A. Aims and Objectives
This course is designed to intersect three areas of interest: (a.) Entrepreneurial Finance and Private Equity; (b.) Family and Closely Held Firms, and; (c.) International Finance with special emphasis on cross-border valuation and access to finance. The course is, by nature, a finance course that deals with ventures, family, and closely held firms in an international context. The core question behind GEF is: “How do entrepreneurial managers, family firms, closely held firms and those who finance them design and execute ventures that effectively match opportunities and resources in an international context?” An overreaching insight of the GEF course is that the notions of risk and reward are as important in privately held as in publicly held firms. In privately held firms, however, entrepreneurs and financiers are often forced to make assumptions based on incomplete data. The course will provide you with the tools necessary to value these ventures domiciled in countries around the world.

Let me first describe the three main building-blocks in which the course is built upon:

Building-Block I: Entrepreneurial Finance and Private Equity
GEF examines how entrepreneurial managers, family firms, closely held firms, and those who finance them design and execute ventures that effectively match opportunities and resources in an international context. To address this question and to make sensible decisions one needs to apply the analytical lenses of entrepreneurial and international finance. First, one needs to determine the optimal venture structure considering the constraints of the national context. This requires a detailed understanding of the opportunity at hand and the resources potentially available to the venture. Next one needs to define an action plan to bring the venture to life and to grow it domestically and across borders. Third, one needs to think about contingency plans if the initial scenario for the venture does not work out. Specifically, this course covers:

- A wide variety of successful and unsuccessful ventures and highlights a broad range of challenges that entrepreneurs and managers working in family firms and/or closely held firms face.
- Ventures created in more than twelve countries, from some of the world’s poorest to its wealthiest and most technologically advanced.
- Ventures at different stages of development and across a broad range of industries.
- Ventures that expanded abroad and ventures that remained focused in one country.
Classic issues in entrepreneurship research, including the dynamics of starting a venture, of dealing with risk and uncertainty, of staging commitments, and of managing growth.

The course’s distinct contribution resides primarily in its consideration of these issues in an international context, as it examines how entrepreneurial opportunities, resources, and challenges differ across national contexts and how entrepreneurial ventures take new forms as they expand across borders. This adds nuance and richness to contextual and cross-border aspects of existing frameworks and, through the development of new frameworks, helps entrepreneurs and scholars better understand the phenomenon of international entrepreneurship.

A key insight of GEF is that analysis of contextual differences across countries is critical to learning about companies in an international context. Such differences can occur on many dimensions, including the nature of the entrepreneurial opportunity, accessibility of resources, property rights and institutional environment and the quality of the local legal context. None of the cases in this course is purely an entrepreneurship, an international business case, or a family business case; rather, I have chosen cases that are located where these areas of study intersect. Each case requires students to think about complex trade-offs that involve not just business forecasts, but also the people who generated and are expected to execute them, as well as the incentives behind these decisions. It is by design that the selected cases span such a variety of entrepreneurs, families, industries, sponsors, countries, and stages in the life-cycle of a company. Students are expected to learn from the variance of the course and develop their own views of the spectrum of country contexts and different companies’ challenges.

GEF introduces students to analytical frameworks and constructs that enable students to thoroughly analyze venture opportunities in an international context and increase the likelihood of success in ventures they join or start throughout their careers. These frameworks and constructs include:

- A framework for analyzing country context;
- A strategy map to support the pursuit of entrepreneurial opportunities in challenging country contexts;
- A framework for describing and managing cross-border expansion of ventures, family firms and companies.
- A framework to appreciate the challenges and opportunities of doing business in different countries and across borders.

**Building-Block II: Managing Family and Closely Held Firms**
Most companies around the world are controlled by their founding families, including more than half of all public corporations in Europe, and more than two thirds of those in Asia. Even in the United States, where ownership dispersion is at its highest, founding families exercise a significant degree of control over more than half of all public corporations. In fact, entire industries are family controlled. For example in United States, six of the seven largest cable system operators, including Comcast, Cox, Cablevision, and Charter Communications, are controlled and actively managed by their founders or their heirs. Eight of the ten largest newspapers companies remain fully-family controlled despite being publicly traded. The same is true for many other media conglomerates and entertainment business around the world as well as
for beer and hotel chains. Countries where family conglomerates are prevalent include Argentina, Italy, Philippines, Russia and Indonesia, among others.

The course provides students with exposure to the unique finance, governance, and management issues faced by family firms, and ways in which these issues can be addressed. GEF provides students with a framework for analyzing how family ownership, control, and management affect value, and whether and how more value can be created for the various stakeholders. GEF brings an integrated financial and managerial perspective to the study of family firms focusing on the financial and corporate governance aspects of family control and their managerial implications. There are two empirical facts that motivate the study of family firms in the course: (a.) the worldwide prevalence of family firms, and; (b.) the uniqueness of the financial and governance issues they face.

Empirical evidence suggests that family companies outperform non-family companies. Common arguments to support this are:

- Long-term growth of family business ensures future security to the family
- Less reactive to short term pressures – implementation of longer-term vision rather than actions focused on short-term results
- No conflict of interest between benefit to owners and benefit to business
- By taking care of their business, families take care of themselves
- Generally concentrate on well-defined core businesses and focus on niche markets
- Families are aware that business and personal reputation are related
- Family businesses are more likely to care about managerial decisions and about long-term customer satisfaction

First, founding families’ preferences often differ from those of other owners – particularly as these preferences relate to finance and investment. For instance, family firm owners tend to exhibit a strong penchant for control. While this may also be the case for other types of owners, founding families are likely to place a uniquely high value on control due to psychological factors such as pride in having a family member running the business, emotional attachment to the company, or the desire to “maintain the family heritage.” Moreover, in widely held firms, owners are typically interested in cash flow, not in control, which they are unable to exercise with their small equity stakes. Founding families also tend to have longer time horizons than other investors when making strategic and investment decisions.

Second, as a result of their owners’ preferences, family firms face a unique set of financial and governance issues. For instance, families’ strong preference for control will often conflict with the need to raise capital to finance the firm’s growth and investment opportunities. It may also conflict with families’ liquidity needs, and/or with their ability to diversify their personal risk by investing outside of the family firm.

The governance problem that is or should be of greater concern for minority shareholders and financial regulators is also different in family and non-family firms. In non-family firms, the key agency conflict is the one between owners and managers, among others: Managers may seek to maximize their own objectives, which are not perfectly aligned with those of shareholders. But because ownership is dispersed among a large base of shareholders, none of them will be willing
or able to prevent managers’ self-interested behavior. In family firms, this conflict is mitigated by one of two facts: either the family is a controlling shareholder, with serious incentives to monitor (non-family) managers because a large fraction of its wealth is at stake, or the family is both shareholder and manager, in which case there is no principal-agent separation. On the other hand, family firms are likely to face a different agency conflict: that between controlling and minority shareholders, who may also differ in their objectives. CEO succession by a family member is a case in point: what may seem like an ideal appointment to the family can be perceived as nepotism by non-family shareholders. The risk of conflict between the two shareholder groups is of course compounded when controlling owners are also managers with few external control systems in place.

Third, the choices made by family firms’ decision-makers in response to those financial and governance issues are often a reflection of their owners’ preferences and further distinguish family firms from others.

