Brief Contents

Detailed Contents 15
About the Authors 35
Preface 37
Supplements to the Fourteenth Edition 41
Acknowledgments 43

Part 1

Introduction to Managerial Finance 47

- 1 The Role of Managerial Finance 48
- 2 The Financial Market Environment 76

Part 2

Financial Tools 103

- 3 Financial Statements and Ratio Analysis 104
- 4 Cash Flow and Financial Planning 162
- 5 Time Value of Money 208

Part 3

Valuation of Securities 271

- 6 Interest Rates and Bond Valuation 272
- **7** Stock Valuation 316

Part 4

Risk and the Required Rate of Return 359

- 8 Risk and Return 360
- **9** The Cost of Capital 408

Part 5

Long-Term Investment Decisions 439

- 10 Capital Budgeting Techniques 440
- 11 Capital Budgeting Cash Flows 478
- 12 Risk and Refinements in Capital Budgeting 515

Part 6

Long-Term Financial Decisions 557

- 13 Leverage and Capital Structure 558
- **14** Payout Policy 612

Part 7

Short-Term Financial Decisions 651

- 15 Working Capital and Current Assets Management 652
- 16 Current Liabilities Management 695

Part 8

Special Topics in Managerial Finance 729

- 17 Hybrid and Derivative Securities 730
- 18 Mergers, LBOs, Divestitures, and Business Failure 768
- 19 International Managerial Finance 811

Appendix A-1

Glossary G-1

Credits C-1

Index I-1

Contents

About the Authors 35
Preface 37
Supplements to the Fourteenth Edition 41
Acknowledgments 43

Part 1

Introduction to Managerial Finance 47

The Role of Managerial Finance page 48



Facebook—Not Much to "Like" about IPO page 49

1.1 Finance and Business 50

What Is Finance? 50

Career Opportunities in Finance 50 Legal Forms of Business Organization 51

Professional Certifications in Finance 51

Why Study Managerial Finance? 55

→ REVIEW QUESTIONS 56

1.2 Goal of the Firm 56

Maximize Shareholder Wealth 56

Maximize Profit? 57

What About Stakeholders? 59

The Role of Business Ethics 59

Ethics and Share Price 60

→ REVIEW QUESTIONS 60

in practice Focus on Ethics: Critics See Ethical Dilemmas in Google Glass? 61

1.3 Managerial Finance

Function 61

Organization of the Finance Function 62

Relationship to Economics 62

Relationship to Accounting 63

Primary Activities of the Financial Manager 65

→ REVIEW QUESTIONS 65

1.4 Governance and Agency 66

Corporate Governance 66 The Agency Issue 67

→ REVIEW QUESTIONS 70

Summary 70

Opener-in-Review 71

Self-Test Problem 71

Warm-Up Exercises 72

Problems 73

Spreadsheet Exercise 75

2 The Financial Market Environment

page 76



A Crisis in Housing
Finance—Under Water in the
Desert page 77

2.1 Financial Institutions and Markets 78

Financial Institutions 78

Commercial Banks, Investment Banks, and the Shadow Banking System 79

Financial Markets 80

The Relationship between Institutions and Markets 80

The Money Market 81

The Capital Market 81

Focus on Practice: Berkshire Hathaway: Can Buffett Be Replaced? 83

in practice Focus on Ethics: The Ethics of Insider Trading 86

→ REVIEW QUESTIONS 87

2.2 The Financial Crisis 87

Financial Institutions and Real Estate Finance 87

Falling Home Prices And Delinquent Mortgages 88

Crisis of Confidence in Banks 89 Spillover Effects and the Great Recession 90

→ REVIEW QUESTIONS 90

2.3 Regulation of Financial Institutions and Markets 90

Regulations Governing Financial Institutions 91

Regulations Governing Financial Markets 91

→ REVIEW QUESTIONS 92

2.4 Business Taxes 92

Ordinary Income 92 Capital Gains 95

→ REVIEW QUESTIONS 95

Summary 95
Opener-in-Review 97
Self-Test Problem 97
Warm-Up Exercises 98
Problems 98
Spreadsheet Exercise 100
Integrative Case 1 Marit Enter

