

Corporate Strategy

Week 1: Corporate Advantage

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Examples of Multi-Business Firms

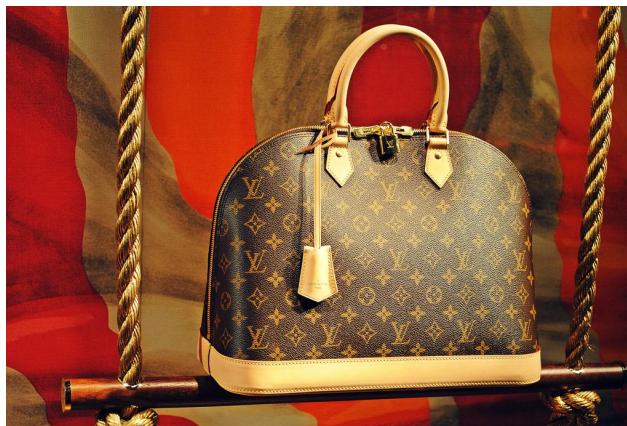
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BERKSHIRE HATHAWAY INC.TM

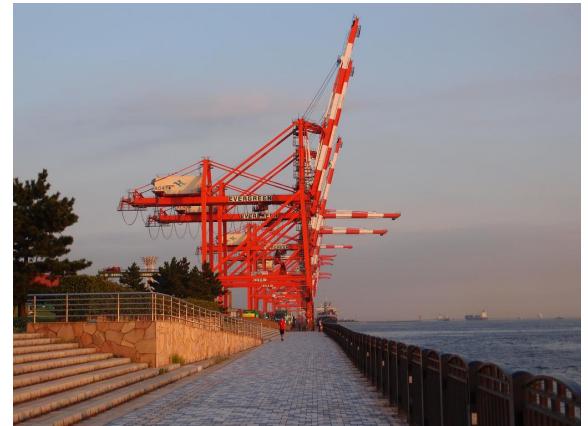


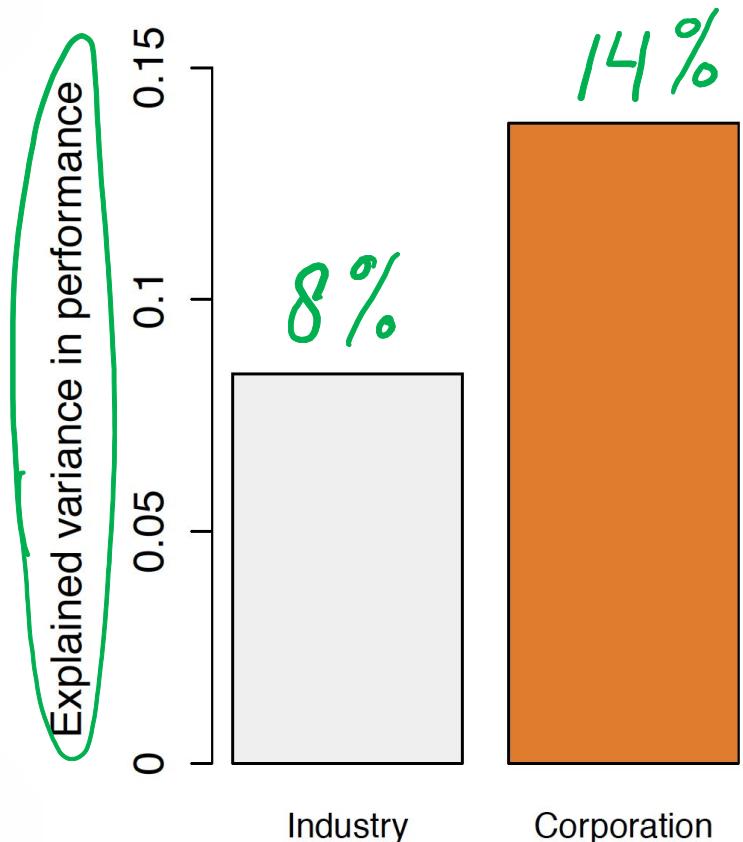
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TM