Fourth, family firms’ unique choices often result in structural characteristics (in particular, financial and governance characteristics) that are also systematically different from those of non-family firms. Family firms are smaller, riskier, and pay lower dividends than their peers, which is consistent with founding families’ reluctance to raise outside capital, even when doing so may compromise firm growth. Compounding the problem is the fact that families are also reluctant to share control with banks or bond-holders.

The different nature of the governance problems that plague family and non-family firms is also reflected in these firms’ structural characteristics: use of dual-class stock affecting differentially founding family members. For example, among Fortune 500 corporations, those that are led by their founders are more valuable than non-family firms, which in turn are more valuable than descendant-led family firms. The differences in performance are attenuated when families use control-enhancing mechanisms like dual-class stock. It is also important to know that standard valuation concepts and techniques must be adapted substantially to account for some the unique characteristics of family firms. In summary, family firms face distinctive financial and governance issues that influence their strategy and performance.

Many of these issues can be alleviated through a number of mechanisms, if appropriately designed for the specific context. On the other hand, failure to recognize the unique issues may result in inadequate governance, illegal action, excessive tax payments, unnecessary conflict among the various parties, naïve forecasts of behavior, and wrong measures of performance. The issues are analyzed from the perspective of the different stakeholders for whom these issues are important, recognizing that students may be involved with family firms in a variety of roles. Hence, it should be useful to learn how these companies are owned, controlled, and managed, to decide why or why not they may want be involved with them, and if they do, to know how to make the most out of their association with these companies in whatever role they choose to play.

The following figure summarizes the main dimensions along which family firms differ from non-family firms and how they fit into the structure of the course:
### FAMILY FIRMS vs. NON-FAMILY FIRMS

<table>
<thead>
<tr>
<th><strong>Owners’ Preferences</strong></th>
<th><strong>Cash flow rights</strong></th>
<th><strong>Cash flow rights</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Control rights</td>
<td>No private benefits of control</td>
<td>No private benefits of control</td>
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<tr>
<td>Private benefits of control</td>
<td>Short investment and profit horizons</td>
<td></td>
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<td>Long investment and profit horizons</td>
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<tr>
<th><strong>Financial and Governance Issues</strong></th>
<th><strong>Agency conflicts between shareholders and managers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade-offs between control, liquidity and growth</td>
<td>No such trade-offs</td>
</tr>
<tr>
<td>Agency conflicts between controlling (family) and minority (non-family) shareholders</td>
<td>Agency conflict between shareholders and managers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Management Decisions</strong></th>
<th><strong>Cutting costs to maximize short-term profits</strong></th>
<th><strong>Cutting costs to maximize short-term profits</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment decisions with long payback periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Setting up a dual-class share structures and use of ADRs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cutting costs to maximize short-term profits</td>
<td></td>
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<tr>
<td>Adopting anti-takeover provisions</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Structural Characteristics</strong></th>
<th><strong>Control rights = Cash flow rights</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Smaller</td>
<td>Larger</td>
</tr>
<tr>
<td>Lower dividend payout</td>
<td>Higher dividend payout</td>
</tr>
<tr>
<td>Lower leverage</td>
<td>Higher leverage</td>
</tr>
<tr>
<td>Control rights &gt; Cash flow rights (often?)</td>
<td>Control rights = Cash flow rights</td>
</tr>
<tr>
<td>Less-anti takeover provisions</td>
<td>More anti-takeover provisions</td>
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</tbody>
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<tr>
<th><strong>Firm Performance</strong></th>
<th><strong>Firm Performance</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher if founder is CEO or Chairman, especially with dual class stock</td>
<td>Lower than in founder-led firms</td>
</tr>
<tr>
<td>Lower if descendant is CEO or Chairman</td>
<td>Higher than in descendent-led family firms</td>
</tr>
</tbody>
</table>

### Building Block C: International Finance and Cross-Border Valuation

The last building block of the course is the international finance aspect of the cases. Rapidly integrating markets have stretched firms across borders and increased the importance of foreign operations to firms around the world. In contrast, most finance scholarship and pedagogic material emphasizes firms that are domestic. What do finance practitioners need to know to operate in a global setting? The course is set-up to address this question. In the process of building blocks A and B, course materials provide students with the analytical tools and frameworks to become a financial or general manager within a firm or to become an intermediary advising or evaluating those firms.

This building block develops an analytical framework for making financing, investment, risk management and incentive management decisions within the venture and firm. In short, this framework emphasizes how the internal capital markets of multinational firms can create a competitive advantage for global firms. The block demonstrates that creating this advantage requires that managers reconcile three often conflicting forces:

- Institutional frictions that create opportunities and obstacles for firms
Financial incentives created by the ability to operate in many countries
The managerial motivations and organizational goals that must mediate all strategies.

The traditional and fundamental financing and investment questions that are the staples of corporate finance courses become new again in a cross-border setting. Finance practitioners are faced with numerous questions that require well-developed intuitions from a domestic setting to be reinvented in an international setting. Rather than simply considering how to make aggregate capital structure and dividend decisions, CFOs must also wrestle with decisions regarding the capitalization and repatriation policies of their many subsidiaries. Capital budgeting decisions must not only reflect divisional differences but the complications introduced by currency, tax and country risks. More generally, valuation decisions must now take into account how to value assets that are exposed to different country risks, expropriation risks, and different currencies. Incentive compensations systems must consider how to measure and reward managers who are operating in very different economic and financial settings. The modern multinational firm has worldwide operations that are managed through a network of separately incorporated subsidiaries, often through several hundred such subsidiaries. The relationships between the parent firm and these subsidiaries are depicted in the following figure:

The questions we will seek to answer include:
- How should subsidiaries and new ventures be financed?
- How should repatriation policies be designed?
- How should investment opportunities in different countries be analyzed?
- How should financial information be communicated inside the firm?
- How should we account for expropriation, country, currency, and tax risks?
- When should ownership be shared? With whom?

Analysis of such decisions within the firm can illuminate the determinants of financial decision making in a broader context. This building block of GEF will give students the framework to study how the same firm makes a critical financial decision (in a different way?) across varying institutional environments, tax regimes, and government regulations opening up the possibility of understanding the determinants of these decisions in new ways. Without a deeper understanding
for how firms do and should make such decisions, practitioners are left to rules of thumb on highly aggregated decisions made with respect to the broader capital markets.

In short, this building block is designed to provide students with the analytical tools and frameworks required to address financial decision making in the modern global firm.

**Who Should Take This Course?** GEF is aimed at students who plan to start a business at some point in their careers, students who plan to work for or finance an entrepreneurial firm, and students who plan to work for an established firm. GEF is helpful not just for students who plan to work in international firms; even students who plan to work in their home countries can learn a great deal by comparing and contrasting opportunities, financing contexts, and legal structures across different countries.

The course is also designed for students who may be involved in family firms and closely held companies in a variety of roles, including founders, shareholders, or managers of their own family’s firm, as well as non-family managers and employees, investors or business partners (e.g. private equity investors, strategic buyers or financial buyers), and advisors of various kinds (e.g., investment bankers, board members or consultants).

Finally, the course is also designed for future senior executives that manage global financial operations, the general managers working within these firms, and the intermediaries advising or providing capital to these firms.

The aim of the course is for students to understand the motivations, decision processes, transaction execution, and valuation consequences of financial, business, and organizational restructuring done by ventures, family firms and closely held firms in an international context. The course facilitates developing the ability to plan, evaluate, and execute ventures using financial modeling and quantitative techniques. In addition, the objective of this course is to enable students to appreciate the fundamental issues involved in the structure and functioning of markets across the world within the framework of finance theory. The course is designed so as to create an interface or link between the academic and the practitioner perspectives of various dimensions on this particular type of organizational forms: ventures, family and closely held firms.

