

FIN 394.1 Advanced Corporate Finance

Spring 2009

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Office Hours: By appointment

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 (capital budgeting, acquisitions). The first part of the course will deal with real investment decisions (capital budgeting), while the second part will address decisions about how to finance those investments (capital structure). In the final part we will talk about mergers and acquisitions, which have both investment and financing implications.

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.

Prerequisites:

BA 385T

Books and Materials:

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

(Required) Course Packet

(Required) Lecture Notes and Class Handouts (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. Alternatively, once you land the CFO job, you might want something for the bookshelf.

- Robert C. Higgins, **Analysis for Financial Management** (7th ed.) Irwin/McGraw-Hill, 2004.
- Richard A. Brealey, Stewart C. Myers, and Franklin Allen, **Principles of Corporate Finance** (8th ed.), Irwin/McGraw-Hill, 2006.
- Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, **Corporate Finance** (6th ed.), Irwin/McGraw-Hill, 2002.
- Joel M. Stern and Donald H. Chew, Jr. eds. **The Revolution in Corporate Finance**, (4th ed.), Blackwell Business, 1998.

Grading:

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

- You may work in groups of up to **four** 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. Late assignments will not be accepted.
- 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 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.
- If you miss an exam due to a personal emergency, please try to inform me in advance. Even in case of a personal emergency no make-up exam will be administered for the midterm. In that case your final exam will count 65% of the grade. In any other circumstance missed exams will be assigned zero points.

Articles and Cases Included in the Course Packet:

Articles

1. Stewart Myers, “*Finance Theory and Financial Strategy*,” *Midland Corporate Finance Journal* 5, 1987. (Reprinted in *Stern and Chew*, 2003).
2. 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).
3. Thomas Copeland and Peter Tufano, “*A Real-World Way To Manage Real Options*,” *Harvard Business Review*, March 2004.
4. John R. Graham and Campbell R. Harvey, “*Theory and Practice of Corporate Finance – Evidence from the Field*,” *Journal of Financial Economics* 61, 2001.
5. John R. Graham, “*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. Tim C. Opler, Michael Saron and Sheridan Titman, “*Designing Capital Structure to Create Shareholder Value*,” *Journal of Applied Corporate Finance*, 10-1, 1997.
9. 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.
10. Brian J. Hall, “*Six Challenges in Designing Equity-Based Pay*,” *Journal of Applied Corporate Finance*, 15-3, 2003.
11. David Mayers, “*Convertible Bonds: Matching Financial and Real Options*,” *Journal of Applied Corporate Finance*, 13-1, 2000. (Reprinted in *Stern and Chew*, 2003).
12. Robert F. Bruner, “*Where M&A Pays and Where It Strays: A Survey of the Research*,” *Journal of Applied Corporate Finance* 16-4, 2004.
13. 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.

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, 1980 (HBS 9-282-043)
5. MCI Communications Corp., 1983 (HBS 9-284-057)
6. Paramount Communications Inc. 1993 (Casenet South-Western College Publishing)
7. Paramount Communications Inc. 1994 (Casenet South-Western College Publishing)

Tentative Schedule of Classes & Assigned Readings:

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

January

14 Introduction; Foundations of Valuation of Real Investments (10.1, 10.2, 10.4, 10.5, 10.6)

 Valuing Risky Projects (7.1 [forwards and futures only], 11.8, Ch. 5 and 6, 11.2, 11.3, 11.4, 11.5, 12.3)

21 Valuing Risky Projects - continued

28 **Case 1: Sky TV vs. BSB**

 Valuation of Financial Options (Ch. 8)

 Homework 1 due

February

4 Real Options and Corporate Strategy (12.1, 12.2, Articles 1, 2, and 3)

11 Valuation and Taxes (13.1, 13.2, 13.3, Article 4 Part I)

 Case 2: Arundel Partners

18 Valuation and Taxes – continued (Article 4 Part I)

 Case 3: Dixon Corporation: The Collinsville Plant

 Homework 2 due

25 Modigliani-Miller: Capital Structure in Perfect Markets (14.1, 14.2, 14.3, 15.2)

 Taxes and Bankruptcy (14.4, 14.5, 15.3, 15.5, 15.6, Article 5)

 Valuation review

 Homework 3 due

March

- 4 ***Midterm Exam***
- Bankruptcy and Conflicts between Debt Holders & Equity Holders (16.1, 16.2, 16.3, 16.4)
- 11 **Bankruptcy and Conflicts between Debt Holders & Equity Holders - continued**
- Stakeholders and Capital Structure (Chapter 17, Articles 6, 7 and 8)
- 18 **No class – Spring break**
- 25 **Case 4: Massey-Ferguson**
- Corporate Governance and Managerial Compensation (Ch. 18, 10.3, Articles 9 and 10)
- Homework 4 due***

April

- 1 Information Conveyed by Financial Decisions (Ch. 19; Article 11, Article 4-Part II)
- 8 **Case 5: MCI**
- Mergers and Acquisitions (Chapter 20, Articles 12 and 13)
- Homework 5 due***
- 15 **Case 6: Paramount 1993**
- Case 7: Paramount 1994**
- Homework 6 due***
- 22 ***Final Exam***