

**Massachusetts Institute of Technology
Sloan School of Management**

15.434 Corporate Finance
Spring 2001

Assignment for Monday, March 5, 2001

Case: Kennecott Copper Corporation

Questions:

1. Calculate the value of Carborundum using FCF to Equity and FCF to the entire firm. Reconcile the two cash flows. The FCF_E is:
$$\text{Net Income} + \text{Dep.} - \text{Cap. Exp.} - ?WC + \text{Extras} - \text{Debt Repayments}$$

Assignment for Wednesday, March 7, 2001

Questions:

1. Consider what strategic plan Kennecott should follow. Why did they acquire Peabody Coal? Did the acquisition accomplish Kennecott's objectives? Why? How well was the divestiture handled?
2. What options did Kennecott have for use of the Peabody sale proceeds? Why did management choose the Carborundum acquisition? What choice should it have made?
3. What is the top price Kennecott should pay for Carborundum?
4. As a non-management Kennecott director, how would you vote on the resolution at the end of the case? Why? If you vote against, what should Kennecott do next?
5. In connection with the events described in the case, did Kennecott's board of directors discharge its duties effectively? How about the various experts (Kuhn Loeb and First Boston on the Peabody divestiture; Morgan Stanley on the Carborundum acquisition; Sullivan and Cromwell)?
6. What do you predict will happen if Kennecott acquires Carborundum, if they don't acquire Carborundum? Why?