**B. Focus of Study: Topics and Outline of Course**
The course is divided into six parts. For a summarized description of each of the topics, please refer to the course outline:

- **Part A:** Valuation Methods. Where Is Enterprise Value Coming From? Reconciliation of Valuation Methods
- **Part B:** Valuation and Risk Assessment: Entrepreneurial Buyouts
- **Part C:** Valuation and Risk Assessment: Growth/Harvest/Exit
Part A: Valuation Methods Review
For many of you, Part A will allow you to review material from your core courses (Finance I/Finance II). We will spend time reviewing how to create value in ventures reconciling the different valuation methods. By the end of this module, you will be able to construct different cash flows such as unlevered cash flows, levered cash flows and equity cash flows, analyze various discount rates, and perform relative valuation techniques (including the venture capital method).

Part B: Valuation and Risk Assessment – Entrepreneurial Buy-outs
Part B is concerned with the valuation of ventures, start-ups, and mature enterprises, including entrepreneurial buyouts in international settings. Above all, this part applies discounting and option pricing techniques to the valuation of entrepreneurial firms. All valuation cases studied in this part have a common denominator: the protagonist is an entrepreneur, or group of entrepreneurs, who must assess whether it makes sense to deploy the necessary resources to pursue an opportunity. This part also seeks to familiarize aspiring entrepreneurs and those who finance them with the notions of risk and reward in entrepreneurial ventures and to acquaint them with means to approximate value in a consistent manner across a range of country contexts and stages of venture development.

The rationale for the venture capital method of valuation is discussed, as are the mechanics of financing buy-outs of private firms and the use of options in start-up firms. A good valuation analysis will point to the drivers of value creation as well as to a venture’s weaknesses. The challenge and opportunity is thus to draw constructive conclusions from a valuation.

Part B emphasizes four topics that are repeated and extended in cases later in the course.

First, entrepreneurial firms must focus on managing cash. The negotiating position of an entrepreneurial venture that is not generating free cash flows deteriorates disproportionately as the venture’s cash disappears. GEF discusses some of the implications of this and suggests simple scenario analysis techniques for assessing the likely future position of an entrepreneurial venture and its potential contingencies. Attention is also paid to estimating operating cash needs in determining working capital requirements for a young company.

Second, entrepreneurs need to understand the so-called venture capital method, which values start-up firms based on an assumed multiple of net income after a number of years (typically three to five) using a very high discount rate, often between 25% and 50%. GEF dissects the components of this rate and argues that this method can be useful for all equity-financed firms with no intermediate free cash flows, but should always be used with great caution. Aspiring and
practicing entrepreneurs learn from this analysis about misestimates that can result from “fudging” a range of unknown factors into the discount rate.

Third, the process by which entrepreneurs and those who finance them structure and value entrepreneurial buy-out deals is typically very context-specific. It is also iterative, with senior debt, high-yield debt, and equity as financing components. GEF discusses cash flow valuation methods such as capital flows and adjusted present value that are convenient for firms with changing capital structures. Relevant cases include Butler Capital Partners (Country: France) and Ducati (Country: Italy).

Fourth, cases in this part also suggests that option valuation techniques used to determine the value of options in start-up firms, albeit often crude, work demonstrably better than rules of thumb. This is an important subject inasmuch as many start-up firms use options as part of their compensation. Early stage employees in start-ups are often found to have little understanding of how to think about these options. Entrepreneurs can influence prospective employees to join young firms by communicating Relevant case is Butler Capital Partners.

Part C: Valuation and Risk Assessment – Growth/Harvest/Exit
Part C explores entrepreneurial management and financing challenges at a number of successful later-stage international ventures. “Later stage” does not necessarily mean old. Rather, it means that a venture’s basic business model has been proven, in which case the questions become not so much whether, but in what form, the venture will survive and how is further expansion can be managed and financed. Expansion and harvesting decisions might seem far out in the future to aspiring entrepreneurs, but there is much to be learned about from looking at fast growing and more mature companies. Early choices about which opportunities to pursue and under what terms to assemble resources have a big impact on the likelihood of a venture’s success.

The feasibility of a buy-out of a dental equipment manufacturer, Sirona (Country: Germany), from conglomerate Siemens is considered. This case serves two purposes. First, it provides the analysis of another buy-out transaction as described in Part B. The analysis focuses on how realistic certain growth assumptions in the case are and how costs can be reduced once an entrepreneurial leader takes over. Second, the case involves much discussion of how to assemble a management team capable of leading the firm after the buy-out. Analysis focuses on the ideal profiles of these managers and how such managers might be identified, hired, and compensated.

Entrepreneurial firms’ use of leasing is discussed in this part of the course as opposed to franchising. Apart from tax considerations a lease might make sense if it is less costly and time-consuming to sign a standardized lease than to negotiate a long-term secured loan. One can argue that, particularly in volatile contexts, it is optimal for an entrepreneurial company to keep debt levels low. High levels of debt to equity might expose a firm to hold-up by banks, particularly in emerging markets. Also, it might be the case that at the same cost banks are less sophisticated at assessing the value of an asset to be financed than leasing companies are at assessing the value of an asset to be leased. In summary, the use of financial leases might enable more flexible and faster growth of a young company in an Islamic finance context. TCS: An Entrepreneurial Air-Express Company (Country: Pakistan) case serves as an example of this part of the course.
Part D: Managing Contingencies and Mobilizing Resources: Valuing Cross-Border Investments

Valuing cross-border investments is the next part of the course. The cases in this part explore how valuation differs in an international context and introduce students to major issues in cross-border valuations such as:

- How to value investments in currencies other than the home currency
- How to calculate the appropriate discount rates for projects in different countries
- How and when to incorporate country risk into valuation
- How project finance may help to mitigate risks

Continental Cablevision – Fintelco Joint Venture (Country: Argentina) analyzes Continental’s proposal to acquire 50% of Fintelco, a family-firm and the third-largest cable television system operator in Argentina. The case details the motives, expectations, terms of investments and cash flows in pesos (local currency). The case addresses the role of joint ventures as a method of strategic partners and explores specific methodological issues on cross border valuation including: segmented vs. integrated markets and its implications on the use of global vs. local CAPM, dealing with local and foreign currency cash flows, adjusting for country, political, and currency risks, and adjusting for project betas using country betas. This case also illustrates the challenges of cross-border deal-making, giving special attention to Latin America. Dow Chemical’s Bid for the Privatization of PBB (Country: Argentina) allows students to compare different approaches to valuation (discount rates adjusted for country risk and cash flows adjusted through scenario analysis). It provides valuable insights into how sound financial decisions depend on the synthesis of the financial, institutional and managerial perspectives. In particular, the case demonstrates that: (a.) Crises can create opportunities for multinational firms; (b.) Using cash flows to model institutional risks can create more robust valuation practices; and, (c.) Traditional discount rate adjustments would have led to precisely the wrong answer.

How to deal with repatriation, expropriation, remittance and tax risks? These are risks that are highlighted in the next case. Petrolera Zuata, Petrozuata C.A. (Country: Venezuela) serves as an introduction to the topic of project finance. The case highlights the importance of project finance in solving market imperfections and risks that traditional corporate finance would not be able to do. The case is an example on how project financing creates value by minimizing capital market imperfections and by efficiently allocating risks to parties that are better able to manage specific risks.

