

# DIVIDEND QUARTERLY

Summer 2005

## Mission of ACFIN

**To offer** students an opportunity to work directly on a variety of real-world corporate finance problems

**To help** students develop their leadership, negotiation, presentation, problem solving, communication and teamwork skills through critical analysis of corporate finance problems

**To teach** students how to apply technical and theoretical finance tools and concepts to analyze unstructured problems, improve decision-making and develop recommendations based upon their assessment of alternative courses of action

## Undergraduates Gain ACFIN Edge on Investment Banking Careers

A select group of undergraduates from the Investment Banking Club (IBC) have become an integral part of ACFIN. The initiation of involving undergraduates was proposed by IBC members Ashok Vishnubhakta and Timothy Hotchandani in 2003, who recognized the mutual benefits for undergraduates pursuing careers in the financial communities and the research assistance they could offer the ACFIN teams.

The main role of the undergraduates is to provide assistance and analysis on projects so the ACFIN graduate students may expediently offer analysis and recommendations to the project sponsors. Examples of the type of research and support that the undergraduates provide are:

Identifying the market of a particular product or product group and determining the viability of different channels of distribution,

Analyzing the security choice issue, determining the value of the security issuance and examining which underwriters to use,

Determining whether proposed investments in companies or divestments of subsidiaries will be viable and profitable, and researching past cash distributions and determining the financial and market effects.

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Undergraduate Research Analysts Michael Gatzlaff and Michael Kenworthy with ACFIN Board member, Eric Larson, Piper Jaffray

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## Nicholas Center for Applied Corporate Finance (ACFIN)



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### Mary E. Amor

Managing Director, Mergers & Acquisitions  
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### Bruce Anfindsen

Director, FIRC Emerging Markets  
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### Doug Baird

Managing Director & Head of  
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### Ben Braun

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### Gary M. Cole

Managing Director  
Antares International Partners, Inc.  
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### Donald M. Condon, Jr.

Managing Director  
The Titan Group  
Kuala Lumpur, Malaysia

### Dennis P. Duerst

Director of Benefits Fund  
Investments  
3M  
St. Paul, MN

### Richard H. Fleming

Senior VP & CFO  
USG Corporation  
Chicago, IL

### Phill Gross

Managing Director  
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### Carl E. Gulbrandsen

Managing Director  
Wisconsin Alumni Research Foundation  
Madison, WI

### Thomas Heath

Managing Director  
JP Morgan Chase & Co  
New York, NY

### Robert Hedlund

Managing Director & Head of High  
Yield Capital Markets  
Lehman Brothers  
New York, NY

### Bill Keitel

Senior VP & CFO  
Qualcomm, Inc.  
San Diego, CA

### Peter S. Kies

Managing Director, Investment Banking  
Robert W. Baird & Co.  
Milwaukee, WI

### Eric J. Larson

Senior Managing Director &  
Co-Head of Equity Research  
U. S. Bancorp Piper Jaffray  
Minneapolis, MN

### Michael E. Lehman

Retired Executive Vice President/CFO  
Sun Microsystems Inc.  
Santa Clara, CA

### Melinda Mount

Retired Executive VP &  
Co-Managing Director  
AOL

### Dr. John Parsons

Executive Director  
Center for Energy and Environmental Policy Research  
The Massachusetts Institute of Technology  
Cambridge, MA

### Cynthia L. Richson

Chief Corporate Governance Officer  
Ohio Public Employees Retirement System  
Columbus, OH

### Ann M. Schwister

Director, Corporate Business  
Development Finance  
Procter & Gamble  
Cincinnati, OH

### Paul Shain

President & CEO  
Berbee Information Networks Corporation  
Madison, WI

### Tom Tefft

VP Finance, Cardiac Rhythm Management  
Medtronic, Inc.  
Minneapolis, MN

### Sachin Tulyani

Associate – Private Debt & Equity  
Northwestern Investment Management  
Co., LLC  
Milwaukee, WI

