

The Value of Family and Closely Held Firms

11:40AM Wed, Jan 14, Aldrich Hall 209

TOPIC

Do family ownership, control and management create or destroy value? Course introduction and overview

MATERIALS

 [The Pitcairn Family Heritage? Fund \(208073\)](#)

ASSIGNMENT

Would you invest in this fund? Think of at least three reasons why you would support the Family Heritage Strategy and three reasons why you would not.

11:40AM Fri, Jan 16, Aldrich Hall 209

TOPIC

Control-enhancing mechanisms

MATERIALS

 [The New York Times Co. \(207113\)](#)

 [Destroying Dow Jones to save it](#)

 [The REAL reason the Bancrofts lost Dow Jones](#)

 [Family dissidents could block Dow Jones sale](#)

 [The Gray Lady's virtue](#)

ASSIGNMENT

Read the NYT case and the above four articles (one is Washington Post Co. Chairman and CEO Donald Grahams opinion about Morgan Stanleys campaign against the New York Times Co; the other three are about the Dow Jones Co. takeover by News Corp.)

Assignment questions:


1. Why is there so much family ownership in the newspaper industry?
2. How did the Sulzberger family manage to retain control of the New York Times Co. after it went public?
3. How does the New York Times Co.s dual-class structure differ from the one Dow Jones & Co. had prior to its takeover by Rupert Murdoch's News Corp.?
4. How should Arthur Sulzberger, Jr. respond to Morgan Stanley Investment Managements proposal?

11:40AM Thu, Jan 22, Aldrich Hall 209

TOPIC

Valuing controlling and minority holdings in privately held family firms (I)

MATERIALS

 [Kohler Co. \(A\) \(205034\)](#)

EC Weeks 1 & 2 Packet

 [Spreadsheet Supplement: Kohler Co.](#)

ASSIGNMENT

1. What is the total enterprise value of Kohler Co. using a discounted cash flow approach? What is the total enterprise value using a multiples (market value of comparable companies) approach? What is the value of a share held by a minority shareholder in Kohler Co. that is implied by your valuations?
2. What assumptions can you use to arrive approximately at the share price of \$55,400 that was estimated by Kohler Co.? Show how these assumptions impact your valuation.
3. What assumptions can you use to arrive approximately at the share price of \$273,000 that was estimated by the dissenting shareholders? Show how these assumptions impact your valuation.

11:40AM Fri, Jan 23, Aldrich Hall 209


TOPIC

Valuing controlling and minority holdings in privately held family firms (II)

MATERIALS

 [Kohler Co. \(A\) \(205034\)](#)

EC Weeks 1 & 2 Packet

 Kohler Co. (B) (207025)

Classroom

ASSIGNMENT

For the following two questions, assume that (i) legal fees can be ignored; and (ii) Herbert Kohler, the dissenters, and the IRS all have the same cost of capital. i.e., that any interest charges are offset by the value for Herbert Kohler of paying late.

1. What is the maximum share price at which Herbert Kohler should be willing to settle with the dissenting shareholders in order to stop the trial on April 11, 2000? Assume that: (i) if the trial proceeds, it is expected to last less than a month and to result in one of two possible outcomes in terms of the price per share established in court: the \$273,000 being claimed by the plaintiffs, or the \$55,400 being defended by Herbert Kohler; (ii) Kohler estimates the probabilities of these two outcomes at 30% and 70%, respectively.

2. How would your answer to (1) change if you also assume that: (i) the inheritance tax owed on Frederic Kohler's estate was 50.2% of his holdings in Kohler Co. (equivalent to 489 shares out of the 975 he owned); (ii) the taxes paid by the estate amounted to \$27 million (489 shares at \$55,400 each); (iii) were the settlement or the trial to result in a revised share price in excess of \$55,400, the IRS would likely demand a similar valuation for its claim on Frederic's estate; and (iv) Herbert Kohler estimates the probability of the IRS's demand at 100% if he proceeds to trial, and 50% if he settles.

