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I. INTRODUCTION TO SECURITY ANALYSIS.

1. Introduction to Security Analysis.

2. Security Analysis and Efficient Markets.

9-801-459 PepsiCo's Bid for Quaker Oats (B)

Harvard 10pp.

2000

PepsiCo's overtures trigger competitive bidding for Quaker Oats. Coca-Cola emerges as the winner, but following a negative stock market response, Coke's board rejects the proposed deal. Group Danone, also a bidder, withdraws as well. Quaker then reapproaches PepsiCo's management to see whether they would be willing to bid again. Teaching Purpose: Valuation of a multidivisional business in support of an M&A bid, structuring a stock-for-stock offer, and negotiation of the acquisition of a public company.

II. BUSINESS AND FINANCIAL ANALYSIS.

3. Business Analysis.

4. Financial Statements.

5. Financial Statement Analysis.

01C60 Boston Beer & Lion Brewery - Financial Statement Analysis

Prentice Hall 40 pp.

1996

In this case, students are asked to perform a financial statement analysis of two companies that compete in the same industry. The case culminates the casebook and brings to bear all the analytic tools students have acquired over the prior cases. The questions in this case are meant more as guidelines than as requirements. This should be pointed out to the class in advance. Many students will bring a lot more to the case than asked. Some of them will seek additional sources of information and do industry analysis. Others will compute pro-forma ratios by restating balance sheet and income statement items to be comparable across the two companies. The class can be very instructive if students are encouraged to go beyond the questions asked. These two companies compete with each other in some markets (in particular, the craft beer segment of the beer market). However, in many ways the companies differ. For example, Boston Beer has adopted a strategy of employing contract brewers to produce its beers. It markets the product nationwide and spends considerable sums on advertising and promotion. Lion produces its own beers as well as several other beverage products. They sell their products regionally in the Northeast U.S. Consequently, the two companies are predicted to have different common-size balance sheets (due to their differing asset bases) and income statements (due to the different margins the various products command and the relative emphasis on advertising). This case can be used as a springboard to a more general discussion about financial statement analysis. Published annual reports are the primary source of information for financial analysts (Financial Executives Research Foundation, 1987, Investor

Information Needs and the Annual Report, Morristown, NJ). A class discussion surrounding the purpose of financial statement analysis in investor and creditor judgments and decisions can be started along with the case analysis.

9-701-003 *BMG Entertainment* *Harvard* *24 pp.* *1999*

As dramatic changes in technology and customer tastes roil the music industry, the top executives of BMG Entertainment, one of the world's largest record companies, must decide how to organize for digital distribution of music. This case includes a brief history of the music industry, a description of the industry's current structure and economics, and a description of digital downloading efforts. Teaching Purpose: Designed to be taught as part of a module on strategy-making under uncertainty. Based on the history and current structure of the music industry, as well as an understanding of the microeconomics of music production and distribution, students must make recommendations concerning BMG's internal organizational structure, its posture toward technology vendors, and its choice of target customers.

9-700-009 *Edward Jones* *Harvard* *24 pp.* *1999*

Edward Jones is a leading, highly profitable retail brokerage firm with a unique strategy vis-a-vis its rivals. The case describes Jones's activities and allows a rich discussion of its positioning choices, supporting activities, and tradeoffs. Jones must cope with a rapidly evolving industry, which at least on the surface, is threatening to its strategy. Teaching Purpose: Reviews strategic positioning and strategy in changing industries.

9-799-158 *Matching Dell* *Harvard* *32 pp.* *1998*

After years of success with its vaunted "Direct Model" for computer manufacturing, marketing, and distribution, Dell Computer Corp. faces efforts by competitors to match its strategy. This case describes the evolution of the personal computer industry, Dell's strategy, and efforts by Compaq, IBM, Hewlett-Packard, and Gateway 2000 to capture the benefits of Dell's approach. Students are called on to formulate strategic plans of action for Dell and its various rivals. Teaching Purpose: Designed to be taught in any of several places in an MBA course on competitive strategy. Permits an especially detailed examination of imitation; illustrates how fit among activities and incompatibilities between competitive positions can pose particularly high barriers to imitation. Can also be employed to illustrate competitor analysis, the evolution of industry structure, and relative cost analysis.