Part E: Family and Closely-Held Firms

Family ownership and control of firms raises a number of financial issues and trade-offs for the people and organizations involved. Even in the simplest possible financial scenario for a family firm, a founder who starts a business with his own money, and who does not have a family there are many trade-offs (“founder’s dilemma”) involved. Capital (both financial and human) flows from the founder to the firm and, in return, the founder may receive from the firm dividends for his financial capital and a salary for his human capital. Even in this simple scenario, the founder faces several financial trade-offs. In his dual role as owner and manager, he faces a trade-off between dividends and salary as a form of compensation. He also faces a trade-off between
liquidity and growth: how much money to take back for himself vs. how much to reinvest in the company. One obvious way out of this tradeoff is to allow another individual or institution to inject capital into the firm. Yet outside capital typically comes at the expense of reduced control over the company, and increased accountability. The founder thus faces a three-way trade-off between liquidity, growth, and control (three forces that stretch the firm in different directions).

*Kohler Co. (A) and (B) (Country: US)* shows how family preferences manifest themselves in managerial actions. The case highlights several points along the company’s history where its founder family in its third generation made decisions that would have been difficult to justify in a publicly traded firm given their impact on short-term profits, and yet added significant value to the company over the long run. The case also highlights and explores the role of founding family controlling shareholders and the impact of their decisions on family and non-family minority shareholders. The case illustrates how the liquidity and control trade-off conflict can appear in a later-generation family owners. From a methodological stand-point the case highlights the application of control premiums, minority discounts and illiquidity/non-marketability discounts to equity values depending on the valuation method used. It also highlights the importance to account for the lack of personal diversification, which may increase (not necessarily! Why?) the cost of capital of the firm since equity owners requires now compensation for bearing total risk rather (systematic plus idiosyncratic risk).

*SUN Brewing (A) and (B) (Country: Russia) and Ayala Corporation (Country: Philippines)* illustrate the benefits and costs for founding families of sharing ownership and control with joint ventures/strategic partners and public investors, respectively. Both cases also illustrate what seems to be a way out of the growth-control trade-off: sharing more ownership than control, i.e. retaining a higher fraction of votes than shares through the use of dual-class stock and pyramidal ownership or “pyramids.” Does the use of these mechanisms typical come at a cost for families in the form of a reduction in firm value? The three cases will highlight different answers to this question. *SUN Brewing (A)* also illustrates the risks of entrepreneurship in emerging markets, and highlights the role that family business groups can play as an internal capital markets, particularly in emerging economies, where external capital markets are inefficient. *SUN Brewing (B)* serves a double purpose. One is to facilitate a discussion of the benefits and costs for a family firm of bringing in a strategic (joint venture) partner, and the subsequent exit options. The other is to discuss the drivers of the voting premium and the value of a vote in companies with dual-class stock and its effect on the valuation of the family’s cash flow and control rights.

*Ayala Corporation* is also open to public investors, in contrast to *Kohler*. The case then facilitates a discussion of the benefits and costs for family firm owners and managers of partnering with public investors. The case allows to measure family ownership and control, as well as, to measure the value created by the family for itself and for other shareholders. Finally, the case offers a unique opportunity to measure and discuss the value implications of corporate diversification for family and non-family shareholders. The mixed of the composition of the shareholder base with the riskiness of the environment highlights the need to take investors’ different risk exposures into account when evaluating the value that the family is creating for them.

In *Medco Energi Internasional (Country: Indonesia)* we explore different capital restructuring transactions available to family firms, including LBOs and equity offerings, in a turbulent
emerging markets setting. The case illustrates the benefits and risks of these transactions and the resulting capital structures from the perspective of both the controlling family and minority shareholders.

The final case of this section, *Drilling South: Petrobras Evaluates Pecom* (Countries: Brazil-Argentina) investigates how segmented capital markets create financing opportunities for firms and the mechanisms that evolve to take advantages of those opportunities. The main issue that the cases raises is to understand why and how firms seek foreign listings and how managerial incentives influence decisions to exploit cross-border financial opportunities. *Petrobras* exploited cross-border financial opportunities to become more independent illustrating how finance can be used to fight political interference. The case explores issues of corporate governance in emerging markets, the dynamics of cross-listing for foreign firms in the U.S. and how they can be used to contract around inefficient regimes and facilitate capital flight.

**Part F: Weak Institutional Environment**

It is essential that entrepreneurs and those who finance them understand the process of how resources are mobilized in the legal context they are operating. Entrepreneurs typically first see an opportunity and then think about how to accumulate needed resources. When they do seek resources entrepreneurs often face a *Catch-22* problem: they need resources to demonstrate that they can capture the opportunity they have identified, but without proof that they can capture the opportunity it is difficult to secure resources.

This dilemma is clearly reflected in the management of entrepreneurial ventures. Take financial capital as an example. Entrepreneurs typically can secure only staged commitments from capital providers in countries where property rights are weak. Given sufficient capital to demonstrate their ability and validate their ideas on a small scale, they are then in a position to raise additional capital needed to pursue the idea further. It is generally in the best interest of entrepreneurs to raise only enough capital to get to the next stage of a venture since its value increases with each milestone that is reached. Those who manage this process optimally will give away increasingly smaller shares of the equity pie at increasingly higher valuations without running out of cash.

The dilemma of how to mobilize resources for entrepreneurial ventures is exacerbated in countries that lack a developed market for risk capital (*e.g.*, Nigeria and South Africa). The last two cases of the course consider cross-country differences in the availability of resources to entrepreneurs and the possibility of cross-border access to resources. Also acknowledged is the non-monetary value of some funding sources. If property rights in a country are weak, for example, funding sources such as the International Finance Corporation can often apply pressure at high political levels on behalf of ventures treated unfairly. We will see this example in the case *Capital Alliance Private Equity: Creating a Private Leader* (Country: Nigeria).

Entrepreneurship is very challenging if a country context lacks even the most basic infrastructure or displays a high level of corruption. But entrepreneurship in such a context can be fruitful if the entrepreneur succeeds in delivering exactly what the volatile or corrupt country context does not offer: dependability and ethical business practices. This can be achieved if the entrepreneur is
savvy in enlisting all ethical and/or reliable partners and in creating a virtuous circle. Building an oasis of sanity in the desert can also be highly lucrative because it is difficult to emulate. The Capital Alliance case in this module is an example. The case acknowledges the temptation for start-ups to engage in corruption and examines the pitfalls of doing so.

The last case, *Gray Security: Building a South African Services Firm* (Country: South Africa) deals with an African company still run by its founders who have recently raised capital from a leading South African private equity firm. The case reveals that the end of the Apartheid created considerable opportunity as well as uncertainty. Private enterprises were pressured by the South African government to make previously disadvantaged groups shareholders.

C. **Course Materials**
The reading material for the course is contained in:

- A digital case and article packet which is available at Study.Net (www.study.net). The digital package contains all the cases and copyrighted material you will need to purchase for the class during the quarter. All the other necessary material including slides, lecture notes and articles will be uploaded in Dropbox. I will not distribute this material in class, so you should therefore print this material or just read the material on-line before class and for each assignment. I will only distribute in class the case solution(s) for the case(s) we are discussing and solving in that specific session.