End of The Value of Family and Closely Held Firms

Financing Growth in Family and Closely Held Firms

11:40AM Wed, Jan 28, Aldrich Hall 209

TOPIC

Partnering with financial (private equity) investors

MATERIALS

 [Spyder Active Sports - 2004 \(206027\)](#)

EC Weeks 3 on Packet

 [Spreadsheet Supplement: Spyder Active Sports Inc.??2004](#)

ASSIGNMENT

1. How, if at all, does the value of Spyder depend upon its ownership structure? What are the (other) primary determinants of value?
2. Prepare estimates of value based on DCF and the trading and transaction multiples presented in the case. How well do these estimates reflect the considerations you believe to be most pertinent?
3. Compare the alternative transactions described on the last page of the case. Which one would you choose if you were David Jacobs? Which one would you choose if you were a general partner in CHB Capital Partners? Who else is affected by this choice and how?

End of Financing Growth in Family and Closely Held Firms


Impact of Family Control on Management Decisions

11:40AM Thu, Jan 29, Aldrich Hall 209


TOPIC

Panel on private equity and family firms

GUEST SPEAKER

 [Thomas \(?Tad?\) Kelly](#) :
[CHB Capital Partners](#)

MATERIALS

 [Here's a link to another panel on PE and family firms that was organized by the Capital Roundtable on Nov 14, 2007, titled "The Art of Investing in Family-Owned Companies," \(audio file + slides\)](#)

ASSIGNMENT

Sleep well and be ready to ask great questions.


End of Impact of Family Control on Management Decisions**Financing Growth in Family and Closely Held Firms**

11:40AM Thu, Feb 5, Aldrich Hall 209

TOPIC

The family as an internal capital market

MATERIALS

 [SUN Brewing \(A\) \(207022\)](#)
EC Weeks 3 on Packet

 [Spreadsheet Supplement: SUN Brewing \(A\)](#)

ASSIGNMENT

1. How did the Khemka family find themselves in the situation they were in at the time of the case? What could they have done differently?
2. Why were the different forms of financing chosen at each point in time?
3. How much money did SUN Brewing need in March 1999? How much was the company worth?
4. What risks were associated to investing in a Russian beer company in 1999?
5. What are the pros and cons of the different alternatives available to the Khemka family in 1999?

11:40AM Fri, Feb 6, Aldrich Hall 209

TOPIC

Partnering with strategic investors

MATERIALS

 [SUN Brewing \(B\) \(207039\)](#)

EC Weeks 3 on Packet

 [Spreadsheet Supplement: SUN Brewing \(B\)](#)

ASSIGNMENT

1. Did Interbrew add value to SUN Brewing? How?
2. What was SUN Interbrews Total Enterprise Value as of July 31, 2004?
3. What was the value of a share of SUN Interbrew?
4. Use the data provided in Exhibit 3 of the spreadsheet supplement to compute the historical voting premium in SUN Interbrew (the excess price of a voting (Class B) share over a non-voting (Class A) share, as a percentage of the A-shares price). How has the premium evolved over time? Why?
5. How much was the Khemka familys stake in SUN Interbrew worth?

11:40AM Wed, Feb 11, Aldrich Hall 209

TOPIC

Partnering with public investors (I)

MATERIALS

 [Ayala Corporation \(207041\)](#)

EC Weeks 3 on Packet

 [Spreadsheet Supplement: Ayala Corporation](#)

ASSIGNMENT

1. How much have Ayala Corp. and its publicly listed businesses grown over the last 10 years? How profitable have they been? How have Philippine inflation and exchange rates affected Ayala's growth and profitability?
2. What do you think about Ayala's corporate strategy? Had you been in Jaime Augusto Zobel de Ayala's shoes, would you have done anything differently?
3. How has Ayala financed its growth over the past 25 years? What are the pros and cons of their financial strategy relative to other feasible alternatives?
4. What fraction of Ayala Land, Globe Telecom, BPI, and Manila Water Co.'s common stock does Ayala Corp. own? What fraction of the votes outstanding in these companies does Ayala own and control? What are the Zobel family's ownership, voting, and control stakes in each of these four companies? In answering these questions, you may find useful the technical note that is posted in the course platform under today's class. (*Also, note that the ownership stakes reported in Exhibit 4 of the case refer to voting stock (common and preferred), while those reported in Exhibits 7 through 10 refer to common stock only. For the purpose of this exercise, you can treat preferred voting stock as if it were another class of common stock.)
5. How have Ayala Corp. and its publicly listed businesses performed on the stock market between 1/1/1996 and 4/7/2006? (You can use the data in the spreadsheet supplement of the case for your stock return calculations).
6. How would you adjust for risk your measures of Ayala's stock returns? Hint: You may want to dust off your FIN1 notes about alpha and the Sharpe ratio from the Carol Brewer case.

