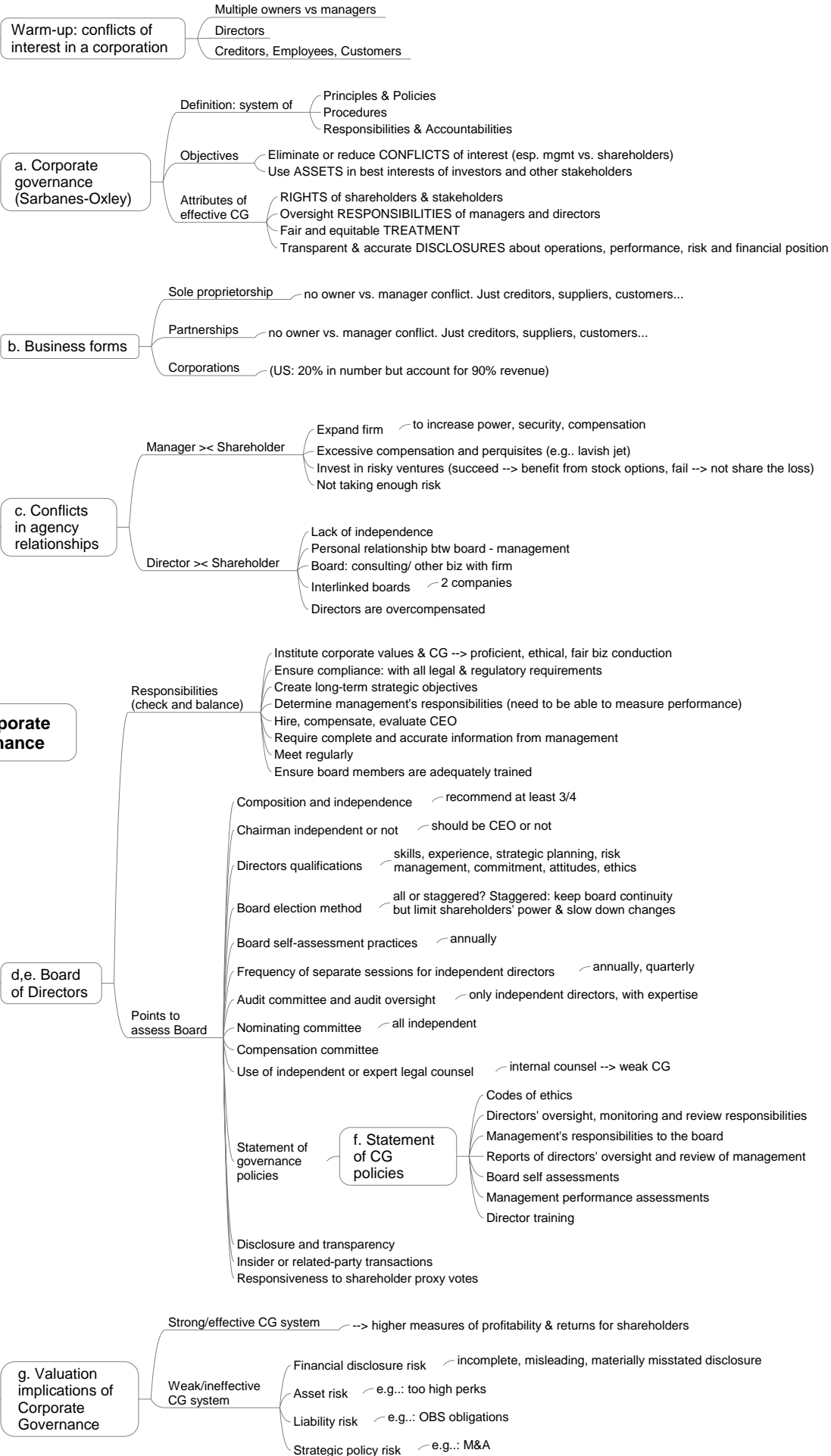
h. Global trends

i. Dividend coverage ratios based on

- Net income
- FCF

j. Symptoms of not being able to sustain cash dividend

32. Corporate Governance



33.1. Mergers & Acquisitions

Background

- Bidder/ Acquirer vs. Target company
- Mergers: entire target → 1 company ceases
- Acquisitions: part of target → e.g.: assets, biz segment

a. Categorize M&A

- Forms of integration (how physically come together)
 - statutory merger → acquire all A&L → target not exist
 - subsidiary merger → e.g.: P&G bought Gillette (good brand)
 - consolidation → both cease to exist → new company
- Types of mergers (how activities are related)
 - horizontal → same industry
 - vertical → in the supply chain
Forward vs. Backward integration
 - conglomerate → no relation

b. Merger motivations

- Synergies
- More rapid growth
- More market power
- Access to unique capabilities
- Diversification
- Bootstrapping EPS → **c. Bootstrapping**
- Personal benefits for managers
- Tax benefits → loss carryforwards
- Unlocking hidden value
- Achieving international business goals, by
 - Taking advantage of market inefficiencies (e.g.: cheap labor force)
 - Working around disadvantageous government policies
 - Use technology in new markets
 - Product differentiation
 - Provide support to existing multinational clients