I highly recommend a small, practical and inexpensive but surprisingly comprehensive dictionary defining over 5,000 terms:


As reference material for basic corporate finance topics you may want to use any of the usual graduate textbooks:


- Brealey, R., Stewart Myers and Franklin Allen (BMA), “Principles of Corporate Finance,” 9th Edition, McGraw-Hill/Irwin, 2007. This is another textbook you may find useful in case you want to review core topics that were taught in your corporate finance classes.


In addition (most of) the material will be posted on Dropbox during the quarter (subject to
copyright regulations). I will also hand out teaching slides and additional reading material as well as case solutions. In some cases I will e-mail my valuation model, so you can compare to the valuation your group produced. All materials I distribute in class will be posted on Dropbox, except for the solutions of the cases. If you are missing any material, you should contact me via e-mail. I will be happy to provide it.

There are several other books on the market covering corporate finance to various degrees of depth. We will not use these books in this course, but if you wish to consult other textbooks, here are some good useful textbooks. You should also feel free to ask me for book recommendations in other topics if you are interested.


For valuation purposes four good references are:


I highly recommend the two valuation books since they are unique source of reference when dealing with particular topics in valuation.

The following list of books is those which I have found interesting as well as informative (bed-time reading). If after my class you are interested in additional reading, please, let me know. This list is meant to be my suggestions of where you can start looking.


• Schwager, J.D., *The New Market Wizards: Conversations with America’s Top Traders*, Harper, 1994. This book is a series of interviews with very successful traders. These are people who have beaten their respective markets.

D. Course Procedures: Group Case Write-Ups

Deadlines are non-negotiable. Under special circumstances, you may arrange to turn in your work early, but late submissions will not be accepted.

There will be 12/13 group case write-ups/assignments depending on the availability and feasibility of time as the course progresses. **Case write-ups must be submitted before the beginning of each lecture.** I will grade the cases on a scale from 0 to 10 (including decimals places) and give you as much feedback as possible in the corrections. I have a very particular way of grading, it is tough but it is very detailed and, most important, you will learn from your mistakes. The Case-Study Questions for each of the 12/13 graded cases will be available on Dropbox a week in advance. Note that the Mini-Cases in the Course Outline are not graded. These cases and material will be covered in class.

You are allowed and encouraged to meet in groups outside of class to discuss and analyze the cases. In the past, students have found that these groups complement the class discussion well. Groups should be composed by exactly 5 students. If you have any problems finding with a group, please let me know. I will be happy to assist you in finding a group.

Diversity in group composition will be rewarded (strong and weak finance students, men and women, single and married…) and you can describe on the cover page of your first assignment how your group is diverse. You are allowed to change groups during the term (although I do not prefer this situation). Also, bear in mind that it may be helpful to choose groups according to the home addresses of the group members since most likely you will be meeting during the weekends to solve and discuss the cases.
Each group will submit a **three-page (NOT a single page more)** memorandum of analysis and recommendations covering the case study questions plus any accompanying tables, models, graphs and exhibits you wish to include as appendices. Tables should be well organized and labeled. Include whatever exhibits you deem necessary, but I suggest not to waste the reader’s time with exhibits that do not add value to the analysis. For example, do not use two similar exhibits that do not add much to the analysis and understanding of the case, or do not repeat what is written on the case. Be sure to indicate how you arrived at your conclusions. I care about your thinking process and the logic behind the answers rather than the correctness of the answer. I will accept one memorandum from the group and count it for all students in the group. Be sure to address in each paragraph of the memorandum the questions you are being asked in the case-study questions. I urge you to start each paragraph with a number referring to the question you are answering.

Each group should also submit (via Dropbox) the excel file that contains the (professional, neat, complete, and clear) analysis. This way is easier for me to grade your quantitative analysis. The excel file should be named **FirstName_LastName_CASENAME.xls.** The first and last name can correspond to any member of the group.

The main point of the cases is to help you learn by ensuring that you prepare for class and think about the material to cover each week. Reading the material assigned for each week is crucial and preparing for the cases is the best way to enjoy and learn from this course. My advice about the cases is: do your best in working through them, but recognize that they are hard and you will not always get it right. They will get harder as the course progresses.

Keep a copy of your answers as you will be expected to contribute to the class discussion based on your written answers. The cases are your opportunity to apply the concepts you have learned thus far to messy, not-so-clear, and complex real-world problems. Understanding the ideas is important and being able to explain them to your boss and co-workers is equally important. Thus, your case write-ups will be graded both on your answers as well as how well you defend your proposed solution.

The readings and articles, which I have assigned and will hand out as the course progresses or post in Dropbox, are largely non-technical in nature and summarize the findings of academic and business research in corporate finance in the recent past. These articles are meant to be background material, which will help you to analyze the cases. The readings should not necessarily be cited in the case discussion; I do not want a summary of my reference material! You should try to argue as if you were in a corporate boardroom rather than in a doctoral seminar. The goal is to have an open and interactive class-case discussion, where the process of arriving at the answer is as important as getting the answer.

Because of the nature of this course (and its grading criteria), it is extremely important that you attend every class, arrive on time, and are prepared to participate. To help me remember who said what, it is important that you **always sit** in the same places. Also, if your picture is not in the Kellogg directory/roaster face book, I recommend that you come and introduce yourself to me on the first day of class.
E. Grading

The weighting for the final grade is given by:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weightage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Participation</td>
<td>25%</td>
</tr>
<tr>
<td>Group Case Write-Ups</td>
<td>55%</td>
</tr>
<tr>
<td>Peer Review Evaluation</td>
<td>20%</td>
</tr>
</tbody>
</table>

As a strict rule, there is no make-up days for material due. It is your responsibility to schedule the rest of your activities such that you are able to attend comply with the rules of the class.

**Class Participation:** This is a case-based course and class participation is an *indispensable* part of the learning experience. I will judge your performance based both on the quality and the number of your comments. Because so much of the learning in this course occurs in the classroom, it is very important that you attend every class. Low class participation combined with several absences can lead to a lower grade. If you are uncomfortable with such a heavy weight on class participation, this class may not be for you. I will grade for each case your class participation using a discrete scale of 1, 2 and 3. For the best (or bests) student(s) in terms of class participation for each session, I will assign only one numerical value of 5 per class. I will post in Dropbox each night (after class) the class participation grades for that day so you can check the performance for that particular session.

**Group Case Write-Ups:** As mentioned in Section D, this grade will be based on the 12/13 group case write-ups. Grading is very seriously done and I expect from all the groups high-quality write-ups.

**Peer-Review Evaluation:** During Week X, I will distribute and post a peer-review evaluation which you will have to complete individually evaluating each member of the group. In addition you may submit an attached hard-copy letter to the peer-review evaluation describing each team members’ performance and contribution to the group, and an assessment of “how the process went.” Please, remember to put your name on the letter. I recommend you hand me in the peer-review evaluation and your letter in a sealed signed envelop in class on the last class of the quarter.

F. Dropbox

The class webpage on Dropbox is intended as the main information dissemination mechanism. When you have a question, you should consult Dropbox first, as in most cases; you will find the answer there. If it is not the case, then contact me. In particular: lecture notes, teaching slides, handouts, announcements, frequently asked questions (and their answers) and supporting material will all be posted on Dropbox.

From Dropbox you will be able to download excel spreadsheets and case questions for the 12/13 graded cases. Each workspace, in turn, contains one or more of the exhibits in the case. This will make it easier for you to spend time on the analysis, rather than punching in numbers. From the portal you will also be able to download most of the handouts I supply throughout the course as well as teaching material and slides. Any material I hand out in class will also be uploaded in
Dropbox (unless it is copyrighted material).