SAMSUNG





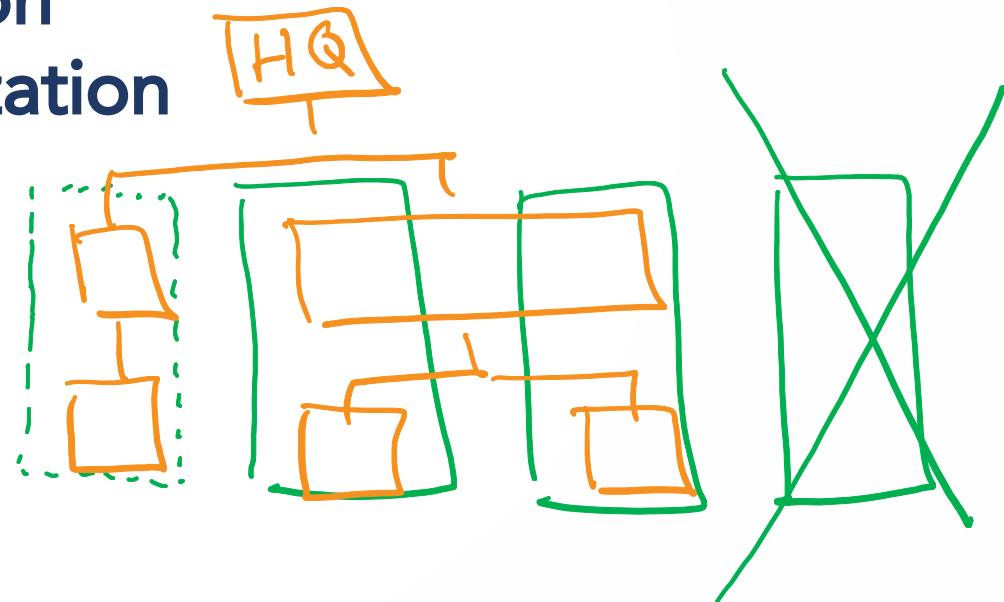
Defining Corporate Strategy

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Corporate strategy is choosing:

- Portfolio selection
- Portfolio organization



Understanding Differences between Business and Corporate Strategy (1): Number of Businesses

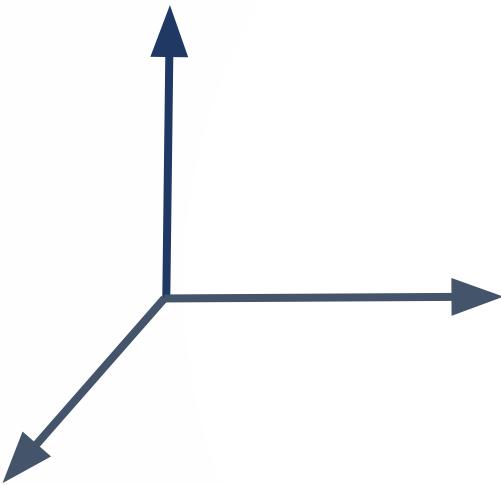
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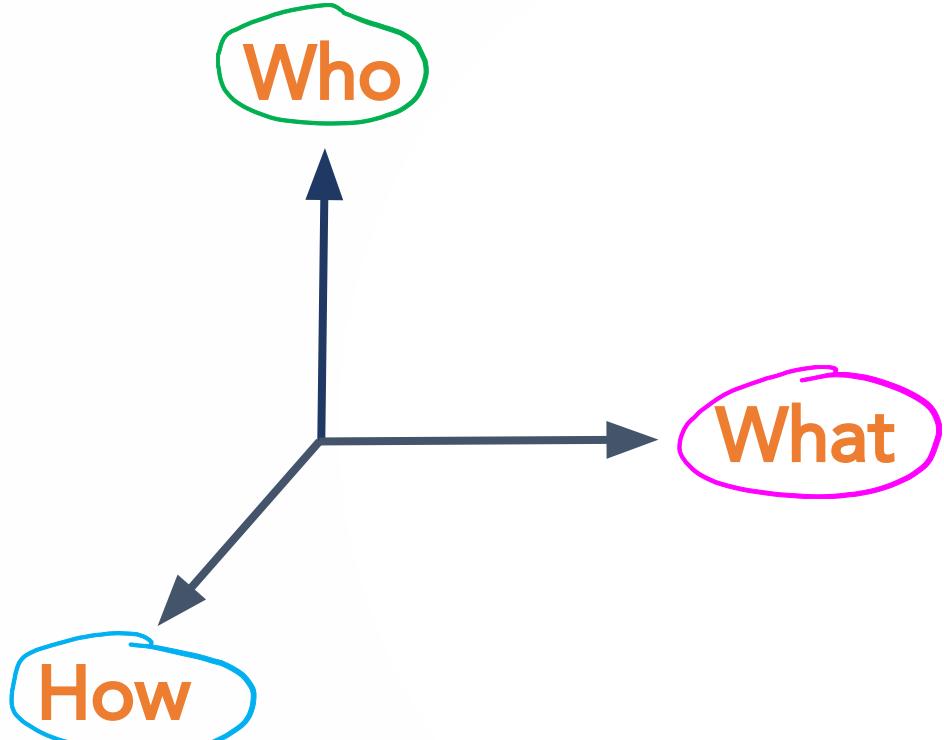
Who



