



FINANCE 394-7
RAISING CAPITAL

SPRING 2014

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Course Web Page	via Blackboard
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Course Objectives

The objective of this course is to develop a better understanding of firms financing with a special focus on the decision and the process of raising capital. In particular, we will analyze the factors that inform treasurers and CFOs' choices of capital raising techniques and sources of funds. More specifically, we will consider issues relative to the public equity markets (e.g., IPOs and SEOs) and private equity including venture capital. We will examine debt financing at length. Corporate bonds, bank financing, short-term finance (e.g., commercial paper and credit lines) and other forms of debt financing will be studied. Finally, we will discuss bankruptcy and financial restructuring and the decision to finance acquisitions.

Approximately half of the class sessions will be devoted to lectures and the other half will be devoted to case discussions.

Materials

Required

- **Course Packet.** Available at: <https://cb.hbsp.harvard.edu:443/cbmp/access/23974998>
- **Lecture Notes and Class Handouts.** Available on line on Blackboard as the class develops.

Recommended

- Jonathan Berk, Peter DeMarzo, **Corporate Finance**, 2nd ed. Pearson- Addison Wesley, 2011. (BM)
- Mark Grinblatt and Sheridan Titman, **Financial Markets and Corporate Strategy**, 2nd ed. (Irwin/McGraw-Hill, 2002). (GT)
- Robert C. Higgins, **Analysis for Financial Management** (10th ed.) Irwin/McGraw-Hill, 2011. (H)
- Tim Jenkinson and Alexander Ljungqvist, **Going Public: The Theory and Evidence on How Companies Raise Equity Finance**, 2nd ed. OUP. (JL)

Course Requirements and Grading

The grade in the course will be determined as follows:

Homework and Case Assignments	40%
Class Participation	10%
Midterm Exam	25%
Final Exam	25%

Description of Requirements

- The final exam is comprehensive (i.e., cumulative). This allows me to make one exception to the above grading rule. *If the final exam score is in the top 20% of the score distribution the student will get an A in the class, regardless of the midterm and assignment scores.* To benefit from this rule a student must have been an active participant in lectures and handed in all homework assignments.
- Homework assignments include applied problems and exercises (i.e., problem sets) and case write-ups. Assignments must be handed in *at the start* of the class in which it is due. There is thirteen cases and four problem sets due. While we will grade all of them, we will take the ten highest grades in your cases and use all the grades from the problem sets.
- Case write-ups will be brief memos of at most four double-spaced pages (two/three pages is recommended). For each case, we will assign some specific questions to be addressed.
- Working in groups to prepare both case write-ups and problem sets is not mandatory but it is strongly recommended. The maximum number of students in a group is five.
- The quality of your questions and observations will determine your class participation grade. It is important that you attend every class, be on time, and be prepared to participate. There will be many opportunities for you to get involved in our class discussion. Your class participation (particularly in cases) will be evaluated on my assessment of the following:
 - Can you identify key issues?
 - Can you clearly and convincingly articulate your viewpoint?
 - Can you build on the arguments of others to contribute to a superior solution?

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects. Please be on time, be prepared to actively contribute and avoid class disruptions.

Academic Dishonesty

I will be strict against academic dishonesty. We will follow the Honor System as described on <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp>.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, in the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or by e-mail if you have any questions.

Articles and Cases Included in the Course Packet

Articles

1. Paul Gompers, "A Note on Angel Financing," HBS, 9-298-083.
2. Steven Kaplan and Josh Lerner, "It Ain't Broke: The Past, Present, and Future of Venture Capital," Journal of Applied Corporate Finance, 2010.
3. Michael J. Roberts and Howard H. Stevenson, "Deal Structure and Deal Terms," HBS 9-806-085
4. Josh Lerner and Felda Hardyman, "A Note on Private Equity Securities," HBS 9-200-027.
5. Steven N. Kaplan, "Private Equity: Past, Present and Future," Journal of Applied Corp. Finance 2007.
6. Josh Lerner, "A Note on the Initial Public Offering Process," HBS 9-200-018.
7. Susan Chaplinksy, "The Issue Process for Public Securities," UV 0104.
8. B. Espen Eckbo, Ronald W. Masulis and Oyvind Norli, "Security Offerings" WP Dartmouth (2007).
9. Marcin Kacperczyk and Philipp Schnabl "When Safe Proved Risky: Commercial Paper During the Financial Crisis of 2007-2009" WP NYU (2010).
10. Scott P. Mason and Susan L. Roth "Note on Bank Loans," HBS 9-291-026.
11. David S. Hawkins "Bond Ratings," HBS 9-104-060.
12. Benjamin C. Esty and Aldo Sesia, "An Overview of Project Finance and Infrastructure Finance –2009 Update" HBS 9-210-061.
13. Morgan Stanley Roundtable, "Managing Financial Trouble" Journal of Applied Corp. Finance 2007.
14. David Mayers, "Convertible Bonds: Matching Financial and Real Options," Journal of Applied Corporate Finance, 13-1, 2000.
15. Susan Chaplinksy, "PIPES: Private Equity Investments in Distressed Firms," UV 0512.