**G. Office Hours and Contact Information**
The best way to get in touch with me is via email: j-liberti@kellogg.northwestern.edu. I follow an open door policy. You can also call, come to my office hours, or put a note in my mailbox. You can call me at 847.467.4524 My office is located at the Finance Department, Global Hub 4371. I will also be available for individual meetings by appointment at times that are mutually convenient. Please e-mail me to make appointments. If you come, I will stay until student exhaustion or midnight whichever comes first.

As a rule to follow, I will **NOT** discuss any question related to the cases before they are solved in class. After they are solved I will be more than happy to discuss them with you. I am happy to discuss anything you want regarding the course material, job offers, projects, careers, etc.

**H. Finance Review and Reference Material**
One of the challenges of Corporate Restructuring, LBOs and Private Equity is that students’ background is generally very different, specifically coming from different programs and careers and having taken different courses at different times in their MBAs careers. For some of you some of the finance material will be fresh, but for some others it will be rusty (or eve very rusty since the last time you took a finance course was at College). For those of you who feel you need to review some of the “old” material I am providing you with some of material from core corporate finance courses (FINC 430/440/441). I have been writing these notes during the last 5 years now. I am still updating them. Feel free to let me know about typos or things that are unclear. I will be more than happy to correct them. You will **NOT** need the 15 chapters for this class. I will let you know which the relevant chapters are for each session. You should check the Reading Material for that particular week.

Feel free to browse the specific issues and chapters for each of the relevant cases as indicated in the assigned Weekly Readings. I will assume that you are acquainted with this material; I will **NOT** lecture this material during the course. Use these slides as a reference material in case you need so, and obviously feel free to download them as reference material for upcoming courses.

**I. First Week Class Assignment**
In Week I, Tuesday January 9 we will go over some basic valuation review concepts including different types of cash flows (Unlevered and Levered Cash Flows) WACC, Adjusted Present Value (APV), Relative Valuation Techniques and understanding where *Enterprise Value* is coming from. Show up in class, happy, rested and ready to work!

**J. First Valuation Workshop**
There will be a Workshop according to the Course Outline. The Workshop will take place on January 10 and will cover Valuation Techniques. The room assigned for the Workshop is **Global Hub 2130**. This workshop is non-mandatory, but I strongly suggest you to attend.
K. Review Sessions: Workshops and Tutorials
There are planned review sessions according to the course outline. These are non-mandatory but they will help you in the future cases. I strongly suggest to attend Workshop B (LBO Modeling) and Workshop C (Cross-Border Valuation). The classrooms assigned for the review sessions throughout the quarter are different than our usual Tuesday class. Please download the tutorial outlook calendar schedule from Dropbox.

L. Tips On How To Engage The Course
Diversify. The course offers a number of learning modes. Engage them all! The plan for the course shows that regular case studies will be the focus of the class meetings.

Follow Your Interest. This is a “self-tailoring” course in that it leaves much of the technical reading to the discretion of the student. Consider reading carefully where you find interesting topics.

Join a Learning Team to Prepare For Class. The ideas in the cases and readings for class are deep; the analysis can get complex. You will learn more from the course, and perform better in class participation by discussing these cases together in a learning team. I will serve as a clearinghouse for those students who have been unable to join a learning team.

Commit to Your Write-Ups and Learning Teams. Team-based work makes a large contribution to the course. The Group work accounts for 55% of the final grade. High performance teams show a number of common attributes:
   o Members commit to the success of the team.
   o The team plans ahead, leaving time for contingencies.
   o The team meets regularly.
   o Team members show up for meetings and are prepared to contribute.
   o There may or may not be a formal

M. Academic Integrity Policy
As a condition of their enrollment in this course, All students enrolled in a course offered by the Kellogg School of Management agree to abide by the Kellogg Honor Code as outlined in http://www.kellogg.northwestern.edu/stu_aff/policies/honorcode.htm. A violation of the Honor Code will result in sanctions, including a failing grade for the course.

N. Course Reading List and Course Outline
The course reading list is divided by Weeks and classified in Required Readings, Business Readings and Supplementary Readings. You do not need to read the Supplementary Readings. This supplementary material is provided to expand you knowledge in the particular topic we are covering. It is more to suffice your curiosity in the specific topic we are covering that day. If you want any additional information please do not doubt to let me know. I will be happy to provide you with any additional material or readings.
Week I/Workshop A
[January 9/January 10]

Valuation Methods Review
Where Is Enterprise Value Coming From?

Reconciliation of Valuation Methods

Recommended Readings

Required Readings on Valuation


  [Concentrate on the 2 basic Cash Flows: FCF and CCF. This chapter is already in the set of slides I distributed in class!]


Required Readings on Reconciliation Methods


Required Readings on Capital Structure


Required Readings on Transaction and Trading Multiples

- CA, “The Practitioner’s Guide To Investment Banking, Mergers & Acquisitions, Corporate Finance,” Part II: Valuation, Chapters 9 (Comparable Company Analysis) and 10 (Comparable Transaction Analysis).


Supplementary Readings on Valuation


- BMA, “Principles of Corporate Finance,” Chapter 17, 18 and 19 (Financing and Valuation).


Supplementary Readings on Transaction and Trading Multiples


Supplementary Readings on Capital Structure


Supplementary Readings on Sensitivity Tables

Week II
[January 16]

Private Equity: Logic and Mechanics of LBOs
Deal Structuring

Structures of Corporate Control and Governance
Roll-Ups and Economies of Scale

Recommended Readings

Required Readings on Private Equity & LBOs


  [This is a fantastic article to understand the role of Leveraged Buyouts and other transactions such as takeovers, corporate break-ups and spin-offs in shaping a new organization during the late 1980s.]


  [This is a simple Intro on LBOs.]

Required Readings on the Market for Corporate Control in Europe


Supplementary Readings on LBOs and the Market for Corporate Control in Europe


1995.

- “European Mid-Market Private Equity: Delivering the Goods,” European Private Equity and Venture Capital Association


**Supplementary Readings on Market Risk Premium**

  
  [This is a very interesting article show that the market risk-premium is not only a US phenomenon. The article provides numerical evidence of the market risk-premium around the world.]


**Supplementary Readings on Options**

- BdeM, “Corporate Finance,” Part VII: Options, Chapter 20 (Financial Options) and Chapter 21 (Option Valuation).

- BMA, “Principles of Corporate Finance,” Part Six, Chapter 21 (Understanding Options) and Chapter 22 (Valuing Options).

Week III/ Workshop B
[January 23/January 24]

Strategic vs. Financial Sponsors
Sources of Value in LBOs
Corporate Governance around the World

The LBO Valuation Model
CCF, ECF and IRRs to Sponsors

Recommended Readings

Required Readings on Private Equity and LBOs

  [This is a must read article! The Section: Is Private Equity a Superior Organizational Form? [Pages 130-136] describes in detail the changes private equity firms apply to the firms in which they are investing in. This article is more concentrated in the U.S.]


Required Readings on Global Corporate Governance


Supplementary Readings on Private Equity and LBOs


*Supplementary Readings on Management Buyouts*


*Supplementary Readings on Global Corporate Governance*

Week IV-A
[January 30]

More on the LBO Valuation Model
The Iterative Process of Buyouts
Mezzanine Financing
The Role of Auctions

Recommended Readings

Required Readings on Private Equity and LBOs


  [This is the same reading as in Week III: The LBO Valuation “Bible.”]