11:40AM Thu, Feb 12, Aldrich Hall 209


TOPIC

Partnering with public investors (II)

MATERIALS

 [Ayala Corporation \(207041\)](#)

EC Weeks 3 on Packet

 Recommended reading: "The market and equity methods for intercorporate investments" and "Consolidated financial statements", pp. 500-511 in chapter 11 of Horngren et al.'s "Introduction to Financial Accounting, 9th edition" (your FRC textbook)

ASSIGNMENT

1. Is Ayala Corp. worth more than the sum of its parts? How would you interpret the results of this valuation?
2. How would you estimate Ayala Corp.'s Economic Value Added (EVA)? (*Note: $EVA = NOPAT \times WACC \times \text{Capital Employed}$). Hint: You may want to dust off your FIN1 notes on the Mass General Hospital / Enbrel case
3. What do you make of the results of all these analyses about Ayala's value creation for its shareholders? What advice would you offer to Jaime Augusto going forward?

End of Financing Growth in Family and Closely Held Firms

Impact of Family Control on Management Decisions

11:40AM Thu, Feb 19, Aldrich Hall 209

TOPIC

Corporate restructuring in family firms

MATERIALS

 [Medco Energi Internasional \(207021\)](#)

EC Weeks 3 on Packet

 [Spreadsheet Supplement: Medco Energi Internasional](#)

ASSIGNMENT

1. Analyze Temasek's offer from the perspectives of the buyer, the sellers, the Panigoro family, and Medco's minority shareholders. More specifically, you may want to consider the following:
 - 1.1. How will the transaction proposed by Temasek alter the current balance of power between the Panigoro family and other shareholders?
 - 1.2. How big a premium (if any) is Temasek offering? Relative to what?
 - 1.3. What do the stock prices of comparable companies suggest about Medco's target share price?
 - 1.4. Under the proposed offer, what returns would CSFB and PTTEP be getting on their investment?
2. Analyze the two-stage transaction proposed by Merrill Lynch and United Overseas Bank from the perspective of all interested parties, and compare it to Temasek's offer

11:40AM Fri, Feb 20, Aldrich Hall 209

TOPIC

Distributing cash to family and non-family shareholders

MATERIALS

 [Ford Motor Company's Value Enhancement Plan \(201079\)](#)

EC Weeks 3 on Packet

 [Spreadsheet Supplement: Ford's VEP](#)

ASSIGNMENT


1. Why has Ford been holding so much cash? What have been its major sources and uses of cash since 1986? What would determine the appropriate amount of cash that a firm such as Ford should hold?
2. Be prepared to explain how the Value Enhancement Plan (VEP) works and how the prices of "new" Ford shares will relate to the prices of "old" Ford shares.
3. What problems is the VEP designed to solve? Whose problems are they? What are the alternatives? Why are TIAA-CREF and Calpers so upset?
4. As a Ford shareholder, would you vote in favor of the proposed recapitalization? Why?

11:40AM Wed, Feb 25, Aldrich Hall 209

TOPIC

Tunneling and corporate governance in publicly traded family firms

MATERIALS

 [Adelphia Communications Corp.'s Bankruptcy \(208071\)](#)
EC Weeks 3 on Packet

 [Adelphia Communications Corp.'s Bankruptcy \(208071\)- PLEASE USE THIS VERSION OF THE CASE INSTEAD OF THE ONE IN YOUR COURSE PACKET](#)

 [Spreadsheet Supplement: Adelphia Communications Corp.'s Bankruptcy](#)

ASSIGNMENT

1. What did the Rigas family management do wrong? Which aspects of Adelphias corporate governance under the Rigases control were most problematic in your view? What, if anything, do you consider objectionable about the Adelphia/Rigas family co-borrowing arrangements that precipitated accusations of fraud at the company?
2. If one ignores any alleged frauds committed by the Rigases, how viable was Adelphias business prior to the bankruptcy filing?
3. Under pressure from Adelphias unsecured creditors, new management decided to put the company up for sale rather than pursue a traditional stand-alone Chapter 11 reorganization plan. Are there reasons why management should reconsider this decision? More generally, what considerations do you think are relevant in choosing between the two approaches to resolving financial distress (i.e., sale vs. reorganization)?
4. Based on financial and non-financial considerations, which of the competing offers to purchase Adelphias assets (as summarized in the text and in Exhibit 14 of the case) should management accept? Why?

