



Finance 394.1
Spring 2008
Prof. Francisco Pérez-González

ADVANCED CORPORATE FINANCE

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I. COURSE OVERVIEW

This course uses financial analysis to evaluate managerial decision-making.

The course is divided into three sections: (1) capital budgeting, which deals with real investment decisions (investments, acquisitions, etc); (2) corporate financing decisions, which addresses decisions about how to finance those investments (equity, debt, etc); and (3) applications, such as merger and acquisitions, which incorporate both investment and financing decisions.

The course will consist of approximately three-quarters lectures and one-quarter in-class case discussions, for which students should prepare carefully.

II. PRE-REQUISITES

BA 385T (Financial Management) and BA 386T (Math-Stats).

III. TEXTBOOKS AND MATERIALS

Required Materials:

1. Textbook. Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy*, 2nd Edition (Irwin/McGraw-Hill, 2002). The textbook does not cover all the material we cover in class and also includes some additional topics and background material not covered in class.
2. Cases. Cases will be assigned from the course packet.
3. Additional Readings. Readings will be assigned from the course packet. The readings in the course packet are largely non-technical in nature and summarize the findings of academic research in the relevant topics.

4. Lecture Notes and Handouts. There will be lecture notes and/or handouts for each lecture. These materials will be either handed out in class or available on the course website as the class develops.
5. Business News. Reading the *Wall Street Journal*, the *Financial Times* or the business section of the *New York Times* or any major newspaper is fundamental for any business school student. Class discussion will often reference news items. You can access these newspapers (and many others) for free (via the library) using the *Factiva* database:

<http://www.lib.utexas.edu/indexes/titles.html?id=144>

Recommended (not required) Materials:

1. Higgins, Robert C. *Analysis for Financial Management*, 8th edition. The Higgins is an excellent practical and non-technical introduction to financial management.
2. Berk, Jonathan and Peter DeMarzo: *Corporate Finance*. Pearson, Addison Wesley, 2007. A good introductory corporate finance textbook.
3. Stern, Joel M. and Donald H. Chew, Jr. eds. *The Revolution in Corporate Finance*, (4th ed.), Blackwell Publishing Ltd., 2003. A handbook that includes seminal academic papers, survey articles and roundtable reports on a variety of topics in corporate finance.

IV. GRADES

1. Class Participation: 10%

Students are expected to be prepared for every class and participate in class discussions. Students should have thoroughly prepared any assigned case, reviewed previous lectures notes and be willing to answer and ask questions during class. A necessary (but not sufficient) requirement for participation is presence. If you are not in class, you cannot have participated. Conditional on presence, class participation is determined by the quality, not quantity, of discussion. In order to make sure that the concepts are understood, I reserve the right to call on students during class.

2. Homework and Case Assignments 25%

There will be six homework and seven cases assignments. Students are required to work in groups of up to four members. Assignments should be turned in at the start of class on the day they are due. Late assignments will not be accepted.

Homework Assignments

Please answer these questions in the typical question and answer format. Homework assignments should be turned in at the start of class on the day they are due. Please refer to the course outline for case homework due dates.

Case Assignments

For each case discussion, I will assign study questions concerning the case under analysis. You should prepare a memorandum for each case and hand in one copy of it at the beginning of class the day they are due.

Each write-up should include: (a) a one page typed page, and (b) a one page data exhibit. Please do not repeat case facts. You are meant to report your conclusions to a busy CEO who could then use them to make informed decisions. Case write-ups should be handed in at the beginning of class the day they are due. You should make a copy of your answers to refer to during class discussion.

Please refer to the course outline for case write-up due dates.

3. Midterm Exam 25%

The midterm will be held on February 27th and it will cover the first-half material except for the last two lectures related to capital structure, which will be excluded. The mid-term exam will be closed book. In the event of a personal emergency, please inform me as soon as you can. Even in such case, no make-up mid-term exam will be administered. As a result, the final exam will account for 65 percent of the final grade. In any other circumstance, a missed exam will receive zero points.

4. Final Exam 40%

The final exam is comprehensive (i.e., cumulative), although it will be weighted toward the material not tested in the midterm. The final exam will be closed book. The best way to prepare for the final exam is to complete the assignments before they are due and to regularly participate in class discussions.

Finally, there is one exception to the above grading guidelines: if a student final exam score is in the top 20 percent of the class, her/his final grade will be an "A," irrespective of the midterm and assignment evaluations. One caveat applies: to be considered for the 20 percent rule a student must have (a) been an active participant in class discussions and (b) handed-in every assignment.

V. OTHER ADMINISTRATIVE ISSUES

- Classes start on time. Tardiness disrupts class discussion and therefore will affect your class participation.
- Cell phones or other communication devices cannot be used in class.
- Laptop computers are allowed as long as they are used for note-taking or to support your class participation. An open laptop is, therefore, an indication of your willingness to participate in class discussion.

