



FIN 394.1 Advanced Corporate Finance

Fall 2015

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Office Hours: Wednesdays 2:00 pm to 3:00 pm

Course Overview

The objective of this course is to develop an understanding of the decisions financial managers face. In this course we will approach problems from the perspective of the Chief Financial Officer. We will focus on decisions concerning raising money (equity, debt, convertible bonds, etc.), and spending money (project valuation, acquisitions). The first part of the course will deal with real investment decisions, while the second part will address decisions about how to finance those investments. In the final part we will talk about M&A and the market for corporate control.

Understanding CFO-type decisions will be helpful long before you become a CFO. For example, if you are working at a treasury group of a corporation, the material is directly relevant. If you are an investment banker you need to understand the rationale for designing and issuing securities. If you are in marketing or production, evaluating projects and understanding how the CFO makes her decisions are important. Finally if you are in consulting, capital budgeting and capital structure decisions will be the main agenda in many of your contracts.

Much of the material will be presented using simple examples designed to demonstrate how financial decisions can create, destroy, or modify value. Homework assignments will expand on these examples. However, the main issues we cover are conceptual. This is not the sort of class where solving a lot of exercises is useful; rather, it is important to master the main concepts.

Books and Materials:

(Required) Textbook: Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy*, 2nd Edition (Irwin/McGraw-Hill, 2002)

- The book is available in several different formats:
 1. You can buy the book as an e-book at <http://create.mcgraw-hill.com/shop/>. I made two versions available:
 - A custom book that includes only the chapters that we will cover or are relevant for this class (ISBN: 9781121971905)
 - The whole book that includes the remaining chapters as well (ISBN: 9781121971967).
 2. You may find a new or used copy of the hardcover version online (e.g., on Amazon.com) for a good price

(Required) Course Packet

- You can obtain the course packet from the copy center on the third floor of GSB.

(Required) Lecture Notes and Class Handouts

- These will be available on Blackboard as the course develops.

The following books are **NOT** required. I have listed them here in case you wish to get a different perspective on a topic.

- Robert C. Higgins, **Analysis for Financial Management** (9th ed.) Irwin/McGraw-Hill, 2009.
- Richard A. Brealey, Stewart C. Myers, and Franklin Allen, *Principles of Corporate Finance* (10th ed.), Irwin/McGraw-Hill, 2011.
- Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, *Corporate Finance* (9th ed.), Irwin/McGraw-Hill, 2009.
- Joel M. Stern and Donald H. Chew, Jr. eds. *The Revolution in Corporate Finance*, (4th ed.), Blackwell Business, 2003.

Other Sources

- The *Wall Street Journal*, *Financial Times*, the *New York Times* business section, the *Economist*, or *Business Week* are all recommended. We will cover the conceptual material to help you think through financial decisions. However, details of a particular issue a recruiter might ask your thoughts on may come from the press.

Grading:

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| Homework Assignments | 15% |
| Case Write-ups and Discussions | 10% |
| Class Attendance and Participation | 10% |
| Midterm Exam | 25% |
| Final Exam | 40% |

- There is one exception to the above grading rule. **If your final exam score is in the top 20% of the score distribution, you will get an A in this course, regardless of your midterm and assignment scores.** The only condition for this is that you have been a “good citizen,” that is, participated in lectures, handed in homework assignments and case write-ups, and took the midterm exam.
- You may work in groups of **up to five** for homework assignments and cases. Please submit one write-up per group, and make sure to indicate all group members’ names on the first page. There is no need to work with the same group of people throughout the term. Assignments must be handed in *at the start* of the class in which it is due. Make sure that your assignment write-ups are legible; typed write-ups are preferred.
- Homework assignments include applied problems and exercises. Case write-ups should be memos of about five double-spaced pages (excluding exhibits and appendices). For each case, I will assign some specific questions to be addressed. Grading of case reports will be based on how well you justify your arguments and support them with detailed and careful analysis. You should think of case reports as presentations you make to a board; to receive credit, your arguments must be convincing.

How to do well on the exams:

- Problem sets and in-class exercises provide the best preparation for the exams.
- The exams will be closed book. The final exam will cover the entire course, although it will be weighted toward the material we will cover after the midterm.

Schedule:

A tentative schedule appears below.