  [This is a very short descriptive basic note on Mezzanine Finance. You can check the http://bondcapital.ca/]

Required Readings on the Market for Corporate Control


Supplementary Readings on Private Equity and LBOs


*Supplementary Readings on Takeover Regulation in Europe*

• Liberti, J., “Takeover Regulation in Europe,” Lecture Slides, Kellogg School of Management, 2018.
Week IV-B
[January 30]

Contextual Obstacles:
Alternative Methods of Financing

Leasing
The Role of Islamic Finance

Managing Risk and Personal Risk

Recommended Readings

Required Readings on Islamic Finance

Required Readings on Leasing

Supplementary Readings on Islamic Finance

Supplementary Readings on Leasing
Workshop C/Week V  
[January 31/February 6]

Valuing Cross-Border Investments  
Integrated vs. Segments Markets  
Global vs. Local CAPM  
Country Beta and Project Beta  
Managing Risks: Repatriation and Tax Risks

Recommended Readings

Required Readings on Cross-Border Valuation


- Liberti, J., “A Note on International Valuation,” Note, Kellogg School of Management, 2018..

- Liberti, J., “Cross-Border Valuation,” Kellogg School of Management, 2018..

- Liberti, J., “How Investing in EM Differs from Developed Markets,” Dropbox, Kellogg School of Management, 2018..


Required Readings Case Study: Exxon Mobil

Supplementary Readings on Cross-Border Valuation


Supplementary Readings on Joint Ventures

Week VI
[February 13]

Project Finance in Emerging Markets
Breaking the Corporate Ceiling
Managing Project Risks: Expropriation Risks

Recommended Readings

Required Readings on Project Finance
- Brealey, R., I. Cooper and M. Habib, “Using Project Finance to Fund Infrastructure Investments,” *Journal of Applied Corporate Finance*, Volume 9, Number 3, Fall 1996. [Recommended Pages: Full article or at least the concluding pages 36-38]


Required Readings on Rule 144A

Supplementary Readings Project Finance
Supplementary Readings on Capital Structure


Week VII
[February 20]

Valuation of a Private Company:
Total Beta vs. Market Beta

Controlling vs. Minority Shareholders
Lack of Marketability
The Role of Control Premium and Minority Discount

Recommended Readings

Required Readings for Private Company Valuation


Required Readings for the Debate over Public vs. Private Ownership


**Business Readings**


**Supplementary Readings on Public vs. Private Ownership**


**Supplementary Readings on Control Premium and Minority Discounts**

  [Ignore the mathematical derivations and simulations of the paper.]


**Supplementary Readings About Private Firms - Books: Want to Know More?**

There are a couple of very good books on valuation in general and specifically referred to private and closely-held firm’s valuation. Shannon P. Pratt’s books concentrate on private business valuation and the different uses of discounts for control or lack of marketability as well as premiums. Chapter 24 of Aswath Damodaran’s book covers the topic of private firm valuation. Finally, Bruner’s Applied Mergers and Acquisitions book covers the topics of liquidity and control in one of its chapters.
Here is an incomplete list of books covering these subjects:


Week VIII
[February 27]

The Family as an Internal Capital Market:
Partnering with Strategic Investors

Impact of Dual-Class Stock on Voting Control
The Value of a Share and the Value of a Vote
Voting Premiums

Cross-Border Listings
GDRs, ADRs and Rule 144a Placements

Recommended Readings

Required Readings on Family Firms, Closely-Held Firms and the Value of a Vote


  [Skim through the tables!]


**Required Readings on Cross-Listings, ADRs and GDRs**


**Supplementary Readings on Family Firms, Closely-Held Firms and the Value of a Vote**


**Supplementary Readings on Cross-Listings, ADRs and GDRs**


**Supplementary Readings on Strategy and Execution in Emerging Markets**


[Amazon: Here is the link.]

Week IX
[March 6]

Corporate Diversification: Family vs. Non-Family Shareholders
Partnering with Public Investors
Impact of Pyramidal Ownership on Control
Shareholder Value Creation:
Sum-of-Parts Valuation and the Conglomerate Discount
Economic Value Added (EVA©)
Alpha and Sharpe Ratio

Recommended Readings

Required Readings on EVA©


Required Readings on the Diversification-Conglomerate Discount


Required Readings on Closely-Held Firms

  [Skim Table 4 to get a sense of Block Ownership Around the World.]
**Supplementary Readings on EVA©**


**Supplementary Readings on the Diversification-Conglomerate Discount**


Week X-XI
[March 13/March 14]

Corporate Restructuring in Family Firms
Impact of Family Control on Management Decisions
Controlling Family vs. Minority Shareholders

Cross-Border Listings:
More on GDRs, ADRs and Rule 144a Placement

Recommended Readings

Required Readings on Business Groups and Restructuring


Required Readings on Separation of Ownership and Control

  [Skim at the Tables on Mechanisms to Enhance Control in East Asia]

Required Readings on Cross-Border Listings

Please review the material on Week VIII on ADRs and also read:


Supplementary Readings on Business Groups and Restructuring


Supplementary Readings on Cross-Border Listings

This is a summary of the course outline, which is subject to changes as the Quarter progresses. I reserve the right to alter one or more cases at a later date according to your performance in the cases. Lectures are basic guidelines for the following case. A (*) indicates if time permits. If we do not have the time to cover this in class, it will be your responsibility to read the required material and apply it to the following case. All cases will be graded, except the ones noted.

**PART A: VALUATION METHODS REVIEW**

**WHERE IS ENTERPRISE VALUE COMING FROM?**

**WEEK I (1/9)**

*Valuation: Understanding Where Value Is Coming From?*

Reconciliation of Valuation Methods: WACC, APV and CCF

Valuation Basis: Control vs. Minority Discount, Marketability Discount

Cash-Flow Rights, Control Rights and Private Benefits of Control

**Lecture:**

Dispersed vs. Non-Dispersed Shareholders

- Separation of Ownership and Control
- Implications for Valuation and Prices
- Minority and Control Issues

Valuation Methods and Techniques

- Weighted Average Cost of Capital (WACC)
- Discounted Cash Flows:
  - Free Cash Flow or Unlevered Cash Flows (FCF)
  - Capital Cash Flow or Levered Cash Flows (CCF)
  - Equity Cash Flows or Residual Cash Flows (ECF)
- Adjusted Present Value (APV)
  - The Relation Between APV and CCF
- Unlevering and Relevering Betas
- Relative Valuation: Trading and Transaction Multiples
- Sensitivity Tables

**Application:** Valuation Techniques: Summary of Formulae and Concepts
WORKSHOP A (1/10) Reconciliation of Valuation Methods: WACC, APV and CCF
[Wednesday] Review on Valuation Modelling: Applications

Lecture: Valuation Methods and Techniques
- Weighted Average Cost of Capital (WACC)
- Discounted Cash Flows:
  o Free Cash Flow or Unlevered Cash Flows (FCF)
  o Capital Cash Flow or Levered Cash Flows (CCF)
  o Equity Cash Flows or Residual Cash Flows (ECF)
- Adjusted Present Value (APV)
  o The Relation Between APV and CCF
- Unlevering and Relevering Betas
- Relative Valuation: Trading and Transaction Multiples
- Sensitivity Tables