### Dr. Subu Venkataraman

Managing Director & CRO  
Highbridge Capital  
New York, NY

## Upcoming Events

**Graduate Business Association 2nd Annual Golf Outing for Junior Achievement**

September 23, 2005  
University Ridge Golf Course  
Madison, WI

**ACFIN Annual Alumni Reunion and Fall Board of Advisors Meeting**

November 11, 2005  
Memorial Union, Madison, WI

**ACFIN Alumni Badger Football Game**

November 12, 2005  
Camp Randall Stadium

# 100% Placement for the ACFIN Class of 2005

**Erin Carter** SAB Miller

**Kylie Huang** Citibank, Taiwan

**Kyung-Ae Jun** Wipfli LLP

**Alexander MacDougall** Procter & Gamble

**Bonifacius Pasaribu** Intel Corporation

**Pattarinee Ratananakin** Kasikorn Securities Public Company Limited

**Pablo Rieckhof** Inter-American Investment Corporation

**Peter Scholke** Valuation Research

**Boyd Tubbs** Kraft Foods

**Stan Walker** Best Buy

**Rong Wang** Hillcrest Bank

**Amy Zhou** Novo Nordisk



2005 ACFIN graduates and Center Director Cindie Horner at commencement festivities

## Congratulations

Rachel Ryan Nielsen (ACFIN 2006) and Andrew Nielsen were married on January 7, 2005 at the Wisconsin State Capitol.

Shuming (Samuel) (ACFIN 2006) and Yu Luo for the birth of their son, Leon, on April 23, 2005.

Zhenyi (Sheldon) Liu (ACFIN 2006) and Jessie Zhang were married on July 30, 2005 in Shanghai, China.

Mary E. Amor (ACFIN Board member) for her promotion to Managing Director, Mergers & Acquisitions at Citigroup, Investment Banking Division.

Dr. John Parsons (ACFIN Board member) for his new position as Executive Director for the Center for Energy and Environmental Policy Research at the Massachusetts Institute of Technology.

Aneesh Prabhu (ACFIN 2001) for becoming a Chartered Financial Analyst.



Leon Luo

### John Hulbert (MBA, 2000)



**Briefly describe your current position with Target Corporation and your career path, beginning with interviewing and accepting a position with Target.**

My current position is Manager of Merchandise Finance, in which I lead a team of financial and planning analysts who act as internal financial consultants

for the buying organization. My team is responsible for one of the four merchandising groups at Target, and we are responsible for supporting that group through the seasonal planning process twice a year, the monthly forecast process, decision support on new products, programs, and businesses, as well as acting as "experts" with respect to any other aspect of their financial performance. The role is very exciting and challenging. It's exciting because we get to be involved upstream on future initiatives, and we are really near the "front line" of the company's business model. It's challenging because our clients need very fast and insightful analytical support, and there can be many pressures associated with filling that need.

I got my full-time position with Target as a result of my internship with them between my first and second years at Madison. I came back full-time in June of 2000, and began as a Financial Analyst in our Stores Expense Planning organization. After a year I rotated over to our Merchandise Finance area, supporting the Toys and Sporting Goods Divisions, where I stayed a year and a half and was promoted to Senior Financial Analyst. I then rotated to a position at Target.com, where I only worked for about 6 weeks until I was promoted to Asset Management Manager for our Technology Finance area. In that role I managed the capital budget for computer hardware and software for all of our corporate locations, as well as maintaining asset and contract tracking for the technology area. After 10 months in that position, I was moved back to Merchandise Finance in my current manager role, where I have been for the last 18 months.

**In hindsight, what was the most valuable aspect of the ACFIN program in regard to your current position and your future ambitions?**

For me, the experience was about working in a team, and learning how to combine everyone's strengths into a highly-functioning group. This is definitely something that I use in my management

role every day. In addition, we had to work under tight timelines with limited information to construct cohesive and insightful presentations to management of the different companies with whom we collaborated, and this is certainly the type of challenge that I regularly encounter in my current position.