Integrative Case 1 Merit Enterprise Corp. 101

Part 2 Financial Tools 103

3 Financial Statements and Ratio Analysis



General Dynamics— Ratios Tell the Story of a Well-Managed Firm page

3.1 The Stockholders' Report 106

The Letter to Stockholders 106

in practice Global Focus: More Countries Adopt International Financial Reporting Standards 106

The Four Key Financial Statements 107

in practice Focus on Ethics: Taking
Earnings Reports at Face Value 107

Notes to the Financial Statements 113

Consolidating International Financial

→ REVIEW QUESTIONS 114

Statements 113

3.2 Using Financial Ratios 115

Interested Parties 115
Types of Ratio Comparisons 115
Cautions about Using Ratio Analysis 118
Categories of Financial Ratios 118

→ REVIEW QUESTIONS 118

3.3 Liquidity Ratios 119

Current Ratio 119 Quick (Acid-Test) Ratio 120

→ REVIEW QUESTIONS 121

3.4 Activity Ratios 121

Inventory Turnover 121 Average Collection Period 122 Average Payment Period 123 Total Asset Turnover 123

→ REVIEW QUESTION 124

3.5 Debt Ratios 124

Debt Ratio 126

Debt-to-Equity Ratio 126

Times Interest Earned Ratio 126

Fixed-Payment Coverage Ratio 127

→ REVIEW QUESTIONS 127

3.6 Profitability Ratios 128

Common-Size Income Statements 128
Gross Profit Margin 128
Operating Profit Margin 128
Net Profit Margin 129
Earnings per Share (EPS) 130
Return on Total Assets (ROA) 130
Return on Equity (ROE) 130
→ REVIEW QUESTIONS 131

3.7 Market Ratios 131

Price/Earnings (P/E) Ratio 131 Market/Book (M/B) Ratio 132

→ REVIEW QUESTION 132

3.8 A Complete Ratio Analy-

sis 132

Summarizing All Ratios 133

Dupont System of Analysis 136

→ REVIEW QUESTIONS 139

Summary 139
Opener-in-Review 141
Self-Test Problems 141
Warm-Up Exercises 142
Problems 143
Spreadsheet Exercise 159

4Cash Flow and Financial Planning page 162



European Aeronautic Defense and Space Co.— Making a Profit While Bleeding Cash page 163

4.1 Analyzing the Firm's Cash Flow 164

Depreciation 164

Depreciation Methods 165
Developing the Statement of Cash
Flows 166

Free Cash Flow 171

→ REVIEW QUESTIONS 172

This Till Foods on Practice: Proc Oash Now at Cisco Hystanic 173

4.2 The Financial Planning Process 173

Long-Term (Strategic) Financial Plans 174 Short-Term (Operating) Financial Plans 174

in practice Focus on Ethics: How Much Is a Ceo Worth? 175

→ REVIEW QUESTIONS 176

4.3 Cash Planning: Cash Budgets 176

---g-... 1/0

The Sales Forecast 176
Preparing the Cash Budget 177
Evaluating the Cash Budget 181
Coping with Uncertainty in the Cash
Budget 182

Cash Flow within the Month 183

→ REVIEW QUESTIONS 184

4.4 Profit Planning: Pro Forma Statements 184

Preceding Year's Financial Statements 184

Sales Forecast 184

→ REVIEW QUESTION 184

4.5 Preparing the Pro Forma Income Statement 186

Considering Types of Costs and Expenses 186

→ REVIEW QUESTIONS 188

4.6 Preparing the Pro Forma Balance Sheet 188

→ REVIEW QUESTIONS 190

4.7 Evaluation of Pro Forma Statements 190

→ REVIEW QUESTIONS 190

Summary 191
Opener-in-Review 192
Self-Test Problems 192
Warm-Up Exercises 194
Problems 195
Spreadsheet Exercise 206

5 Time Value of Money

page 208



City of Cincinnati — Pay Me Now or Pay Me Later page 209

5.1 The Role of Time Value in Finance 210

Future Value Versus Present Value 210 Computational Tools 211 Basic Patterns of Cash Flow 212

→ REVIEW QUESTIONS 213

5.2 Single Amounts 213

Future Value of a Single Amount 213 Present Value of a Single Amount 217

- → REVIEW QUESTIONS 219
- → EXCEL REVIEW QUESTIONS 220

5.3 Annuities 220

Types of Annuities 220
Finding the Future Value of an Ordinary Annuity 221
Finding the Present Value of an Ordinary Annuity 222
Finding the Future Value of an Annuity Due 224
Finding the Present Value of an Annuity Due 225
Finding the Present Value of a Perpetuity 227