Articles and Cases Included in the Course Packet

Articles

1. Alex Triantis and Adam Borison, “*Real Options: State of the Practice*,” *Journal of Applied Corporate Finance* 14-2, 2001. (Reprinted in *Stern and Chew*, 2003).
2. Thomas Copeland and Peter Tufano, “*A Real-World Way To Manage Real Options*,” *Harvard Business Review*, March 2004.
3. John R. Graham and Campbell R. Harvey, “*Theory and Practice of Corporate Finance – Evidence from the Field*,” *Journal of Financial Economics* 61, 2001.
4. “*Vanderbilt University Roundtable on the Capital Structure Puzzle*,” *Journal of Applied Corporate Finance*, 11-1, 1998.
5. Tim C. Opler, Michael Saron, and Sheridan Titman, “*Designing Capital Structure to Create Shareholder Value*,” *Journal of Applied Corporate Finance*, 10-1, 1997.
6. Henri Servaes, Ane Tamayo, and Peter Tufano, “*The Theory and Practice of Corporate Risk Management*,” *Journal of Applied Corporate Finance*, 21-4, 2009.
7. Robert F. Bruner, “*Where M&A Pays and Where It Strays: A Survey of the Research*,” *Journal of Applied Corporate Finance* 16-4, 2004.
8. George Andrade, Mark Mitchell, and Eric Stafford, “*New Evidence and Perspectives on Mergers*,” *Journal of Economic Perspectives*, Vol. 15-2, Spring 2001, pp. 103-120.
9. “*Morgan Stanley Roundtable on the State of Global Private Equity*,” *Journal of Applied Corporate Finance*, 23-4, 2011.

Cases

1. Dixon Corporation (HBS 9-298-165)
2. Arundel Partners (HBS 9-292-140)
3. Massey Ferguson, 1980 (HBS 9-282-043)
4. Paramount Communications Inc. 1993 (Casenet South-Western College Publishing)

Class Schedule & Assigned Readings

Date Topic (numbers represent sections in Grinblatt & Titman's textbook)

August

PART I: VALUATION

Tue. 18 Valuation of Corporate Assets: Basic Concepts and Methods (10.1, 10.2, 10.4, 10.5, 11.1)

Thu. 20 Valuation of Corporate Assets – continued, DCF Valuation (11.2, 11.3, 11.4, 11.5, 13.1, 13.2, 13.3)

Tue. 25 DCF Valuation – continued

Thu. 27 DCF Valuation – continued

September

Tue. 1 DCF Valuation – continued

Thu. 3 Relative Valuation Methods in Corporate Finance (7.1 (pages 216-221 only), 8.1, 8.2, 8.3 (pages 261 to 264), 8.6, 8.7, 11.8, 12.1, 12.2)

Tue. 8 Relative Valuation Methods in Corporate Finance – continued – ***Homework 1 due***

Thu. 10 Relative Valuation Methods in Corporate Finance – continued

Tue. 15 Relative Valuation Methods in Corporate Finance – continued – ***Homework 2 due***

Thu. 17 Relative Valuation Methods in Corporate Finance (Articles 1 and 2, Article 3 [Pages 187-209] for all topics covered in Part I)

Tue. 22 **Case 1: Dixon Corporation: The Collinsville Plant**

PART II: CAPITAL STRUCTURE AND FINANCIAL POLICY

Thu. 24 Capital Structure I (14.1, 14.2, 14.3, 15.2)

Tue. 29 **Case 2: Arundel Partners**

October

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| Thu. 1 | Valuation Review – <i>Homework 3 due</i> |
| Tue. 6 | Midterm Exam – <u>2 pm – 4 pm, room TBA</u> |
| Thu. 8 | No class |
| Tue. 13 | CS I – continued |
| Thu. 15 | CS I – continued |
| Tue. 20 | Capital Structure II (14.4, 14.5, 15.3, 15.5, 15.6) |
| Thu. 22 | CS II – continued, Capital Structure III (16.1, 16.2, 16.3, 16.4, Ch. 17) |
| Tue. 27 | Capital Structure III – continued |
| Thu. 29 | Capital Structure III – continued – <i>Homework 4 due</i> |

November

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| Tue. 3 | Capital Structure III continued (Articles 4, 5) |
| Thu. 5 | Corporate Risk Management (21.1 through 21.7, 21.9) |
| Tue. 10 | Corporate Risk Management - continued (Article 6) – <i>Homework 5 due</i> |
| Thu. 12 | Information Conveyed by Financial Decisions (19.1, 19.2, 19.3, 19.5) |
| Tue. 17 | Information Conveyed by Financial Decisions – continued (Article 3 [Pages 209-243] for all the topics covered in Part II) |
| Thu. 19 | Case 3: Massey-Ferguson |

PART III: MERGERS, ACQUISITIONS, AND THE MARKET FOR CORPORATE CONTROL

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| Tue. 24 | M&A and the Market for Corporate Control (Chapter 20) |
| Thu. 26 | No class - Thanksgiving |

December

Tue. 1 M&A and the Market for Corporate Control – continued (Articles 7, 8, 9)

Thu. 3 **Case 4: Paramount 1993**

Mon. 7 *Homework 6 due*