VI. ARTICLES AND CASES

Articles

1. Myers, Stewart, “*Finance Theory and Financial Strategy*,” *Midland Corporate Finance Journal* 5, 1987. (Reprinted in *Stern and Chew, 2003*).
2. Triantis, Alex and Adam Borison, “*Real Options: State of the Practice*,” *Journal of Applied Corporate Finance* 14-2, 2001. (Reprinted in *Stern and Chew, 2003*).
3. Copeland, Thomas and Peter Tufano, “*A Real-World Way To Manage Real Options*,” *Harvard Business Review*, March 2004.
4. Graham John R., and Campbell R. Harvey, “*Theory and Practice of Corporate Finance – Evidence from the Field*,” *Journal of Financial Economics* 61, 2001.
5. Graham, John R., “*Estimating the Tax Benefits of Debt*,” *Journal of Applied Corporate Finance*, 14-1, 2001.
6. “*Vanderbilt University Roundtable on the Capital Structure Puzzle*,” *Journal of Applied Corporate Finance*, 11-1, 1998.
7. “*Stern Stewart Roundtable on Capital Structure and Stock Repurchase*,” *Journal of Applied Corporate Finance*, 14-1, 2001. (Reprinted in *Stern and Chew, 2003*).
8. Opler, Tim C., Michael Saron and Sheridan Titman, “*Designing Capital Structure to Create Shareholder Value*,” *Journal of Applied Corporate Finance*, 10-1, 1997.
9. Holmstrom, Bengt, and Steven N. Kaplan, “*The State of U.S. Corporate Governance: What’s Right and What’s Wrong?*” *Journal of Applied Corporate Finance*, 15-3, 2003.
10. Hall, Brian J., “*Six Challenges in Designing Equity-Based Pay*,” *Journal of Applied Corporate Finance*, 15-3, 2003.
11. Mayers, David, “*Convertible Bonds: Matching Financial and Real Options*,” *Journal of Applied Corporate Finance*, 13-1, 2000. (Reprinted in *Stern and Chew, 2003*).
12. Bruner, Robert F., “*Where M&A Pays and Where It Strays: A Survey of the Research*,” *Journal of Applied Corporate Finance* 16-4, 2004.
13. Andrade, George, Mark Mitchell, and Eric Stafford, “*New Evidence and Perspectives on Mergers*,” *Journal of Economic Perspectives*, Vol. 15-2, Spring 2001, pp. 103-120.

Cases:

1. Sky Television vs. British Satellite Broadcasting (HBS 9-792-039)
2. Arundel Partners (HBS 9-292-140)
3. Dixon Corporation: The Collinsville Plant (HBS 9-298-165)
4. Massey Ferguson (HBS 9-282-043)
5. MCI Communications Corp. (HBS 9-284-057)
6. Paramount Communications Inc. 1993 (Casenet South-Western College Publishing)
7. Paramount Communications Inc. 1994 (Casenet South-Western College Publishing)

VII. COURSE OUTLINE (SUBJECT TO CHANGE)

<i>Session</i>	<i>Date</i>	<i>Day</i>	<i>Topic</i>	<i>Readings *</i>	<i>Assignments due</i>
1	14-Jan	M	Introduction and Foundations of Valuation of Real Investments	10.1, 10.2, 10.4, 10.5, 10.6	
2	16-Jan	W	Valuation of Risky Projects	11.1-11.5 and Ch: 5-6 or Berk-DeMarzo Ch: 10-12	
	21-Jan	M	Martin Luther King: No class		
3	23-Jan	W	Free Cash-Flow Valuation I		Homework 1 due
4	28-Jan	M	Free Cash-Flow Valuation II	13.1, 13.2	
5	30-Jan	W	Case 1: Sky T.V. vs. BSB	13.3	Case: Sky T.V. vs. BSB
6	4-Feb	M	Real Options I	12.1, 12.2	
7	6-Feb	W	Real Options II	12.2 (cont.) and Articles 1, 2 and 3	Homework 2 due
8	11-Feb	M	Other Methods in Valuation	12.3, 12.4, 12.5. Article 4: Part I	
9	13-Feb	W	Case 2: Dixon Corporation--The Collinsville Plant		Case: Dixon Corporation
10	18-Feb	M	Case 3: Arundel Partners		Case: Arundel Partners
11	20-Feb	W	Capital Structure: Modigliani and Miller Propositions	14.1, 14.2, 14.3, 15.2	Homework 3 due
12	25-Feb	M	Capital Structure: Taxes and Bankruptcy Costs	14.4, 14.5, 14.10, 15.3, 15.5, 15.6 and Article 5	
13	27-Feb	W	Midterm Exam		
	3-Mar	M	Plus trip: no class		
	5-Mar	W	Plus trip: no class		
	10-Mar	M	Spring break: no class		
	12-Mar	W	Spring break: no class		
14	17-Mar	M	Bankruptcy and Conflicts between Bond and Shareholders I	16.1, 16.2	
15	19-Mar	W	Bankruptcy and Conflicts between Bond and Shareholders II	16.3, 16.4	Homework 4 due
16	24-Mar	M	Strategic Effects of Leverage	Chapter 17 and Articles 6, 7 and 8	
17	26-Mar	W	Corporate Governance and Managerial Compensation	Ch. 18. 10.3, Articles 9, 10, 11, 12, 13, and 14	
18	31-Mar	M	Case 4: Massey Ferguson		Case: Massey Ferguson
19	2-Apr	W	Information Conveyed by Financial Decisions I	Chapter 19	
20	7-Apr	M	Information Conveyed by Financial Decisions II		
21	9-Apr	W	Convertibles	Article 11 and Article 4: Part II	
22	14-Apr	M	Case 5: MCI		Case: MCI
23	16-Apr	W	Mergers and Acquisitions I	Chapter 20 and Articles 12 and 13	Homework 5 due
24	21-Apr	M	Mergers and Acquisitions II		
25	23-Apr	W	Mergers and Acquisitions III		
26	28-Apr	M	Case 6: Paramount 1993		Case: Paramount 1993
27	30-Apr	W	Case 7: Paramount 1994		Case: Paramount 1994
	2-May	F	Homework due		Homework 6 due at 1pm

* Numbers represent sections in Grinblatt & Titman's "Financial Markets & Corporate Strategy" unless otherwise noted.