- → REVIEW QUESTIONS 228
- → EXCEL REVIEW QUESTIONS 228

5.4 Mixed Streams 228

Future Value of a Mixed Stream 228
Present Value of a Mixed Stream 230

- → REVIEW QUESTION 231
- → EXCEL REVIEW QUESTION 231

5.5 Compounding Interest More Frequently Than Annually 231

Semiannual Compounding 232

Quarterly Compounding 232

A General Equation for Compounding More Frequently Than Annually 233

Using Computational Tools for Compounding More Frequently than Annually 234

Continuous Compounding 234 Nominal and Effective Annual Rates of Interest 235

- → REVIEW QUESTIONS 237
- → EXCEL REVIEW QUESTIONS 237

in practice Focus on Ethics: How Fair is "Check into Cash"? 238

5.6 Special Applications of Time

Value 238

Determining Deposits Needed to Accumulate a Future Sum 239

Loan Amortization 240

Cantury Brings Trouble for Superiors Montgages 242

Finding Interest or Growth Rates 242 Finding an Unknown Number of Periods 243

- → REVIEW QUESTIONS 245
- → EXCEL REVIEW QUESTIONS 245

Summary 245

Opener-in-Review 247

Self-Test Problems 247

Warm-Up Exercises 248

Problems 249

Spreadsheet Exercise 266

Integrative Case 2 Track Software,

Inc. 267

Valuation of Securities 271

ለ Interest Rates and **Bond Valuation** page 272



The Federal Debt—A Huge Appetite for Money page 273

6.1 Interest Rates and Required Returns 274

Interest Rate Fundamentals 274

Focus on Practice: Bond Valuation and Interest Rate Risk 277

Term Structure of Interest Rates 278 Risk Premiums: Issuer and Issue Characteristics 282

→ REVIEW QUESTIONS 283

6.2 Corporate Bonds 283

Legal Aspects of Corporate Bonds 284 Cost of Bonds to the Issuer 285 General Features of a Bond Issue 285 Bond Yields 286 Bond Prices 286 Bond Ratings 287 Common Types of Bonds 287 in practice Focus on Ethics: Can We

Trust the Bond Raters? 288 International Bond Issues 289

→ REVIEW QUESTIONS 290

6.3 Valuation Fundamentals 291

Key Inputs 291 Basic Valuation Model 292

→ REVIEW QUESTIONS 293

6.4 Bond Valuation 293

Bond Fundamentals 293 Basic Bond Valuation 294 Bond Value Behavior 295 Yield to Maturity (YTM) 299 Semiannual Interest and Bond Values 300

→ REVIEW QUESTIONS 301

→ EXCEL REVIEW QUESTIONS 302

Summary 302 Opener-in-Review 304 Self-Test Problems 304 Warm-Up Exercises 305 Problems 306 Spreadsheet Exercise 315

7 Stock Valuation page 316



Tesla Motors—Going Green to Find Value page 317

7.1 Differences between Debt and Equity 318

Voice in Management 318

Claims on Income and Assets 318

Maturity 319

Tax Treatment 319

→ REVIEW QUESTION 319

7.2 Common and Preferred

Stock 319

Common Stock 320

Preferred Stock 323

Issuing Common Stock 325

→ REVIEW QUESTIONS 328

7.3 Common Stock Valuation 329

Market Efficiency 330

The Efficient-Market Hypothesis 330 Basic Common Stock Valuation Equation 331

Mitto Mi Febusion Practice: Understanding Human Behavior Halps Lis. Understand Investor Behavior 332

Free Cash Flow Valuation Model 336 Other Approaches to Common Stock Valuation 339

in practice Focus on Ethics: Psst! Have You Heard Any Good Quarterly Earnings Forecasts Lately? 340