11:40AM Thu, Feb 26, Aldrich Hall 209

TOPIC

Employee ownership in family firms

MATERIALS



[Spiegel-Verlag Rudolf Augstein GmbH & Co. KG \(N-208-096\)](#)



[Who Owns Journalism?](#)

ASSIGNMENT

1. How did Spiegel's unique ownership structure come about? What problem(s) was it designed to solve? What problems did it create? How could these problems be solved?
2. How are Spiegel's profits shared among its multiple owners? What incentives does this particular profit-sharing model create for Spiegel's employees? Can you think of a better model?
3. How did Spiegel's corporate governance change after Rudolf Augstein's death?
4. How would you go about valuing the pivotal 1% stake?
5. Had you been in Jakob Augstein's shoes, what, if anything, would you have done differently? What would you advise him to do now?

11:40AM Fri, Feb 27, Aldrich Hall 209

TOPIC

Executive compensation in privately held family firms

MATERIALS

 [Donald Salter Communications, Inc. \(295114\)](#)

EC Weeks 1 & 2 Packet

 [Technical Note about the Compensation Plan](#)

ASSIGNMENT

1. What are the principal challenges facing Jim Myers, and what actions is he taking to address them? What special challenges does Myers face as a result of the company's Subchapter S status and the fact that it is a family-owned business?
2. If you were a compensation consultant hired by the stockholders of Donald Salter Communications to design the executive incentive plan, what values for the Target Award and the Percentage Cap would you recommend? Is there anything about the incentive plan that you would change? How would you design the rest of Jim Myers' compensation package?
3. Does the executive incentive plan meet Myers' stated goal of increasing the link between pay and market-value based performance in the company? Please be specific.
4. How should the company's enterprise value be calculated for purposes of determining the incentive compensation of Jim Myers and other senior managers? Can the same value also be used for purposes of repurchasing company stock from shareholders who wish to "cash out"?
5. Evaluate the other elements of Myers' proposed turnaround plan. Do you think his plan will be successful? Would you do anything differently?

End of Impact of Family Control on Management Decisions

Intergenerational Wealth Transfer

11:40AM Thu, Mar 5, Aldrich Hall 209

TOPIC

Gift and estate taxation: Keeping the company in the family (I)

MATERIALS

 [Ottawa Devices, Inc. \(A\) \(204101\)](#)

EC Weeks 3 on Packet

 [Note on Trusts \(283-022\)](#)

(No need to read before class. Only if you want to know more.)

 [Gift and Estate Taxes \(283-024\)](#)

(Please read the following parts before the class: (a) Page 1; (b)

The first two paragraphs on page 3; (c) Page 4 Mechanisms of Transfer through page 9; and (d) Estate Tax page 12 through Double Domicile on page 17)

ASSIGNMENT

1. The Rollinses have utilized several techniques for addressing common intergenerational wealth transfer issues. Please seek to understand these conceptually, mechanically and practically (their risks and potential rewards).
2. Are the various conflicts reconcilable and the risks associated with independence worth taking?
3. What are the best available alternatives for keeping the company in the family and the least painful ways to resolve the conflicts?

11:40AM Fri, Mar 6, Aldrich Hall 209

TOPIC

Gift and estate taxation: Keeping the company in the family (II)

MATERIALS

  [Ottawa Devices, Inc. \(B\)\(9-204-102\)](#)

ASSIGNMENT

Which alternative or combination of alternatives do you recommend and why?

11:40AM Wed, Mar 11, Aldrich Hall 209

TOPIC

Family Foundations

MATERIALS

 [Investment Policy at the Hewlett Foundation \(2005\) \(205126\)](#)

EC Weeks 3 on Packet

 Foundations (200043)

Spangler distribution

 [Playing His Chips](#)

 [Top 100 U.S. Family Foundations](#)

ASSIGNMENT

1. What are the Hewlett Foundation (HF)'s objectives as a foundation? What financial issues do they raise?
2. How does HF manage its assets?
3. Is HF's donor stock sale program a good idea?
4. Should the investment committee approve the proposed changes to HF's investment policy?

11:40AM Thu, Mar 19, Aldrich Hall 209

TOPIC

11:40AM Thu, Apr 23, Aldrich Hall 209

TOPIC