Federated Department Stores, Inc.: Suggested Questions

1. Did Campeau overpay for Federated? (Hint: you might want to use the data shown on the following page.)

2. Did the merger destroy value? Assume a pre-merger equity beta equal to 0.95 and an EBITDA multiple equal to 9.0.

3. What percentage of the purchase price was financed with debt? What percentage was financed with equity?

4. What are the sources of the financial distress costs facing Federated? Are they significant?

5. What would be your strategy in dealing with vendors and factors? Lenders?

6. How should Jim Zimmerman deal with customers and employees in this period?

7. Was Chapter 11 inevitable when the buyout was completed? Could Federated have avoided Chapter 11 in September, 1989?

8. If Chapter 11 was inevitable, what preparatory steps should Jim Zimmerman and Karen Hoguet have taken?

Table 1: Divisions Sold

Division Sold	Month Sold	Purchaser	Sale Price ($ billions)
Bullocks's and I. Magnin	May 1988	R.H. Macy	$1.10
Filene's	May 1988	May Department Stores	$1.50
Foley's			
Filene's Basement	July 1988	Management Buyout	$0.13
Ralph's Supermarket	August 1988	Spin-off, Buyout	$0.90
Gold Circle	October 1988	Liquidated	$0.30
Main Street	November 1988	Kohl's Department Stores	$0.09
The Children's Place	February 1989	Management Buyout	$0.03
		Total Proceeds	$4.04

Table 2: Fiscal-Year-End January 1988 Operating Data ($ millions)

	Divisions Retained	Divisions Sold	Total
Sales	4,522 (41.4%)	6,395 (58.6%)	10,918
Division Earnings Before Taxes (EBIT)	357 (56.3%)	278 (43.9%)	635
Depreciation and Amortization	120	161	281
EBITDA	477 (52.1%)	438 (47.9%)	915
Capital Expenditures	241	246	487
Operating Cashflow (EBITDA-CAPX)	236 (55.0%)	193 (45.0%)	429