**What has been your most significant professional achievement to date?**

Given that my roles at Target have been in support of the line businesses, I am most proud of the recognition that I have received from my clients for the level of support I have been able to provide. For example, both in my position as a Financial Analyst in Merchandise Finance and in my current position as Manager there, I have received awards from the Senior Vice Presidents in charge of those groups recognizing my support. The fact that I have been able to add value while in a support role is what has kept me motivated and happy at Target.

**What career advice would you give to students who are currently in ACFIN?**

Decide what you want to do and pursue it, regardless of what your peers are choosing to do. When I got my MBA and went to work at Target, the dot.com boom was still going, and I heard a lot about how "brick and mortar" retailing was going away and that I should join an e-retailer. Given what has happened in the five years since, I am happy that I made my commitment in spite of what was trendy at the time. (Now that I think about it, it was trendy to seek a position at Enron as well!!)

**What was your most memorable experience during your ACFIN year?**

Our first project was a presentation to the ACFIN board on the media/entertainment industry, and our presentation ended up pretty rocky. We received many insightful challenges from the board members, and we walked out with a much better understanding of how much we didn't know. While it was difficult, it also was an extremely valuable learning experience, and it improved our performance on all of our later projects. It also helped us to come together as a team, which I think is extremely important.

**NEXT ISSUE:** 2003 ACFIN alum, Jonathon J. Fellows, Consultant, The Wealth Office of DiMeo Schneider & Associates, LLC

## ACFIN Launches Global Partners Program

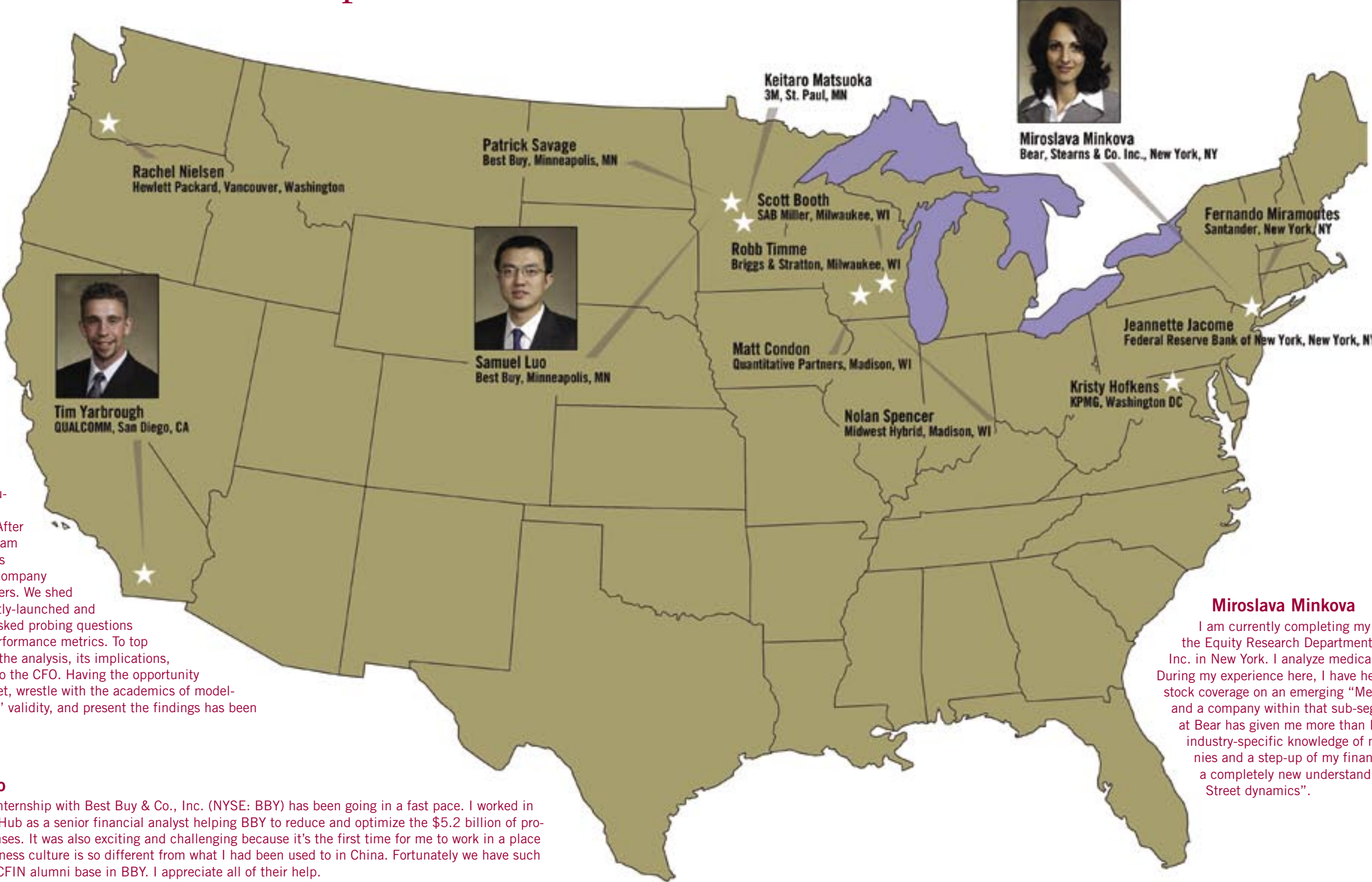


This summer ACFIN completed our first "Global Partners" project for a non-U.S. company, France Telecom, in conjunction with graduate business students at the Theseus Institute of Management in Nice, France. Theseus specializes in the granting of MBA degrees to students with technology backgrounds.

France Telecom conducts a large portion of its business in the form of joint ventures and strategic alliances. However, the company had no formal evaluation process for assessing the value of these relationships, their impact on the financial and strategic position of the company, or alternative methods for sharing the economic profits from the ventures. The combined ACFIN/Theseus team was asked to build a proprietary model that France Telecom could use to value and structure all of its ongoing partnering arrangements. In addition, given the importance of the technology component of their business, France Telecom was also interested in assessing the relevance of a real options approach to the valuation of their business partnerships.