→ REVIEW QUESTIONS 342

7.4 Decision Making and Common Stock Value 342

Changes in Expected Dividends 342

Changes in Risk 343

Combined Effect 344

→REVIEW QUESTIONS 344

Summary 344

Opener-in-Review 346

Self-Test Problems 347

Warm-Up Exercises 347

Problems 348

Spreadsheet Exercise 355

Integrative Case 3 Encore

International 356

Risk and the Required Rate of Return 359

8 Risk and Returnpage 360



Legg Mason Global Asset Management—Miller's Time page 361

8.1 Risk and Return Fundamentals 362

Risk Defined 362

in practice Focus on Ethics: If It Seems Too Good to Be True, It Probably Is 362

Return Defined 363

Risk Preferences 364

→ REVIEW QUESTIONS 365

8.2 Risk of a Single Asset 365

Risk Assessment 365 Risk Measurement 367

→ REVIEW QUESTIONS 372

8.3 Risk of a Portfolio 373

Portfolio Return and Standard Deviation 373 Correlation 375 Diversification 375 Correlation, Diversification, Risk, and Return 378

International Diversification 379

in practice Global Focus: An International Flavor to Risk Reduction 380

→ REVIEW QUESTIONS 380

8.4 Risk and Return: The Capital Asset Pricing Model (CAPM) 381

Types of Risk 381

The Model: CAPM 382

→ REVIEW QUESTIONS 391

Summary 391

Opener-in-Review 392

Self-Test Problems 393

Warm-Up Exercises 394

Problems 395

Spreadsheet Exercise 407

9 The Cost of Capital

page 408



Alcoa—Falling Short of Expectations page 409

9.1 Overview of the Cost of Capital 410

in practice Focus on Ethics: The Ethics of Profit 410

The Basic Concept 411 Sources of Long-Term Capital 412

→ REVIEW QUESTIONS 412

9.2 Cost of Long-Term Debt 413

Net Proceeds 413 Before-Tax Cost of Debt 413 After-Tax Cost of Debt 415

- → REVIEW QUESTIONS 416
- → EXCEL REVIEW QUESTION 416

9.3 Cost of Preferred Stock 416

Preferred Stock Dividends 416 Calculating the Cost of Preferred Stock 417

→ REVIEW QUESTION 417

9.4 Cost of Common Stock 417

Finding the Cost of Common Stock Equity 417 Cost of Retained Earnings 420

Cost of Retained Earnings 420 Cost of New Issues of Common Stock 420

→ REVIEW QUESTIONS 421

9.5 Weighted Average Cost of Capital 422

Calculating Weighted Average Cost of Capital (WACC) 422

Force on Providing United tale.
Times Make for an Uncortain Velgmad.
Avenue Cost of Capital 423

Weighting Schemes 424

→ REVIEW QUESTIONS 425

Summary 425
Opener-in-Review 426
Self-Test Problem 427
Warm-Up Exercises 428
Problems 428
Spreadsheet Exercise 435
Integrative Case 4 Eco Plastics
Company 437

Long-Term Investment Decisions 439

10 Capital Budgeting Techniques

page 440



Treats: Waffles and More, Cairo—Capital Budgeting Techniques Work a Treat page 441

10.1 Overview of Capital Budgeting 442

Motives for Capital Expenditure 442 Steps in the Process 442 Basic Terminology 443 Capital Budgeting Techniques 444

→ REVIEW QUESTION 445

10.2 Payback Period 445

Decision Criteria 445 Pros and Cons of Payback Analysis 446

Focus on Practice: Limits on Payback Analysis 447

→ REVIEW QUESTIONS 449

10.3 Net Present Value (NPV) 449

Decision Criteria 449

NPV and the Profitability Index 451

NPV and Economic Value Added 452

- → REVIEW QUESTIONS 453
- → EXCEL REVIEW QUESTION 453

10.4 Internal Rate of Return (IRR) 453

Decision Criteria 453 Calculating the IRR 454

- → REVIEW QUESTIONS 456
- → EXCEL REVIEW QUESTION 456

10.5 Comparing NPV and IRR Techniques 456

Net Present Value Profiles 456 Conflicting Rankings 458 Which Approach is Better? 461

in practice Focus on Ethics: Nonfinancial Considerations in Project Selection 463

→ REVIEW QUESTIONS 463

Summary 464
Opener-in-Review 465
Self-Test Problem 466
Warm-Up Exercises 466
Problems 467
Spreadsheet Exercise 477

