

Advanced Corporate Finance

FNCE: 203-004/005

Spring 2017

Syllabus Draft Date: December 21, 2016

Class Times and Location: Tuesday, Thursday, TBD
Section I: 9-10:30am
Section II: 10:30-12:00am

Instructor: Professor Roni Kisin
Office: Steinberg Hall-Dietrich Hall, Room 2454
Phone: 215-898-1588

Office Hours: Tue/Thu 2-3:00pm or by appointment

Course Description and Objectives

Advanced Corporate Finance is a comprehensive course in corporate financial management. The course builds on the main concepts taught in the core finance and accounting, by combining theory, empirical evidence, and cases. Topics that will be covered include: corporate investments and capital budgeting, valuation, capital structure decisions, raising capital, managerial incentives, risk management, convertible securities, an introduction to mergers & acquisitions, and international valuation.

The course is designed to provide you with an opportunity to apply theoretical concepts to real-world problems in corporate finance. I expect you will be actively engaged in analyzing decisions of the financial manager of firms, primarily through the case analysis. These activities will prepare you for both financial management and investment banking positions. The objectives are to develop: (1) the ability to identify financial problems and opportunities; (2) the ability to analyze such situations and to identify alternative courses of action; (3) the ability to defend alternative choices and recommend, support and defend a course of action; and (4) a richer appreciation for the high-powered toolset finance theory has us to offer with respect to both their value and limitations.

Course Materials

There is no required textbook. There is a *supplementary* textbook and a required course packet. We will use cases, handouts and lecture presentations. The course packet includes copies of the case studies we will discuss in class, as well as a number of suggested articles and should be available in the book store.

Supplemental Textbook on Reserve in the Library: *Corporate Finance* by Jonathan Berk and Peter Demarzo (older editions are fine) (Alternative: “Principles of Corporate Finance” by Richard Brealey, Stewart Myers and Franklin Allen (BMA) 8th, 9th or 10th editions are all fine)

Cases and Notes Readings List (Course Packet):

1. HBS Case 4050: “Mercury Athletic Footwear: Valuing the Opportunity”
2. HBS Note 9-295-085: “Note on Valuing Equity Cash Flows”
3. HBS Note 9-210-037: “Business Valuation and the Cost of Capital”
4. HBS Note 9-206-095: “Introduction to Valuation Multiples”
5. HBS Note 9-206-039: “Corporate Valuation and Market Multiples”
6. HBS Case 9-201-094: “Sampa Video, Inc.”
7. HBS Case 9-204-066: “Dividend Policy at Linear Technology.”
8. Book Chapter, Michael Brennan and Eduardo Schwartz: “The Case for Convertibles,” in *The Revolution in Corporate Finance*: 3d edition
9. HBS Note 9-295-074: “Capital Projects as Real Options: An Introduction”
10. HBS Case 9-284-057: “MCI Communications Corp., 1983”
11. Harvard Business Review: Froot, Scharfstein and Stein, Nov 1994, “A Framework for Risk Management”
12. HBS Note 9-295-100: “Cross-Border Valuation”
13. HBS Note 9-702-077: “Project Valuation in Emerging Markets”
14. HBS Case 9-289-056: “RJR Nabisco”

Canvas materials

This course will rely heavily on Canvas–class materials such as lecture presentations, individual problem set assignments, midterm-related materials, articles and supplementary readings, and group case questions will be posted online. You can also check your performance at the Grade-book section of Canvas: that would usually be available within a week after the assignment/ case report/exam date.

Course Design and Requirements

Your grade for the course will be determined by a midterm, a final exam, team case assignments, weekly quizzes and your course participation as defined below. The cases are the only deliverables that are group assignments. Following is the summary of weights on the various components that I will use to evaluate your performance in this class:

Class participation (quality of class contribution, peer evaluations, attendance)	10%
Individual Assignments and In-class Quizzes	15%
Group Case Study Reports	30%
Individual Midterm Exam	20%
Individual Final Exam	25%
TOTAL	100%

There is no definitive grade distribution for this course. In the past, we gave roughly 22% A and A+, 26% A-, 15% B+, 24% B, 7% B-, and 4% C+ & C, and 1% F. This is not a fixed scale, but serves as a rough guide. Below is a description of the individual components in the grading schedule.

There are absolutely no items that can be submitted late. All late submissions will receive a score of zero.

All re-grade requests must be submitted in writing within a week using the Re-grade Request Form that can be found on Canvas.

Case reports (30%)

Teams: You will work in teams to prepare the cases. Each team shall have three or five students depending on the class size. The procedure for forming these teams will be discussed on the first day of class and posted online.