What

How



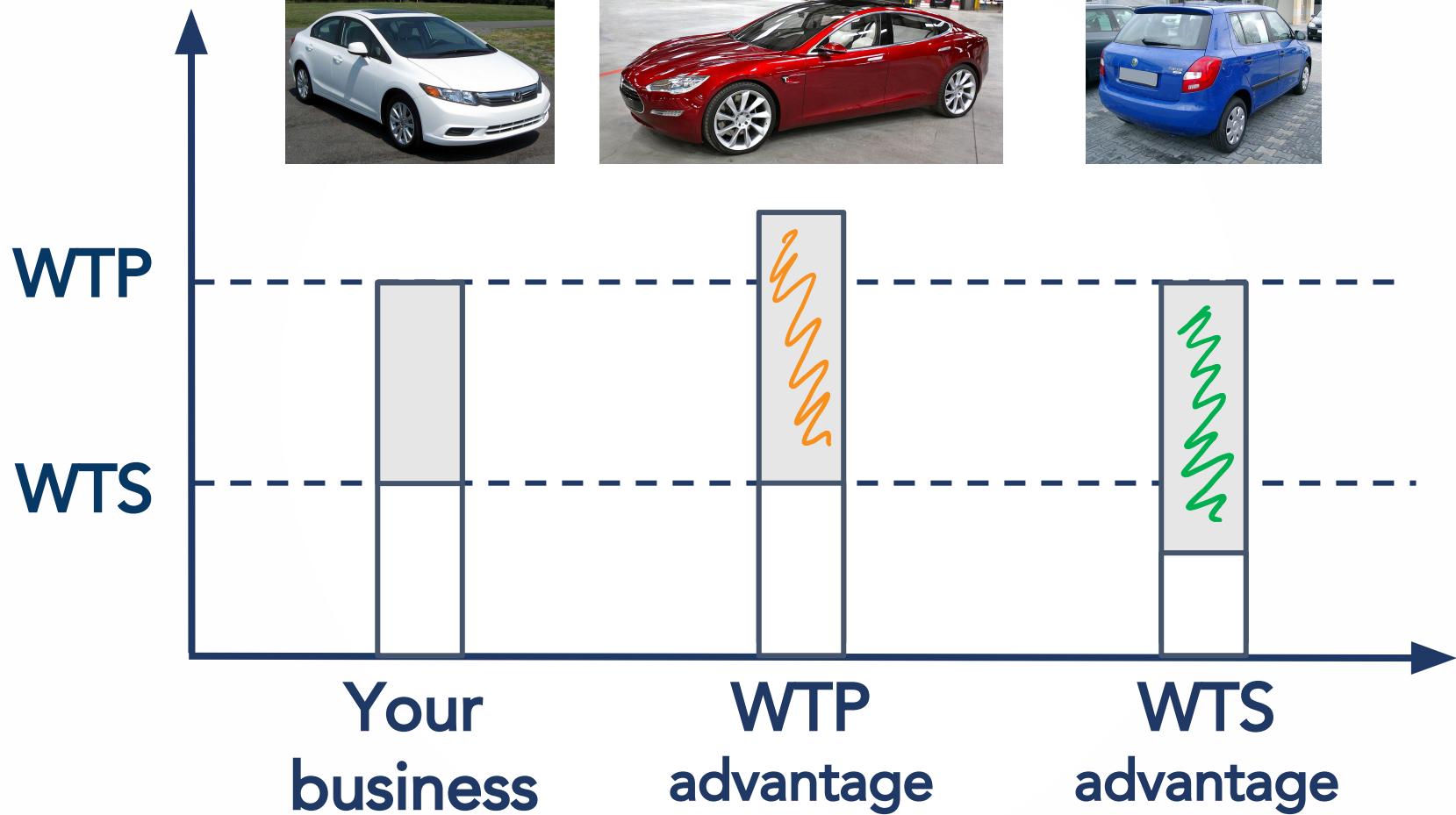


TM
first direct

Understanding Differences between Business and Corporate Strategy (2): Corporate Advantage

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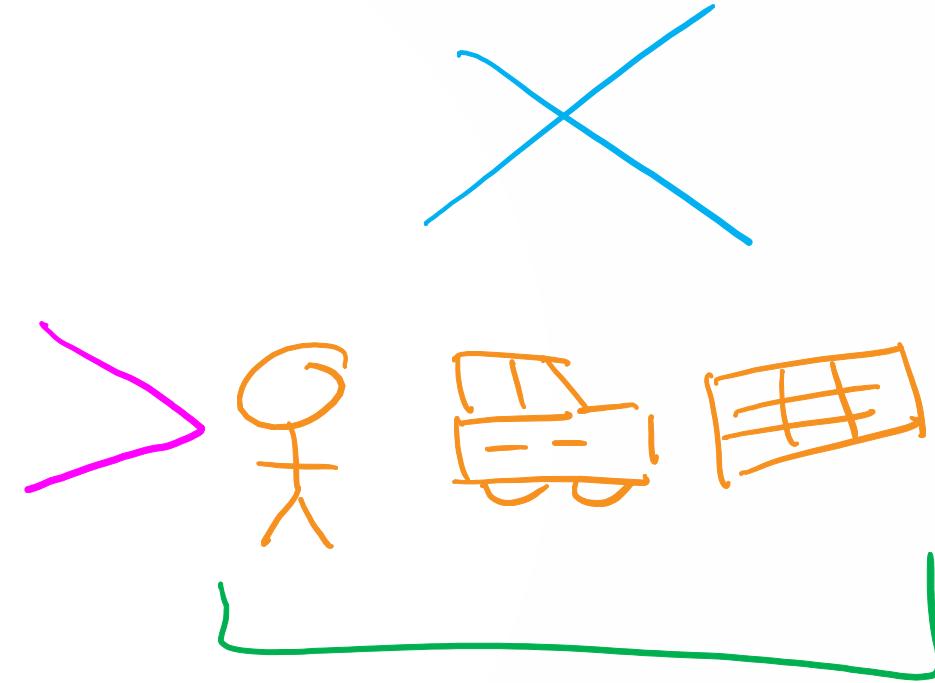
Competitive advantage:

$$(WTP - WTS)_{\text{Your business}} > (WTP - WTS)_{\text{Rival's business}}$$

WTP: Willingness to pay

WTS: Willingness to supply

HONDA™



Corporate advantage:

$$V[AB] > V(A) + V(B)$$

[]: jointly owned

(): separately owned

Understanding Differences between Business and Corporate Strategy (3): Competition