UVA-F-1031* *Oracle Systems Corporation* *Darden* *14 pp.* *1990

This introductory case considers the very sudden and large drop in market value of Oracle Systems' equity associated with two announcements in 1990. These announcements cause investors to revise their expectations about the future growth of Oracle Systems, perhaps the most rapidly growing U.S. corporation in the 1980s. The tasks for the student are to evaluate both the import of the announcements and the company's financial health. The case can provide a first exercise in financial-statement analysis and lay the foundation for two important financial themes: the concept of financial health and the financial-economic definition of "value" and its determinants. The case also presents an interesting profile of an aggressive chief executive officer and suggests some potential unintended financial consequences of extreme aggressiveness.

9-101-011 *Sears, Roebuck and Co. vs. Wal-Mart Stores, Inc.* *Harvard* *20 pp.* *1997*

This case is designed to familiarize students with the use of financial ratios. Two retailers, Sears, Roebuck and Co. and Wal-Mart Stores, Inc., have a very similar value for return on equity (ROE) in the 1997 fiscal year. Students use the information in the case and the accompanying exhibits, which include financial statements as well as disclosures regarding corporate strategies and accounting policies for each company, to analyze the value creation process for each firm.

This case provides a good introduction regarding the combination of such information to create a powerful tool for financial statement analysis. A rewritten version of an earlier case.

9-197-047 ***Arch Communications Group, Inc.***

Harvard ***28 pp.*** ***1980-1996***

The market values Arch differently from analysts' values. Students are asked to evaluate the investment potential of Arch's stock based on industry fundamentals and analysts' forecasts. Teaching Purpose: Company/stock valuation.

9-201-039 ***Drivers of Industry Financial Structure***

Harvard ***4 pp.***

Contains common-size balance sheets and financial ratios for ten companies, each representative of a different industry. Students are asked to identify the industries from the structure of the financial statements. Teaching Purpose: Gives students practice in using financial ratios and helps develop an understanding of the factors that drive the financial structure of firms.

III. CASH FLOW VALUATION MODELS.

6. The Economic Balance Sheet and an Overview of Cash Flow Based Valuation Models.

7. Discount Rates in Valuation.

8. The Dividend Discount and Flows to Equity Models.

9. Free Cash Flow Model and Analysis.

10. Free Cash Flow Forecasting.

11. The Adjusted Present Value Model.

12. The Residual Income Model.

9-201-097 ***Dixon Corp.: The Collinsville Plant (Abridged)***

Harvard ***14 pp.***

Specialty chemical company Dixon must decide whether to acquire Collinsville, a business in a new segment, and how much to pay. Teaching Purpose: Practice in applying free cash flow valuation methods.

9-297-015 ***Atlantic Corp. (Abridged)***

Harvard ***14 pp.*** ***1984***

A major paper company is considering the acquisition of assets from a company that is threatened by a hostile takeover. The acquisition can be evaluated in terms of industry attractiveness, comparative advantage, and cash flow analysis. Teaching Purpose: Development of project cash flows and an appropriate rate at which to discount the cash flows. Estimation of a terminal value. Consideration of valuation methods other than discounted cash flow.

9B01N013 ***Beijing Huazhang Graphics and Information Co.***

Ivey ***16 pp.*** ***2001***

Huazhang is a joint venture between China Machine Press and Multi-Lingua Publishing International, Inc. of the United States. Since its establishment, Huazhang had developed from a company with three employees to more than 100 employees. The shareholders are interested in determining how well the company has been managed and the board decides the best way to do this would be to value the company. The board also wants to measure the general managers' future performance based on the increased value of the company. The issue for the newly-appointed general manager is to determine which of the many possible methods should be used to value the company, including the discounted cash flow model, and to perform sensitivity tests.

9-201-094 **Free Cash Flow Valuation Methods: Weighted Average Cost of Capital (WACC) and Adjusted Present Value (APV)**
Harvard *4 pp.* *2001*

A video rental store is considering home delivery services. Management attempts to value the project under different financing strategies and methods, specifically adjusted present value (APV) and weighted average cost of capital (WACC). Teaching Purpose: Shows how to implement APV and WACC and when each is appropriate.