The final stage of the project was to gather specific information on one of France Telecom's existing partnership, and to demonstrate how the framework the students had developed could be applied to the partnership. The analysis was designed to highlight the value of the partnership, different alternatives for structuring the relationship, and different methods that could be employed to allocate the profits from the venture to the partners.

# 2005 ACFIN Summer Internships



**Timothy Yarbrough**

My internship at Qualcomm, Inc. has been incredibly challenging and rewarding. The company's CFO wanted to evaluate the usefulness of Economic Value Added® for Qualcomm. After three months, the evaluation team created several financial models benchmarking both the entire company and its segments against its peers. We shed new light on the value of recently-launched and developing technologies, and asked probing questions about the validity of current performance metrics. To top off my experience, I presented the analysis, its implications, and several recommendations to the CFO. Having the opportunity to start with a blank spreadsheet, wrestle with the academics of modeling, assess and test and results' validity, and present the findings has been an unmatched experience.

**Samuel Luo**

The 12-week internship with Best Buy & Co., Inc. (NYSE: BBY) has been going in a fast pace. I worked in the Consumer Hub as a senior financial analyst helping BBY to reduce and optimize the \$5.2 billion of promotional expenses. It was also exciting and challenging because it's the first time for me to work in a place where the business culture is so different from what I had been used to in China. Fortunately we have such a supportive ACFIN alumni base in BBY. I appreciate all of their help.



**Miroslava Minkova**  
Bear, Stearns & Co. Inc., New York, NY

**Miroslava Minkova**

I am currently completing my summer internship in the Equity Research Department of Bear Stearns & Co., Inc. in New York. I analyze medical device companies. During my experience here, I have helped my team initiate stock coverage on an emerging "MedTech" sub-segment and a company within that sub-segment. This internship at Bear has given me more than I ever anticipated – from industry-specific knowledge of medical device companies and a step-up of my financial modeling skills, to a completely new understanding of the broader "Wall Street dynamics".