d. Motivations for mergers and industry life cycles

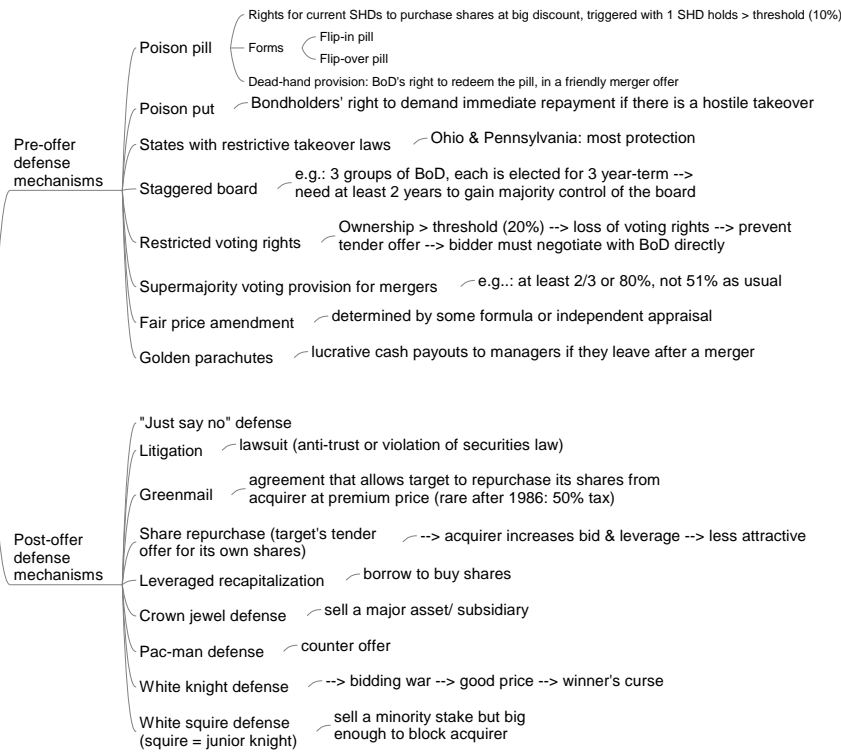
- Pioneer/ development phase → Need capital, management → H or C
- Rapid growth → Need capital, management → H or C
- Mature growth → Need operational efficiency (from economies of scale) → H or V
- Stabilization → Need to cut costs (from economies of scale) → H
- Decline → H or V or C

e. Merger transaction characteristics

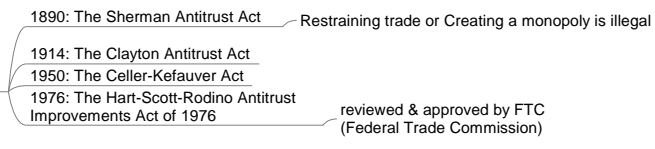
- Form of acquisition
 - Stock purchase
 - Asset purchase
- Method of payment
 - Methods
 - Securities offering
 - Cash offering
 - Mixed offering
 - Factors to consider
 - Risk & reward for acquirer vs. target
 - Relative valuations of companies
 - Changes in capital structure
- Attitude of target management
 - Mgmt happy → Friendly merger offers
 - Mgmt unhappy → Hostile merger offers
 - Bear hug (propose to BoD)
 - If Bear hug is unsuccessful →
 - Tender offer → Buy shares from target shareholders
 - Proxy battle → Replace BoD

33.2. Mergers & Acquisitions (cont.)

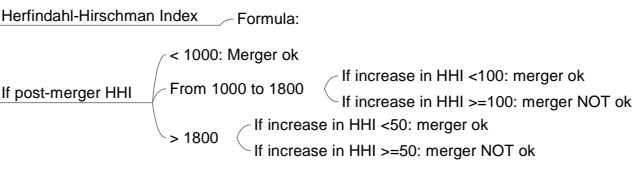
f. Takeover defense mechanisms



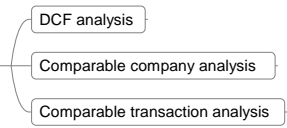
g. U.S antitrust regulation



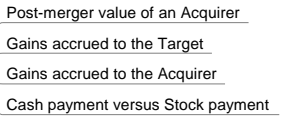
h. HHI



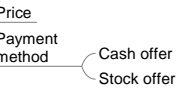
i,j,k. Methods for valuing a target company



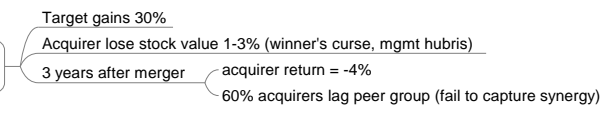
l. Evaluating a merger bid



m. Effects of



n. Distribution of merger benefits



o. Downsizing operations through corporate restructuring

