



FIN 394.1 Advanced Corporate Finance

Spring 2016

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Office Hours: Tuesdays, 3:30pm to 4:30pm
Wednesdays, 1:30pm to 3:00pm
By appointment at other times

Course Overview

The objective of this course is to develop an understanding of the decisions financial managers face. We will consider corporate investment decisions (project valuation, acquisitions) and decisions that involve financing those investments (raising capital, payout policy), while touching on related issues in risk management, corporate governance, and executive compensation. The issues we consider will be directly applicable for those planning to work in:

- Corporate Finance (CFO, Treasury, Financial Analysis)
- Investment Banking
- Private Equity
- Venture Capital

Understanding financial decision-making and how to communicate in the language of finance is also useful for those planning to work in strategy, operations, marketing, and consulting.

Much of the material will be presented using simple examples designed to demonstrate how financial decisions can create or destroy value. Homework assignments will expand on these examples. However, the objective of the class is not to learn to solve a specific set of problems, but rather to understand a set of core concepts that can be applied in a variety of settings. The primary purpose of the examples we will use is to demonstrate these concepts as simply as possible.

Prerequisites:

Financial Management and Statistics required; Valuation strongly recommended.

Books and Materials:

(Required) *Course slides*

- These will be available on Canvas as the course develops. I will try to post each set of slides at least two full days before we cover them in class. These slides represent the primary material that we will cover in the class (and for which you will be responsible).

(Required) *Course Packet*

- You can obtain the course packet from the copy center on the third floor of GSB. The course packet contains five cases that we will cover during the course of the semester along with a set of practitioner-oriented articles that will supplement the material we cover in class. See p. 4 of this syllabus for a list of the materials in the course packet.

(Suggested) *Textbook:* There is no official textbook for the class. If you would like additional coverage of the subjects we cover in class, I would suggest Mark Grinblatt and Sheridan Titman, **Financial Markets and Corporate Strategy**, 2nd ed. (Irwin/McGraw-Hill, 2002). This book has been used in past iterations of the class. The book is available as an e-book at <http://create.mcgraw-hill.com/shop/>. There are two versions available: A custom book that includes only the chapters we will cover (ISBN **9781121125766**), or the whole book that includes the remaining chapters as well (ISBN: **9781121125759**).

(Optional) *Other Books:* The following books may also be useful if you wish to get a different perspective on a topic. Alternatively, once you land a job as CFO, you might want something for the bookshelf.

- 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.
- Tom Copeland and Vladimir Antikarov, **Real Options: A Practitioner's Guide** (1st ed. revised), Texere, 2003.

Other Sources

- The *Wall Street Journal*, *Financial Times*, the *New York Times* business section, the *Economist*, and *Business Week* are all recommended. We will periodically connect ideas that we cover in class to stories in the business press.

Grading:

Homework Assignments and Case Write-ups	25%
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 (of the three sections of the class), then 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** on homework assignments and cases. Working with a group is **strongly** recommended. Completed assignments should be submitted to acfsubmission@gmail.com by the start of class on the date due. Late assignments will not be accepted. Please list all group members’ names on the first page of the assignment. There is no need to work with the same group of people throughout the term.
- Homework assignments include applied problems and exercises. Case write-ups should be memos of at most five double-spaced pages (excluding exhibits and appendices). For each case, I will assign 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.

A few notes on 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. The exams will consist of both qualitative and quantitative questions. Qualitative questions will emphasize the major concepts we discuss in class. Quantitative questions will look a lot like the examples we cover in class and homework questions, though there will be “wrinkles” to test how well you understand the underlying principles. No questions on the exams will relate specifically to material in the cases or the articles listed on p. 4.

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. Henri Servaes, Ane Tamayo, and Peter Tufano, “*The Theory and Practice of Corporate Risk Management*,” Journal of Applied Corporate Finance, 21-4, 2009.
6. Steven N. Kaplan and Josh Lerner, “*It Ain’t Broke: The Past, Present, and Future of Venture Capital*,” Journal of Applied Corporate Finance, 22-2, 2010.
7. Bengt Holmstrom 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.
8. Robert F. Bruner, “*Where M&A Pays and Where It Strays: A Survey of the Research*,” Journal of Applied Corporate Finance 16-4, 2004.
9. 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.
10. “*Morgan Stanley Roundtable on the State of Global Private Equity*,” Journal of Applied Corporate Finance, 23-4, 2011.

Cases

1. Arundel Partners (HBS 9-292-140)
2. Massey Ferguson, 1980 (HBS 9-282-043)
3. MCI Communications Corp., 1983 (HBS 9-284-057)
4. Paramount Communications Inc. 1993 (Casenet South-Western College Publishing)
5. Paramount Communications Inc. 1994 (Casenet South-Western College Publishing)

Tentative Class Schedule

PART I: VALUATION

Tue, Jan 19	Valuation of Corporate Assets: Basic Concepts and Methods
Thu, Jan 21	Valuation of Corporate Assets – continued
Tue, Jan 26	Option Pricing
Thu, Jan 28	Real Options and Corporate Strategy (Articles 1, 2)
Tue, Feb 2	Real Options and Corporate Strategy – continued (Article 3 Part I)

PART II: CAPITAL STRUCTURE AND FINANCIAL POLICY

Thu, Feb 4	Capital Structure I: The MM Benchmark (14.1, 14.2, 14.3, 15.2) – <i>Homework 1 due in class</i>
Tue, Feb 9	CS I continued, Capital Structure II: Trade-off, Tax Considerations (14.4, 14.5, 15.3, 15.5, 15.6)
Thu, Feb 11	CS II continued (14.4, 14.5, 15.3, 15.5, 15.6) – <i>Homework 2 due in class</i>
Tue, Feb 16	Case 1: Arundel Partners
Thu, Feb 18	Capital Structure III: Bankruptcy and Financial Distress (16.1, 16.2, Ch. 17)
Tue, Feb 23	CS III - continued
Thu, Feb 25	CS III - continued– <i>Homework 3 due in class</i>
Tue, Mar 1	Midterm review
Thu, Mar 3	<i>Midterm Exam, 6-8pm, class does not meet at regular time</i>
Tue, Mar 8	No class – Plus trips
Thu, Mar 10	No class – Plus trips
Tue, Mar 15	No class – Spring break
Thu, Mar 17	No class – Spring break
Tue, Mar 22	Capital Structure Recap and Wrap-up (16.3, 16.4, Article 4)
Thu, Mar 24	Corporate Risk Management (21.1 through 21.7, 21.9, Article 5)
Tue, Mar 29	Corporate Risk Management – continued
Thu, Mar 31	Case 2: Massey-Ferguson

Tue, Apr 5	Information Conveyed by Financial Decisions (19.1, 19.2, 19.3, 19.5) – <i>Homework 4 due in class</i>
Thu, Apr 7	Information Conveyed by Financial Decisions – continued (Article 3 Part II)
Tue, Apr 12	Case 3: MCI
Thu, Apr 14	Implementation of Financial Policy
Tue, Apr 19	Implementation of Financial Policy – continued (Article 6)
Thu, Apr 21	Corporate Governance and Managerial Compensation (18.1, 18.2, 18.3, 18.5, Article 7) – <i>Homework 5 due in class</i>

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

Tue, Apr 26	M&A and the Market for Corporate Control (Chapter 20, Articles 8,9, and 10)
Thu, Apr 28	M&A and the Market for Corporate Control - continued
Tue, May 3	Case 4: Paramount 1993
Thu, May 5	Case 5: Paramount 1994

FINAL EXAM: Time, date, and location to be announced sometime after Spring Break