11 Capital Budgeting Cash Flows

page 478



Diamond Comic Distributors—A Superhero for Retailers page 479

11.1 Relevant Cash Flows 480

Major Cash Flow Components 480
in practice Focus on Ethics: A Question of Accuracy 480

Expansion Versus Replacement Decisions 481

Sunk Costs and Opportunity Costs 482 International Capital Budgeting and Long-Term Investments 483

→ REVIEW QUESTIONS 483

in practice Global Focus: Changes May Influence Future Investments in China 484

11.2 Finding the Initial

Investment 484

Installed Cost of New Asset 485
After-Tax Proceeds from Sale
of Old Asset 485
Change in Net Working Capital 488
Calculating the Initial Investment 489

→ REVIEW QUESTIONS 490

11.3 Finding the Operating Cash

Flows 490

Interpreting the Term After-Tax 490
Interpreting the Term Cash Flows 490
Interpreting the Term Incremental 493

→ REVIEW QUESTIONS 495

11.4 Finding the Terminal Cash

Flow 495

Proceeds from Sale of Assets 495 Taxes on Sale of Assets 495 Change in Net Working Capital 496

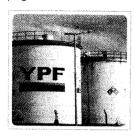
→ REVIEW QUESTION 497

11.5 Summarizing the Relevant Cash Flows 497

→ REVIEW QUESTION 499

Summary 499
Opener-in-Review 500
Self-Test Problems 501
Warm-Up Exercises 502
Problems 502
Spreadsheet Exercise 513

12 Risk and Refinements in Capital Budgeting



YPF—Argentina Siezes Oil Company from Spanish Owners page 516

12.1 Introduction to Risk in Capital Budgeting 517

→ REVIEW QUESTION 517

12.2 Behavioral Approaches for Dealing with Risk 518

Breakeven Analysis 518 Scenario Analysis 519 Simulation 520

Focus on Practice: The Monte Carlo Method: The Forecast Is for Less Uncertainty 522

- → REVIEW QUESTIONS 522
- → EXCEL REVIEW QUESTION 522

12.3 International Risk Considerations 522

→ REVIEW QUESTION 523

12.4 Risk-Adjusted Discount

Rates 524

Determining Risk-Adjusted Discount Rates (RADRs) 524

in practice Focus on Ethics: Ethics and the Cost of Capital 527

Applying RADRs 527 Portfolio Effects 530 RADRs in Practice 530

→ REVIEW QUESTIONS 532

12.5 Capital Budgeting

Refinements 532

Comparing Projects with Unequal Lives 532

Recognizing Real Options 535 Capital Rationing 537

- → REVIEW QUESTIONS 539
- → EXCEL REVIEW QUESTION 540

Summary 540
Opener-in-Review 541
Self-Test Problem 542
Warm-Up Exercises 542
Problems 544
Spreadsheet Exercise 554

Integrative Case 5 Lasting Impressions Company 555

Long-Term Financial Decisions 557

13 Leverage and Capital Structure

page 558



Lowe's—Lowe's Builds Leverage page 559

13.1 Leverage 560

Breakeven Analysis 561

Operating Leverage 565

Focus on Practice: Adobe's Leverage 567

Financial Leverage 568

Total Leverage 572

in practice Focus on Ethics: Repo 105 574

→ REVIEW QUESTIONS 575

13.2 The Firm's Capital

Structure 575

Types of Capital 575
External Assessment of Capital
Structure 576

Capital Structure of Non–U.S. Firms 577
Capital Structure Theory 578

Optimal Capital Structure 587

→ REVIEW QUESTIONS 588

13.3 EBIT—EPS Approach to

Capital Structure 589

Presenting a Financing Plan Graphically 589 Comparing Alternative Capital Structures 591

Considering Risk in EBIT–EPS Analysis 591

Basic Shortcoming of EBIT–EPS
Analysis 592

→ REVIEW QUESTION 592

13.4 Choosing the Optimal Capital Structure 592

Linkage 592

Estimating Value 593

Maximizing Value Versus Maximizing

EPS 595

Some Other Important

Considerations 595

→ REVIEW QUESTIONS 596

Summary 596

Opener-in-Review 598

Self-Test Problems 598

Warm-Up Exercises 600

Problems 600

Spreadsheet Exercise 611

14Payout Policy page 612



Whirlpool Corporation— Increasing Dividends page 613

14.1 The Basics of Payout Policy 614

Elements of Payout Policy 614 Trends in Earnings and Dividends 614 Trends in Dividends and Share Repurchases 616

in practice Focus on Ethics: Are Buybacks Really a Bargain? 617

→ REVIEW QUESTIONS 618

14.2 The Mechanics of Payout Policy 618

Cash Dividend Payment Procedures 619 Share Repurchase Procedures 620 Tax Treatment of Dividends and Repurchases 622