Application: Excel Modelling and Applications: Full Valuation Model

PART B: VALUATION AND RISK ASSESSMENT
ENTREPRENEURIAL BUY-OUTS

WEEK II (1/16) Logic and Mechanics of Entrepreneurial Buyouts: A simple LBO
Deal Structuring of LBOs
Conditions for Entrepreneurship
Structures of Corporate Control and Governance
Impact of Warrants on Cost of Debt
Roll-Up and Economies of Scale

Case: Butler Capital Partners and Auto-distribution: Putting Private Equity to Work in France (Country: France)

Lecture (*): Private Equity and LBOs

TUTORIAL (1/17) Q&A Session: Butler
Pricing Warrants and Rolling Discount Rates

WEEK III (1/23) Strategic vs. Financial Sponsors
Sources of Value in LBOs and Value Creation in Private Equity
Mitigating Agency Problems
Capital Structure and Valuation of LBOs.
CCF, CADS, Equity Cash Flow and IRRs to Sponsors

Case: Ducati & Texas Pacific Group – A “Wild Ride” Leveraged Buyout (Country: Italy)

Lecture (*): Capital Cash Flow and Cash Flow Available to Service Debt (CADS)
Equity Cash Flows and IRRs to Sponsors
The LBO Valuation Model and the Target IRR Model
The Backward Induction Method

**WORKSHOP B (1/24)** *LBO Modelling*

*The LBO Valuation Model and the Target IRR Model*  
*The Backward Induction Method: Rolling Discount Rates*

**PART C: VALUATION AND RISK ASSESSMENT**  
**GROWTH/HARVESTING/EXIT**

**WEEK IV-A (1/30)** *Entrepreneurship as a Long-Term Endeavour*  
*Restructuring and Hiring New Management: Setting Up Incentives*  
*The Role of Auctions in Buyouts*  
*The Iterative Process of Buyouts*  
*Mezzanine Financing*

Case: Sirona (Country: *Germany*)

**WEEK IV-B (1/30)** *Contextual Obstacles: Alternative Methods of Financing – Leasing vs. Franchising*  
*Islamic Finance: The Role of Sharia*  
*Managing Firm Risk and Personal Risk: Property Rights*  
*Dynamics of Family Businesses*

Case: TCS: An Entrepreneurial Air-Express Company (Country: *Pakistan*)

Lecture (*): The Role of Leasing in Islamic Finance

**PART D: MANAGING CONTINGENCIES AND MOBILIZING RESOURCES**  
**VALUING CROSS-BORDER INVESTMENTS**

**WORKSHOP C (1/31)** *Cross-Border Valuation*

**WEEK V-A (2/6)** *Deal-Making in Emerging Markets: Joint Ventures (JVs)*  
*Integrated vs. Segmented Markets*  
*Dealing with Foreign and Local Currency Cash Flows*  
*Adjusting for Country, Political and Currency Risks, Differences?*  
*Global vs. Local CAPM, Country Beta and Project Beta*

Case: Continental Cablevision, Inc./ Fintelco JV (Countries: *US-Argentina*)

Lecture (*): Cross-Border Valuation
WEEK V-B (2/6)  
*Privatization in Emerging Markets*  
*Currency Crisis and Investments Abroad*  
*Use of Cash Flows to Model Institutional and Regulatory Risks*  
*Managing Risks: Repatriation and Tax Risks*

Case: Dow Chemical’s Bid for the Privatization of PBB (Country: Argentina)  
Mini-Case: Vale S.A.: Potash Project (Country: Brazil)

TUTORIAL (2/7)  
*Q&A Session: Cross-Border Valuation*

WEEK VI (2/13)  
*Project Finance in Emerging Markets: Large Scale Investments*  
*Breaking the “Corporate Ceiling”*  
*Managing Project Risks: Expropriation Risk*

Case: Petrolera Zuata, Petrozuata C.A. (Country: Venezuela)  
Lecture (*): Project Finance Valuation

TUTORIAL (2/14)  
*Quasi-Market Valuation and ECF Mechanisms*  
*Q&A Session: Petrozuata*

PART E: FAMILY AND CLOSELY-HELD FIRMS

WEEK VII (2/20)  
*Valuation of Private Companies: Total vs. Market Beta*  
*Controlling vs. Minority Shareholders*  
*Liquidity-Control Trade-Off: Lack of Marketability*  
*The Role of Control Premium and Minority Discount*  
*Benefits and Costs of Being Private*

Case: Kohler Co. (A) & (B) (Country: U.S.)  
Lecture (*): Valuation of a Private Company  
Mini-Case: Valuation of a Private Business: Kristin Kandy and Intel Soft

TUTORIAL (2/21)  
*Valuation of Private Firms*  
*Equity Method of Accounting*  
*Q&A Session: Kohler*

WEEK VIII (2/27)  
*The Family as an Internal Capital Market*  
*Partnering with Strategic Investors*  
*Ownership-Control Trade-Off*  
*Impact of Dual-Class Stock on Voting Control*  
*Voting Premium and the Value of a Vote*  
*GDRs, ADRs and Rule 144a Placements*
Case: SUN Brewing (A) & (B) (Country: Russia)
Lecture (*): Valuing Control and Liquidity in Family and Closely Held Firms

TUTORIAL (2/28)  
*Sum of Parts Valuation and Ownership Structures*
*Q&A Session: Sun Brewing*

WEEK IX (3/6)  
*Corporate Diversification: Family vs. Non-Family Shareholders*
*Partnering with Public Investors*
*Impact of Pyramidal Ownership on Voting Control*
*Shareholder Value Creation: Sum-of-Parts Valuation and the Conglomerate Discount, Economic Value Added (EVA©), Alpha and Sharpe Ratios*

Case: Ayala Corporation (Country: Philippines)
Lecture (*): Sum-of-Parts Valuation: The Conglomerate Discount (Premium)
Lecture (*): Measuring Controlling Shareholders’ Ownership, Voting and Control Rights

TUTORIAL (3/7)  
*Q&A Session: Ayala*
*Pyramidal Structures*

WEEK X-A (3/13)  
*Corporate Restructuring in Family Firms*
*Impact of Family Control on Management Decisions*
*Controlling Family vs. Minority Shareholders*
*Cross-Border Listings: More on GDRs, ADRs and Rule 144a Placement*

Case: Medco Energi Internasional (Country: Indonesia)

WEEK X-B (3/13)  
*Cross-Border Financial Opportunities*
*Corporate Governance in Emerging Markets*
*Cross-Border Listings: Motivations, Opportunities and Consequences*
*Effects of Currency Denomination Debt: Financial Crisis and “El Corralito”*

Case: Drilling South: Petrobras Evaluates Pecom (Countries: Brazil-Argentina)
Lecture (*): Cross-Border Listings and Depositary Receipts
Lecture: Course Wrap-Up
Peer-Review/Letter Evaluations Due
PART F: WEAK INSTITUTIONAL ENVIRONMENT
DEVELOPMENT OF CAPITAL MARKETS (*)

WEEK XI-A (3/20)  Understanding Local Contexts: Risks and Rewards
Deal Structures: Local Risks vs. Cross-Border Risks
Weak Institutional Environment: Capital Market Development
Dealing with Corruption

Case:  Capital Alliance Private Equity: Creating a Private Equity Leader (Country: Nigeria)

WEEK XI-B (3/20)  Building Flexibility and International Expansion
Valuation of Subscription-Based Business
Pros and Cons of IPOs

Case:  Gray Security: Building a South African Services Firm (Country: South Africa)