Cases

1. Cartwright Lumber Co. (HBS 9-204-126)
2. Metapath Software: September 1997. (HBS 9-899-160)
3. GM and Cerberus: Unusual Partners (KEL 315)
4. Netflix: Going Public (Stanford GBS E155)
5. Goodyear Tire & Rubber Company: Follow-On Equity Issue (UV 2555)
6. Corning: Convertible Preferred Stock (HBS 9-206-018)
7. a) Freemont Financial Corp. (A) (HBS 9-294-098)
b) The Weekend that Changed Wall Street (UV 2547)
8. Chase's Strategy for Syndicating the Hong-Kong Disneyland Loan (A) (HBS 9-201-072)
9. Aluminum Bahrain (Alba): The Pot Line 5 Expansion Project (HBS 9-205-027)
10. Financing PPL Corp.'s Growth Strategy (HBS 9-202-045)
11. Bankruptcy and Restructuring at Marvel Entertainment Group (HBS 9-298-059)
12. MicroStrategy, Inc: PIPE (UV 0275)
13. Freeport-McMoRan: Financing an Acquisition (KEL 345)

Class Schedule & Assigned Readings

January

- Mon. 13 Introduction (*GT Ch. 1-3*)
- Wed. 15 Financial Planning (*H Ch. 1-4 & BM Ch. 27*)
- Wed. 22 ***Case 1: Cartwright Lumber***
- Mon. 27 Early Equity and Venture Capital (*BM Ch. 23.1; Articles 1, 2 & 3*)
- Wed. 29 Private Equity (*Articles 4 & 5*)

February

- Mon. 3 ***Case 2: Metapath***
- Wed. 5 ***Case 3: GM & Cerberus***
- Mon. 10 IPO and The Going Public Decision (*BM Ch. 23.2 and 23.3*) (*JL Ch. 1-2*)
- Wed. 12 ***Case 4: Netflix***
- Mon. 17 Public Equity Markets (I) (*BM Ch. 23.4, GT Ch. 19 Articles 7 & 8*)
- Wed. 19 Public Equity Markets (II) (*BM Ch. 23.4, GT Ch. 19 Articles 7 & 8*)
- Mon. 24 ***Case 5: Goodyear***
- Wed. 26 ***Case 6: Corning***

March

- Mon. 17 Bank Lending, Commercial Paper and Short Term Financing (*Articles 9 and 10*)
- Wed. 19 ***Case 7: (a) Fremont + (b) The Weekend that Changed Wall Street***

- Mon. 24 ***Case 8: Chase Hong Kong Disneyland Loan***
- Wed. 26 Public Debt, Bond Issuances and Bond Ratings (*BM Ch. 24; Articles 8 and 11*)
- Mon. 31 Project Financing and Leasing (*BM Ch. 25; Articles 8 and 12*)

April

- Wed. 2 ***Case 9: Aluminum Bahrain***
- Mon. 7 ***Case 10: PPL Corp.'s***
- Wed. 9 Bankruptcy and Financial Restructuring (*GT Ch. 16; Article 13*)
- Mon. 14 Hybrid Securities (*BM Ch. 24.4; Articles 14 and 15*)
- Wed. 16 ***Case 11: Marvel***
- Mon. 21 ***Case 12: MicroStrategy***
- Wed. 23 Financing Acquisitions (*GT Ch. 20.9*)
- Mon. 28 ***Case 13: Freeport-McMoRan***
- Wed. 30 Review and Wrap-up