Team-building skill and ability to work well with your teammates are crucial for successful completion of this course (and for any career advancement, for that matter). You will probably a significant amount of time with your teammates. I suggest therefore that you get an early start of your team and choose wisely.

A problem sometimes associated with group projects is that a team member might not do his/her share of the job. I urge you not to let problems develop to the point where they become serious. Groups often ignore problems, wishing that they disappear. Try to solve the problems among yourselves. If you can't, bring it to me, as soon as possible. If I am convinced that someone has not carried his/her fair share for any reason – I will reduce that person's grade for the case by as much as a half of the team's grade.

Case deliverables:

1. Please submit your report on time (i.e., submit it electronically **no later than 9:00 am**).
2. Please upload your Excel spreadsheet.
3. **Please bring one single copy (stapled in advance) to the class in which your group meets.**
4. Please keep an additional copy with you for the class discussion.

Grading of the Case Reports. Each case will have an equal weight in your final grade. You will receive the team score on your case report within about one week after the class discussion of this case. Since work in teams requires equal participation of all members we will evaluate your case reports based on two components. First, I will assess the quality of your report on a group basis. Group tasks shall be given group rewards. This means that you must make not only a direct contribution to the development of the case study, but that you also have an obligation to make your team work efficiently. Second, I will ask you to rate your fellow teammates' contribution to the project. For that purpose, you will use the peer evaluation form on the Canvas website. It will ask you to evaluate your group members on their teamwork. It is due on the last day of class. You can submit it online or as a hardcopy in class.

What Are the “Right Answers” to Cases?

There are usually no absolute right solutions for case studies. Rather, the best cases are deliberately written to be ambiguous. While there are no right answers, there are good arguments and bad arguments. This course is designed to help the student learn to distinguish between sensible and

weak arguments, but not to provide detailed answers to specific cases. Thus, “case solutions” will not be handed out, though I will provide you with slides that outline our discussions in class. These slides are intentionally incomplete. You will need to attend the classes to understand the slides and to learn what solution approaches are reasonable. Further, if you are uncomfortable with ambiguity, this class may not be for you.

Guidelines for Case Reports Preparation: For each of the cases, an instructive list of questions will be provided to help guide and focus your analysis well in advance (at least one week) to the date when they are due. Your case report should include – but is not limited to – an analysis of these guiding questions. Follow these suggestions when preparing your case:

1. Read the case thoroughly. Determine the major problems and/or opportunities in a case (*the main issues*).
2. Critically evaluate the information provided in the case. Sometimes this information is incomplete. Do not be afraid to make reasonable assumptions regarding missing data. State your assumptions clearly and justify them.
3. Think of and search for alternative courses of action and/or methods of analysis, and motivate your approach. *Analyze* and *evaluate* the alternatives considering both the strengths and the weaknesses of each alternative. Pay attention to both the condition of the firm itself and its environment (e.g., competitors).
4. Fully develop the logic supporting your final recommendation. Do not attempt to hedge your bets or be vague. If you do not back up with arguments a specific recommendation we will view this as having made no recommendation.

The case reports should be written in the form of individually answering the questions that accompany the case. It should be written with your instructor in mind as your intended audience. Keep a copy of your answers as you will be expected to contribute to the class discussion based on your written answers.

All cases include a quantitative part. For this part, show your calculations clearly (in an appendix). Make sure your spreadsheets are readable (preferably in Excel) and have all formulas ‘live’. Make sure that all exhibits are self-contained, which means that we should not have to read the text of the case write-up to understand the points you are trying to convey. Unless stated otherwise, **you may have up to seven pages of exhibits for each case**, but you do not need to match this page limit.

I do not expect the reports to be more than 4 type-written, double-spaced pages (excluding exhibits), but the maximum page length for text will be designated on each case assignment. Use font of 11 or higher and print your assignments on letter format paper. Be precise -- brevity is a virtue. Do not repeat the facts of the case.

Course participation (10 %)

This course requires maximum involvement, participation and sharing of ideas on the part of all students in class. I therefore expect you to attend each class and to be well-prepared. This will not only determine your grade, but also how much you learn.

I expect you to actively participate in the lectures and the discussion of the cases. In order to get a good grade on the class participation section we will expect you to answer question in class and to provide comments on answers given by your fellow students. *Participation quality* is valued more than *participation quantity*. If you make no comment throughout the whole class that will typically result in a grade of B- (or lower, depending on attendance) on your class participation. Most of the A+, A, and A- that I will give shall have participated actively in the discussions. Please be prepared to talk about the readings and cases that were assigned for class. To facilitate class participation, each class I might randomly cold call students.