Gains and Dividend Tax Treatment Extended to 2012 and Beyond for Some 623

Dividend Reinvestment Plans 623 Stock Price Reactions to Corporate Payouts 624

→ REVIEW QUESTIONS 624

14.3 Relevance of Payout

Policy 625

Residual Theory of Dividends 625 The Dividend Irrelevance Theory 625 Arguments for Dividend Relevance 626

→ REVIEW QUESTIONS 628

14.4 Factors Affecting Dividend

Policy 628

Legal Constraints 628

Contractual Constraints 629

Growth Prospects 629

Owner Considerations 629

Market Considerations 630

→ REVIEW QUESTION 630

14.5 Types of Dividend Policies 630

Constant-Payout-Ratio Dividend Policy 630

Regular Dividend Policy 631 Low-Regular-and-Extra Dividend Policy 632

→ REVIEW QUESTION 632

14.6 Other Forms of Dividends 632

Stock Dividends 633 Stock Splits 634

→ REVIEW QUESTIONS 636

Summary 636

Opener-in-Review 638

Self-Test Problems 638

Warm-Up Exercises 638

Problems 640

Spreadsheet Exercise 647

Integrative Case 6 O'Grady Apparel Company 648

Short-Term Financial Decisions 651

15 Working Capital and Current Assets Management

page 652



Treasury Risk Survey 2013 – Worries about Liquidity
Occupy the Minds of Treasury Managers page 653

15.1 Net Working Capital Fundamentals 654

Working Capital Management 654 Net Working Capital 655 Trade-Off between Profitability and Risk 655

→ REVIEW QUESTIONS 657

15.2 Cash Conversion Cycle 657

Calculating the Cash Conversion Cycle 657 Funding Requirements of the Cash Conversion Cycle 658 Strategies for Managing the Cash Conversion Cycle 661

→ REVIEW QUESTIONS 662

15.3 Inventory Management 662

Differing Viewpoints about Inventory Level 662

Common Techniques for Managing Inventory 663

Focus on Practice: RFID: The Wave of the Future? 667

International Inventory Management 668

→REVIEW QUESTIONS 668

15.4 Accounts Receivable Management 669

Credit Selection and Standards 669 Credit Terms 673 Credit Monitoring 676

→ REVIEW QUESTIONS 678

15.5 Management of Receipts and Disbursements 678

Float 678

Speeding Up Collections 679

Slowing Down Payments 680

in practice Focus on Ethics: Stretching Accounts Payable: Is It a Good Policy? 680

Cash Concentration 681

Zero-Balance Accounts 682

Investing in Marketable Securities 683

→ REVIEW QUESTIONS 684

Summary 684
Opener-in-Review 686
Self-Test Problems 687
Warm-Up Exercises 687
Problems 688
Spreadsheet Exercise 693

16 Current Liabilities Management page 695



FastPay—Getting Cash into the Hands of Online Media Companies page 696

16.1 Spontaneous Liabilities 697

Accounts Payable Management 697

Accruals 702

in practice Focus on Ethics: Accruals Management 702

→ REVIEW QUESTIONS 703

16.2 Unsecured Sources of Short-Term Loans 703

Bank Loans 703

Commercial Paper 709

and Flow of Commercial Paper 709

International Loans 710

→ REVIEW QUESTIONS 711

16.3 Secured Sources of Short-Term Logns 712

Characteristics of Secured Short-Term Loans 712

Use of Accounts Receivable as Collateral 713

Use of Inventory as Collateral 715

→ REVIEW QUESTIONS 717

Summary 717 Opener-in-Review 718 Self-Test Problem 719 Warm-Up Exercises 719

Problems 720

Problems 720

Spreadsheet Exercise 726

Integrative Case 7 Casa de Diseño 727

Special Topics in Managerial Finance 729

17 Hybrid and Derivative Securities

page 730



Nokia Corporation—Nokia Calls on Convertible Bond Market for Help page 731

17.1 Overview of Hybrids and Derivatives 732

→ REVIEW QUESTION 732

17.2 Leasing 732

Types of Leases 732

Leasing Arrangements 733

Focus on Practice: Leases to Airlines End on a Sour Note 734

Lease-Versus-Purchase Decision 735 Effects of Leasing on Future Financing 739 Advantages and Disadvantages