9-201-046 **Cost of Capital at Ameritrade**
Harvard *24 pp.* *1997*

Ameritrade Holding Corp. is planning large marketing and technology investments to improve the company's competitive position in deep-discount brokerage by taking advantage of emerging economies of scale. In order to evaluate whether the strategy would generate sufficient future cash flows to merit the investment, Joe Ricketts, chairman and CEO of Ameritrade, would need an estimate of the project's cost of capital. There is considerable disagreement as to the correct cost of capital estimate. A research analyst pegs the cost of capital at 12%, the CFO of Ameritrade uses 15%, and some members of Ameritrade management believe that the borrowing rate of 9% is the rate by which to discount the future cash flows expected to result from the project. There is also disagreement as to the type of business that Ameritrade is in. Management insists that Ameritrade is a brokerage firm, whereas some research analysts and managers of other online brokerage firms suggest that Ameritrade is a technology/Internet firm. Teaching Purpose: A two- day case to estimate the cost of capital that Ameritrade should employ in evaluating the proposed large investments in marketing and technology. The lesson plan builds on the prior cases in the Risk & Return module. Uses the capital asset pricing model to estimate Ameritrade's cost of capital. Focus is on CAPM variables such as the risk free rate, market risk premium, and beta. Students will use regression analysis to directly calculate the beta estimates. Arguments will be made as to which comparable firms (brokerage firms or Internet firms) should be used to obtain beta estimates.

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IV. SPECIAL ISSUES IN VALUATION

13. Understanding the Income Tax Disclosure.

14. Cash Flow Valuation and Employee Stock Options.

15. Cash Flow Valuation and Pension and Other Post-Employment Benefit Plans.

01C43 **Bethlehem Steel - Pension Obligations**
Prentice Hall *6 pp.* *1999*

Bethlehem Steel Corporation produces a wide variety of steel mill products including hot rolled, cold rolled, and coated sheets, in mill products, carbon and alloy plates, rail, specialty blooms, carbon and alloy bars and large-diameter pipe. Bethlehem's operations are spread out over a handful of different area sites. Bethlehem also has iron ore operations, railroad and tucking operations, and lake shipping operations. Students will learn pension footnote terminology, and be able to understand and account for the difference between expensing and funding pension obligations. Students will also be required to prepare pension related journal entries, and to evaluate the impact of actuarial assumptions on pension expense and obligations. The case includes consolidated statements of income, consolidated balance sheets, and consolidated statements of cash flows to work from.

9-102-038 *eBay, Inc.: Stock Option Plans (A)* *Harvard* *14 pp.* *2000*
 Exposes students to the accounting and disclosure rules surrounding employee stock options. Focuses on the footnote disclosure for eBay, Inc. in 2000, which indicates that if the company had accounted for employee stock options under the fair value method, its reported profit of \$48 million would have been a loss of \$91 million. Students are introduced to a number of required disclosures required by the Financial Accounting Standards Board and Securities and Exchange Commission relating to executive and nonexecutive compensation policies. The protagonist is a prospective member of the compensation committee of the board of directors, which provides a corporate governance perspective on the role of compensation in attracting, motivating, and retaining talented employees.
 Teaching Purpose: To expose students to the accounting and disclosure rules for employee stock options.

9-293-053 *Sally Jameson: Valuing Stock Options in a Compensation Package* *Harvard* *8 pp.* *1992*
 Details a thinly disguised situation faced by a recent Harvard MBA graduate who was forced by a prospective employer to place a dollar value on a grant of stock options. There are two objectives: 1) Serves as an introduction to option valuation, in which students have an opportunity to use market data to value an option in a realistic setting. 2) The setting permits a broader discussion of the wisdom of option-based incentive plans and the popular misconceptions of the value of option grants based on a widespread misunderstanding of how options work and how they are valued.

V. MULTIPLES VALUATION.

16. A “Theory” of Multiples.

17. PE Ratios and Earnings Growth.

18. Additional Issues in Multiples Analysis.

01C14 *Maple Leaf Gardens – Valuation* *Prentice Hall* *10 pp.* *1992*
 This case offers students the opportunity to value a company. We make a number of simplifying assumptions, but in class discussion instructors should encourage students to challenge the assumptions and discuss how better figures could be arrived at. The case illustrates the important differences between book and market values. It also illustrates the difference between balance sheet and income statement-based valuation approaches. An active learning approach to this case involves splitting the class into three types of subgroups: buyers, sellers, and arbitrators. Have each group work independently to arrive at a valuation (the arbitrators can determine what they feel is a "fair" price). Then have the subgroups negotiate (in larger classes, several sets of negotiations can take place). Finally have the groups report to the class.

9-291-033 *Interco* *Harvard* *22 pp.* *1988*
 Interco has been advised by Wasserstein Perella to reject a \$70 per share offer for the company. The case deals with the various types of analysis employed by Wasserstein Perella and allows a discussion of the actions of Interco's board as well as Wasserstein Perella.

9-298-099 *Digital Everywhere, Inc.* *Harvard* *4 pp.* *1998*
 Presents a valuation problem in a fictitious firm, Digital Everywhere. Students have the opportunity to compare various discounted cash flow valuation models in an entrepreneurial firm.

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Harvard

28 pp.

1980-1996

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