Individual Assignments and Quizzes (15%)

Problem Sets: Problem sets are meant to reinforce the learning, including your ability to prepare financial models and carry out financial analysis. These problem sets **will not be graded** and will not need to be submitted. I will post them online and will give you about a week to work on them on your own, after which I will post the solution. The assignments will be part of the material covered by in-class quizzes and exams. The number of problem sets will depend on how well I feel everyone is grasping the course material.

Quizzes: Quizzes will be announced ahead of time, and you should expect to have one quiz every week. Besides homework assignments, quizzes may include questions related to the material in the lecture notes, class discussions, and case studies.

The main goal of these quizzes is to help you continuously follow the material and serve as an indicator of your grasp of specific topics. Therefore, quizzes will be very simple and will typically last 5-10 minutes.

Midterm (20%)

The midterm will be closed book and closed notes. It could be a mixture of quantitative problems and short answer questions. Please bring a calculator to the midterm.

No make-up midterm will be given. Failure take the midterm will result in the grade of zero, with the exception of truly extraordinary circumstances. In the latter case, the weight of the midterm will be added to the weight of final exam. The grades for the midterm will be available within about a week after it.

Formula Sheet: You may prepare **your own** formula sheet (double-sided, letter format). It can include **any** material that you find relevant.

Final exam (25%)

The final exam is cumulative, but mostly focused on the material not covered on the midterm. About 80% of the exam will be based on the lectures, the cases, the midterm, the problem sets, and other suggested exercises. The other 20% will be used to see if you can apply the course concepts to more advanced problems. The final is closed book and closed notes. As with midterm, you are may **bring your own formula sheet** (double-sided letter format) and a calculator for the final.

Academic Integrity Policy

In every aspect of the course, students are required to adhere to the Code of Academic Integrity. Submitted assignments for grading should be your own or your team's own work only. Most cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot, however use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions. Obtaining access to such materials (in hardcopy or electronically) will count as a violation of the Code of Academic Integrity. Failure to observe this rule will result in severe penalties, such as an automatic failing grade for the course and referral to the Office of Student Conduct. Please also refer to the Code of Academic Integrity.

All discussions of the case assignments are to be limited to your team only. Any attempt to represent the work of others (including reports on similar cases distributed last fall semester) as your own will be considered plagiarism. Penalties for academic offenses such as plagiarism and cheating may range from academic probation to expulsion from the school. Please consider the following steps when you cite the work of others (a quote from the academic integrity policy code):

1. *“Enclose quotation in quotation marks, and acknowledge its source.*
2. *Cite the source of every summary, paraphrase, abstraction or adaptation of material originally prepared by another person and any factual data that is not considered common knowledge. Include the name of author, title of work, publication information, and page reference.*
3. *Acknowledge materials obtained from lectures, interviews, or other oral communication by citing the source (name of the speaker, the occasion, the place, and the date).*
4. *Cite materials from the internet just as if it were from more traditional published sources.”*

Disabilities

Reasonable accommodations will be made for students with verifiable disabilities. Students who qualify for accommodations should follow the relevant school-level rules. Please feel free to contact me in advance if my involvement is needed.

Student Info Card (optional)

Will be discussed on the first day of class. I will distribute on the first day of class a paper copy of the student information card. If you decide to submit it, please fill it in and bring it back within a week.

Career Development

As the class schedule unfolds, I will provide you with a list of the most frequently asked interview questions and some suggestive answers to these that we have prepared. These will help you better prepare for interviews. We have collected these questions from your peers in past job markets. If you find a difficult question related to financial management in your upcoming interviews please send it to us. We will go over it in updated versions of the Q&A file, providing some suggestive answers. Preparing for a career is your responsibility, so take this task seriously.

Office Hours & Review Sessions

I will hold office hours twice a week, the times and location of which are listed on the first page of this syllabus. If you cannot make it to my office hours, send me an email and we will find an alternative time.

Another way to reach me by email. Note that I would always acknowledge the receipt of your email, so if I have not replied within 24 hours, send me a new one – chances are that your email got lost in my inbox.

If your question is relevant for the whole class, I may post the question (without posting your name) and the answer to the whole class in a designated folder on Canvas. I do this for two reasons. First, students often ask excellent questions. Thus, to benefit everyone, I will try to answer your content-related questions to the entire class. Second, occasionally students may ask clarifying questions related to assignments. Since I believe it is unfair to provide selective guidance via such email responses, I would answer such questions to the entire class.