of Leasing 740

→ REVIEW QUESTIONS 741

17.3 Convertible Securities 741

Types of Convertible Securities 741 General Features of Convertibles 742 Financing with Convertibles 743 Determining the Value of a Convertible Bond 745

→ REVIEW QUESTIONS 747

17.4 Stock Purchase Warrants 747

Key Characteristics 747 Implied Price of an Attached Warrant 748

Values of Warrants 749

→ REVIEW QUESTIONS 751

17.5 Options 752

Calls and Puts 752

Options Markets 752

Options Trading 753

Role of Call and Put Options in Fund Raising 754

in practice Focus on Ethics: Options Backdating 755

Hedging Foreign-Currency Exposures with Options 755

→ REVIEW QUESTIONS 756

Summary 756
Opener-in-Review 758
Self-Test Problems 759
Warm-Up Exercises 760
Problems 760
Spreadsheet Exercise 767

18 Mergers, LBOs, Divestitures, and Business Failure page 768



Dell, Inc.—Carl Icahn and Founder Michael Dell Fight for Computer Maker page 769

18.1 Merger Fundamentals 770

Terminology 770 Motives for Merging 772 Types of Mergers 774

→ REVIEW QUESTIONS 775

18.2 LBOs and Divestitures 775 Leveraged Buyouts (LBOs) 775 Divestitures 776

→ REVIEW QUESTIONS 777

18.3 Analyzing and Negotiating Mergers 777

Valuing the Target Company 778
Stock Swap Transactions 780
Merger Negotiation Process 785
Holding Companies 787
International Mergers 789

→ REVIEW QUESTIONS 790

in practice Global Focus: International Mergers 791

18.4 Business Failure Fundamentals 791

Types of Business Failure 792

Major Causes of Business Failure 792

in practice Focus on Ethics: Too Big
to Fail? 793

Voluntary Settlements 793

→ REVIEW QUESTIONS 794

18.5 Reorganization and Liquidation in Bankruptcy 795

Bankruptcy Legislation 795
Reorganization in Bankruptcy
(Chapter 11) 796
Liquidation in Bankruptcy
(Chapter 7) 798

→ REVIEW QUESTIONS 799
Summary 800

Opener-in-Review 801 Self-Test Problems 802 Warm-Up Exercises 802 Problems 803 Spreadsheet Exercise 809

19 International Managerial Finance

page 811



Air New Zealand—Kiwis Flying High on Currency Gains page 812

19.1 The Multinational Company and Its Environment 813

Key Trading Blocs 813 GATT and the WTO 815 Legal Forms of Business Organization 815

Taxes 816

Financial Markets 818

→ REVIEW QUESTIONS 819

19.2 Financial Statements 819

Subsidiary Characterization and Functional Currency 820 Translation of Individual Accounts 820

→ REVIEW QUESTION 821

19.3 Risk 821

Exchange Rate Risks 822 Political Risks 827

→ REVIEW QUESTIONS 828

in practice Focus on Ethics: Chiquita's Slippery Situation 829

19.4 Long-Term Investment and Financing Decisions 829

Foreign Direct Investment 829 Investment Cash Flows and Decisions 830 Capital Structure 831

Appendix A-1

Glossary G-1

Credits C-1

Index I-1

in practice Global Focus: Take an Overseas Assignment to Take a Step Up the Corporate Ladder 832

Long-Term Debt 833 Equity Capital 834

→ REVIEW QUESTIONS 835

19.5 Short-Term Financial

Decisions 835

Cash Management 837

Credit and Inventory Management 840

→ REVIEW QUESTIONS 841

19.6 Mergers and Joint

Ventures 841

→ REVIEW QUESTION 842

Summary 842 Opener-in-Review 844 Self-Test Problems 845 Warm-Up Exercises 845 Problems 845 Spreadsheet Exercise 848

Integrative Case 8 Organic Solutions 849