**Dilek Gurel**  
ABN AMRO, Istanbul, Turkey

## 4th Round Projects

### 3M Worldwide

3M is a very successful, broadly diversified company that operates in a number of domestic and international markets. A recent consequence of that success is that 3M is going through a period in which the company generates considerably more cash from operations than it has been able to redeploy and reinvest.

The ACFIN students were requested to provide analysis, prepare and deliver a presentation based upon a thorough and comprehensive assessment of the cash distribution and retention decisions at 3M. The goal of the project was to provide a framework for tracking and analyzing the best use of excess cash that 3M may generate from its operations. In particular, 3M requested input on the following two questions:

- What is the optimal level of corporate cash on the balance sheet; and
- What is the most efficient use of the excess from a shareholder value point of view?

Specific responses were requested for each of the following key decisions:

- Would a buyback be EPS accretive or dilutive for 3M?
- What are the balance sheet effects for 3M?
- What is the impact on credit ratings of 3M?
- How much of a buyback is needed to make an impact?
- How might a buyback affect 3M's cost of capital?
- How large of a buyback could 3M complete without affecting its credit rating?
- Over what period of time should 3M implement a buyback?



The World Council of Credit Unions, Inc. (WOCCU) is the global trade association and development organization of the international credit union system. WOCCU promotes the sustainable growth of credit unions and financial cooperatives across the globe. As instruments of economic and social development, World Council, its regional confederations, and national member organizations in 84 countries with 40,421 credit unions, serve more than 123 million people worldwide.

WOCCU contacted ACFIN to request assistance in determining whether it can create a profitable revenue stream by becoming involved in the provision of debit and credit card services to credit union movements in other countries, focusing primarily on emerging market countries. Specifically, WOCCU requested:

1. Review of the global debit and credit card service industry structure and process.
2. Definition of the role WOCCU could play in the provision of card services for credit unions in countries outside the United States
3. Recommendation of a business model that WOCCU could implement to profitably provide card services .
4. Action plan to implement the recommended business model.

In order to assist WOCCU in the development of its new business model for these markets, the ACFIN team was asked to specifically respond to the following questions:

#### GENERAL QUESTIONS

1. What business model is required to provide debit and credit card services to credit unions in Ecuador, Mexico etc.?
2. What are the barriers to entry in card service provision?

#### INTERNATIONAL QUESTIONS

1. What are the requirements and barriers to entry for entering international markets (e.g. Ecuador and Mexico)?
2. What are the steps and companies involved in processing international transactions (Visa/MasterCard, switch providers, banks, etc.)?
3. How do Visa and MasterCard currently service these countries?
4. Are there specific regulations that exist on either the US or international side?
5. How does settlement occur on international transactions?
6. Do the rules of the game differ in other countries from those in the United States?
7. Are there regulatory issues with international card service provision?

#### WOCCU QUESTIONS

1. What role could WOCCU play in the provision of debit and credit card services?
3. Can WOCCU recover the costs of adding value and earning a profit in this line of business?
3. What would be a profitable business model for WOCCU to become involved in the provision of international card services?
4. How much initial investment is required to launch the service within WOCCU?

Each academic year ACFIN teams work on 12-16 consulting engagements. Each engagement runs for approximately 7-8 weeks.

## 4th Round Projects



Best Buy Co., Inc. is a specialty retailer of consumer electronics, home-office products, entertainment software, appliances and related services. The company operates retail stores and/or commercial websites under the brand names Best Buy (BestBuy.com and BestBuyCanada.ca), Future Shop (FutureShop.ca), Magnolia Audio Video (MagnoliaAV.com) and Geek Squad (GeekSquad.com), as well as an outlet store on eBay.