Professional Conduct in the Classroom

- **Punctuality:** Students are expected to arrive and be seated prior to the start of each class session. They should display their name cards in all classes *at all times*.
- **Behavior:** Classroom interaction will be conducted in a spirited manner, but always while displaying professional courtesy and personal respect.
- **Preparation:** Students are expected to complete the readings, case preparations and other assignments prior to each class session and be prepared to actively participate.
- **Distractions:**
 - *Exiting and Entering:* Students are expected to remain in the classroom for the duration of the class session unless an urgent need arises or prior arrangements have been made with the professor.
 - *Laptop, PDA, and Other Electronic Device Usage:* Students are expected to **not** use laptops, PDAs, and other electronic devices in classrooms. Accessing e-mail or the Internet during class is not permitted.
 - *Cellular Phone and Pager Usage:* Students are expected to keep their mobile phones and pagers turned off or have them set on silent/vibrate during class. Answering phones or pagers while class is in session is not permitted.

Violations of the Professional Code of Conduct will be reflected in the class participation component of your grade.

Course Schedule

A tentative schedule appears below. I intend to adhere to it, but if we need to slow down or move faster on certain topics on others I will adjust it. Book chapters and packet notes are suggested reading.

Class	Date	Topic	Suggested Readings/Deadlines
1	1/12, Thu	Introduction: Course overview, student introduction; Introduction to Corporate Finance	Book Chapters: BD Ch. 1
2	1/17, Tue	Capital budgeting and the Free Cash Flow (FCF) Method Incremental FCF Analysis for projects	<u>Submit student info card (optional)</u> Book Chapters: BD Ch. 7
3	1/19, Thu	DCF valuation – Introduction to Firm Valuation Weighted Average Cost of Capital Approach	Book Chapters: BD Ch. 9, 18.1-18.2, 18.4
4	1/24, Tue	Flows to Equity Approach	Suggested Readings: HBS Note “Note on Valuing Equity Cash Flows” <u>Have case team confirmed by 5pm</u>
5	1/26, Thu	Cost of Capital (risk and CAPM)	Suggested Readings: HBS Note “Business Valuation and the Cost of Capital”
6	1/31, Tue	Cost of Capital (cont’d)	
7	2/2, Thu	Practical Issues in estimating the elements of WACC Valuation using comparables	Suggested Readings: HBS Note: “Introduction to Valuation Multiples”, “Corporate Valuation and Market Multiples” Book Chapters: BD Ch. 9, 19
8	2/7, Tue	Adjusted Present Value (APV)	
9	2/9, Thu	Projecting pro-forma financials: Sales, cost and asset projections, terminal value and plug estimation	
10	2/14, Tue	Introduction to Capital Structure	Book Chapters: BD Ch. 14
11	2/16, Thu	Case Discussion: <i>Mercury Athletic Footwear: Valuing the Opportunity</i>	Deadline: Due at 9am on Canvas
12	2/21, Tue	Capital structure decisions, Imperfect Markets, and Taxes	Book Chapters: BD Ch.18.3
13	2/23, Thu	Capital structure decisions and costs of financial distress	Book Chapters BD Ch. 16.1, 16.2, 16.3, 16.4
14	2/28, Tue	Case Discussion: <i>Sampa Video, Inc.</i>	Deadline: Due at 9am on Canvas
15	3/2, Thu	Agency problems and capital structure	Book Chapters BD Ch. 16.5, 16.6, 16.7
	3/7, Tue	Spring Break	
	3/9, Thu	Spring Break	
16	3/14, Tue	Midterm Review Class: Review Key Concepts	

17	3/16, Thu	IN-CLASS MIDTERM EXAM (1hour 20 min)	GOOD LUCK!
18	3/21, Tue	Asymmetric information and capital structure	Book Chapters BD Ch. 16.8
19	3/23, Thu	Security Design (Convertibles, Options, Warrants)	Suggested Readings: Brennan and Schwartz, "The Case for Convertibles" Book Chapters: BD Ch. 24.4
20	3/28, Tue	Raising Capital	Book Chapters BD Ch. 16.8, 23, & 24
21	3/30, Thu	Raising Capital (cont'd)	
22	4/4 Tue	Risk Management	Suggested Readings: A Framework for Risk Management Book Chapters: BD Ch. 30
23	4/6, Thu	Risk Management (cont'd)	
24	4/11, Tue	Payout Policy	Book Chapters: BD Ch. 17
25	4/13, Thu	Payout Policy (cont'd)	
26	4/18, Tue	Case Discussion: <i>MCI Communications Corp.</i>	Deadline: Deliver case report through Safe Assign by 8:30am.
27	4/20, Thu	Additional topics (if time permits) to be chosen by the class: Payout policy; M&A; Financial Crises; International valuation; Sovereign debt crises; Capital Structure in the financial sector; Real Options.	
28	4/25, Tue	Review Class: Review Key Concepts and Past Exams	
29	4/27, Thu	Extra Office Hours	
	TBD	Final Exam	GOOD LUCK!