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Mutual fund managers

Activist investors

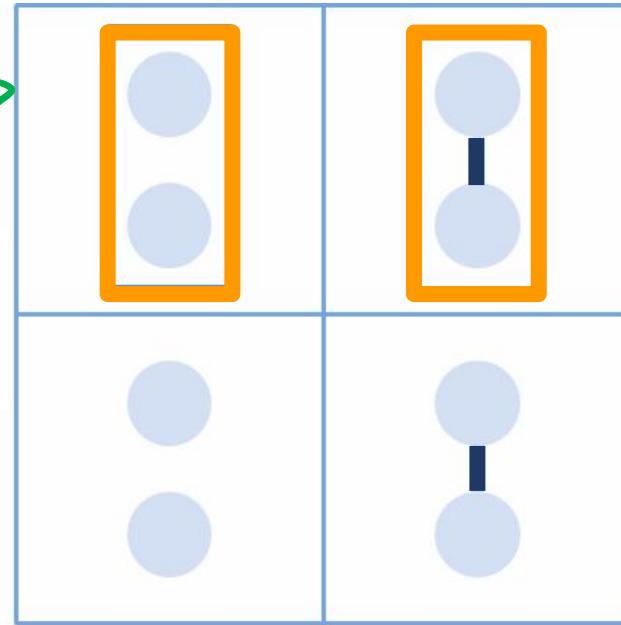
Private equity investors

Other corporate strategists

ABILITY TO INFLUENCE
BUSINESSES GOES
UP

SELECTION

Joint
ownership



Joint decision making ↑ MODIFICATION

Conducting a Sum-of-the-parts Analysis

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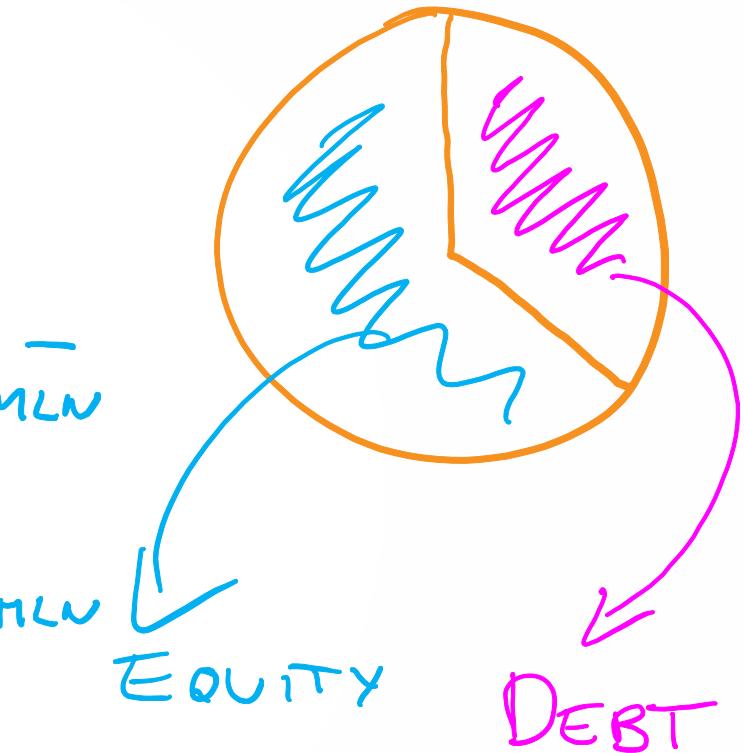
Shipbuilding business	Enterprise Value (EV)	Earnings (E)	EV / E
1	120	÷ 20	= 6
2	70	÷ 10	= 7
3	120	÷ 15	= 8
Average			<u>7</u>

Shipbuilding business	Enterprise Value (EV)	Earnings (E)	EV / E
4	105	= 15	* <u>7</u>

Business	Enterprise Value (EV)	Earnings (E)	EV / E
Shipbuilding	105	= 15	* 7
Homebuilding	110	= 10	* 11
Trucking	160	= 20	* 8
Headquarters	-10		
<i>Enterprise value</i>	<u>365</u>		

1. For each business of the multi-business firm:
 - Find a group of single business peers
 - Calculate average multiple for single business peers
 - Calculate value for the business of the multi-business firm
2. Add values of all businesses of the multi-business firm
3. Subtract ongoing costs of headquarters (if not accounted for in business earnings)

Enterprise Value	365
Net debt	165
Equity value	200 MLN
Number of shares	20 MLN
Equity value per share	10



Equity value per share:

- Share price: 9
- SOTP: 10

Why We Cannot Infer Corporate Advantage from a Sum-of-the-Parts Analysis

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Equity value per share:

- Share price: 9
- SOTP: 10

$$EV_{SOTP} = E_{Actual} * (EV/E)_{\text{Single business peers}}$$

EV: Enterprise value

E: Earnings

EV/E: Multiple

Credits

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