Twice a year, Best Buy sets its retail stores' labor budget based on an initial methodology that utilizes historical productivity measures for comparable and new stores. However, monthly business trends are not always congruent with the original forecast set previously. Hence, Best Buy determined a need to build a Labor Optimization Tool (LOT) that would help the company flex their retail labor with current business trends while maximizing the bottom line.

The ACFIN Best Buy project consisted of building a labor optimization model for Best Buy retail stores with the objective of maximizing profitability for the chain by labor department. (i.e. highest gross margin or Net Operating Profit (NOP) per labor hour). In order to achieve these objectives, Best Buy specifically charged the ACFIN students with the following questions for response in their analysis and presentation:

- Given a monthly forecasted level of units, revenues, and gross margin, what is the minimum amount of labor required to operate the Best Buy retail chain in each labor zone? (i.e. fixed labor)
- Given the answer to the question above, what is the incremental level of labor that could be deployed in order to yield the highest possible NOP at the labor zone level (i.e. variable labor)?
- Understanding that each labor zone presents a different level of return on labor (i.e. NOP/Labor hour), what is the risk/ return profile of a given labor zone relative to the total store?
- How frequently should the model be adjusted for seasonality and how localized could it be considered?

We Would Like to Thank  
**Best Buy (NYSE: BBY),**  
North America's #1 specialty retailer of consumer electronics, personal computers, entertainment software and appliances, for their generous donation of \$5,000 to the Nicholas Center for Applied Corporate Finance

## Undergraduates Gain ACFIN Edge on Investment Banking Careers

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In addition to the support and research assistance that the undergraduates provide to the ACFIN teams, the broadened team base offers the graduate students the opportunity to delegate and manage young professionals who will be analysts and consultants in the financial community upon graduation.

The undergraduates have articulated many benefits from their involvement in ACFIN too, including the opportunity to interact with MBA students in academic and social environments and the opportunity to work on critical projects that add value to companies around the world. Also unique for the ACFIN undergraduates are the contacts in the banking and finance community and the assistance in landing a competitive summer internship and full-time position.

**"Having the undergrads on our team adds another dimension to the ACFIN experience: Leadership. We learn how to lead, direct, and coordinate the work of our undergraduate team members to keep our projects continuously advancing; all things that will be invaluable in our future careers."** Peter Scholke, ACFIN 2nd year MBA student.

**"Being able to take what I've learned in the classroom and use it in real life corporate finance situations has been phenomenal. Not only has it given me a better understanding of finance but has offered me a competitive advantage when finding a job and entering the workforce."** Michael Kenworthy, ACFIN undergraduate research analyst

**"Working with ACFIN provided me with an experience incomparable to any other in college. On every engagement, my team was confronted with problems to solve in a real-time setting and was challenged to apply complicated concepts outside the academic vacuum. This benefited me greatly as I was exposed to more diverse and complex issues and was involved in situations for which no textbook answer existed. Few experiences in college prepared me for that reality the way ACFIN did, and as those of us who engaged the program leave to pursue our careers, we take the experience of having had a practical setting with us."**

Ashok Vishnubhakta, ACFIN undergraduate research analyst

#### Who are our ACFIN undergraduates and where are they going?

Ashok Vishnubhakta (ACFIN 2003- 2004), Giuliani Capital Advisors LLC, Chicago  
Timothy Hotchandani (ACFIN 2003-2004), Thomas Weisel Partners LLC, New York  
Michael Kenworthy (ACFIN 2004-2005), Piper Jaffrey Companies, Minneapolis  
Thomas Hoppe (ACFIN 2004-2005), Bank of America Securities, New York  
Jonathan Ziebarth (ACFIN 2004-2005), Robert W. Baird & Co., Chicago  
Michael Gatzlaff (ACFIN 2004-2005), Fidelity Investments, summer intern 2005, Boston  
John Weyers (ACFIN 2005), Goldman Sachs & Co., summer intern 2005, Chicago  
Mariska Kwok (ACFIN 2004-2005), Merrill Lynch & Co., summer intern 2005, White Plains, NY