



Corporate Finance & Financial Markets

DFW MBA

Fall 2018

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CBA 6.248

Course Objectives

- Understand common financial securities such as stocks, bonds, and derivatives as well as methods for combining them in a portfolio
- Integrate fundamental investment theory and corporate finance to understand how to manage a company's assets in the interests of shareholders
- Explore the role of corporate finance tools in strategic decision-making
- Develop a framework and tools to account for flexibility in valuation (real options analysis)
- Examine costs and benefits of various financing choices with an emphasis on taxation, conflicts between shareholders and creditors, informational problems, and efforts to align the interests of managers with those of shareholders

Methodology

The course will consist of a combination of traditional lectures/discussion and case analysis. The lectures will be highly interactive, with an expectation that everyone in the class participate in the discussion. We will use stylized numerical examples to illustrate the major concepts of the course. These examples will require the application of basic algebra.

Course Materials

- (Textbook) Grinblatt, M. and S. Titman, 2002, *Financial Markets and Corporate Strategy*, 2nd. Ed., Irwin/McGraw Hill. (GT hereafter)
- Coursepack containing cases and supplemental readings
- Class notes: Posted to Canvas in advance

A note on the textbook: GT is written at a fairly advanced level. While reading the relevant material in the book is useful preparation for class, I would also recommend reading the relevant material after we have discussed it in class. The textbook will be easier to digest in this way and will add richness to the discussion that we have in class.

Evaluation

I will calculate final grades for the course as a weighted average of the following components, with weights to the right of each component and further details below:

Class assignments (in groups)	40%
Class participation	10%
Midterm exam	20%
Final exam	30%

Class assignments (40% of grade)

Class assignments will include case write-ups and problem sets. You will work in your study groups on all class assignments. Each group should submit one deliverable for each assignment. Late assignments will not be accepted.

For each case, your group must submit a case write-up to the course Canvas site in a single pdf file by the beginning of class on the day we will discuss the case (see the schedule below). I will provide you with some specific questions that your case write-up should address. A case write-up should be no longer than four double-spaced pages (two to three pages is recommended), plus any exhibits.

I will post approximately one problem after each class. For each problem set, your group must submit a set of answers in a single pdf file by the end of the day on which it is due (see schedule below). Each problem set will consist of a series of questions designed to reinforce and deepen your understanding of the material that we cover in class. I will post problem sets to the course Canvas site well in advance of their due date.

Class participation (10%)

There will be many opportunities for you to get involved in our class discussions. Your *class participation* will be evaluated on my assessment of the following:

1. Can you identify key issues?
2. Can you clearly and convincingly articulate your viewpoint?
3. Can you build on the arguments of others to contribute to a superior solution?

Class attendance is mandatory and will affect your class participation grade. Please contact me by email, in advance, if you cannot attend a session of class.

Exams (midterm: 20%, final: 30%)

The exams will cover material that we discuss in class. The final exam will be cumulative. As an exception to the grading scheme described above, I will use a “top 20% rule” for the final exam. If you score in the top 20% of the class on the final exam (and have completed all assignments, taken the midterm exam, and participated in class in a satisfactory manner), you will receive an A in the class.

Cases

1. Dixon Corporation: The Collinsville Plant (HBS 9-298-165)
2. Arundel Partners (HBS 9-292-140)
3. Massey Ferguson, 1980 (HBS 9-282-043)

Supplementary readings

1. Alex Triantis and Adam Borison, “*Real Options: State of the Practice*,” *Journal of Applied Corporate Finance* 14-2, 2001.
2. John R. Graham and Campbell R. Harvey, “*Theory and Practice of Corporate Finance – Evidence from the Field*,” *Journal of Financial Economics* 61, 2001.
3. David S. Hawkins “*Bond Ratings*,” HBS 9-104-060, March-2005.
4. Morgan Stanley Roundtable, “*Managing Financial Trouble*” *Journal of Applied Corporate Finance* 2007.
5. Henri Servaes and Peter Tufano, “*The Theory and Practice of Corporate Debt Structure*” Deutsche Bank (2006).
6. Henri Servaes and Peter Tufano, “*The Theory and Practice of Corporate Liquidity Policy*” Deutsche Bank (2006).
7. Tim C. Opler, Michael Saron and Sheridan Titman, “*Designing Capital Structure to Create Shareholder Value*,” *Journal of Applied Corporate Finance*, 10-1, 1997.
8. Mayers, David, “*Convertible Bonds: Matching Financial and Real Options*,” *Journal of Applied Corporate Finance*, 2000.

Tentative Schedule

The material we will cover in class is divided into four modules:

1. Security & project valuation
2. Derivative securities & real options valuation
3. Debt instruments and corporate capital structure
4. Issuing securities

August 9/10 (Austin Intensive)

- The risk-return trade-off. Portfolio theory: Mean-variance analysis & CAPM (Module 1)
 - Readings: *GT, Chapters 4 & 5*
- NPV, Cost of capital & R-ADR method (Module 1)
 - Readings: *GT, Chapters 9, 10 & 11*
- Free-cash flow valuation I: Preliminaries (Module 1)
 - Readings: *GT, Chapters 9 & 13*
- Free-cash flow valuation II: APV (Module 1)
 - Readings: *GT, Chapters 9 & 13*
- Free-cash flow valuation II: WACC (Module 1)
 - Readings: *GT, Chapters 9 & 13*

August 25

- Introduction to options, forwards and futures (Module 2)
 - Readings: *GT, Chapters 7 & 8*
- Option, forward and futures pricing (Module 2)
 - Readings: *GT, Chapters 7 & 8*

September 8

- The use of forward prices in capital budgeting (Module 2)
 - Readings: *GT, Chapters 11 & 12.2; Article 1*
- Dixon Corporation case (**case write-up due**)

September 15

- Real option valuation (Module 2)
 - Readings: *GT, Chapter 12*
- Real option valuation: Applications (Module 2)
 - Readings: *GT, Chapter 12; Article 2 (part 1)*

September 28

- The leverage effect; Capital Structure I: Debt & taxes (Module 3)
 - Readings: *GT, Chapters 14 & 16; Article 3*
- Arundel Partners case (**case write-up due**)

October 12/13

- Bankruptcy costs and strategic effects of debt (Module 3)
 - Readings: *GT, Chapters 16 & 17; Article 4*
- Debt Financing and Incentives; Leveraged Buy-Outs (Module 3)
 - Readings: *GT, Chapter 18; Article 5*

October 26/27

- Raising capital; The information conveyed by financing decisions (Module 4)
 - Readings: *GT, Chapters 1 & 19; Articles 6 & 7*
- Massey Ferguson case (**case write-up due**)

November 10

- Equity markets: The debt-equity issuance choice; The use of convertible bonds (Module 4)
 - Readings: *GT, Chapter 19*
- Financing firm growth; the use of convertible bonds (Module 4)
 - Readings: *Articles 3 (Part 2) & 8*

Exams

Midterm	Take-home exam; October 19/20 (date to be confirmed)
Final	Take-home exam; Date to be decided

Important Notifications

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://diversity.utexas.edu/disability/>.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://my.mcombs.utexas.edu/BBA/Code-of-Ethics>. By teaching this course, I have agreed to observe all faculty responsibilities described there. By enrolling in this class, you have agreed to observe all student responsibilities described there. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/conduct/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050 (or <https://operations.utexas.edu/units/csas/bcal.php>).
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

