Advanced Corporate Finance

This course examines the main aspects of applied corporate finance by discussing real-life cases dealing with the design of financial policy, and the valuation of firms and financial instruments. In particular, the following topics are studied: venture capital financing; private placements and public offerings; U.S. and international security issues (equity and hybrid securities); private equity and LBOs; recapitalizations and restructuring; and U.S. and cross-border mergers and acquisitions.

Students are expected to have completed the first-year finance sequence B6301-B6302. They are also expected to have a firm background in accounting and be familiar with basic notions of option pricing including valuation of options using the Black-Scholes model.

Grading: Grades will be based upon three in-class quizzes (20% each) and a final examination (40%). Class participation will be logged and taken into account in borderline situations. The final exam will be based upon one of the cases discussed in class.

Readings:

Cases and readings are included in the Course Packet: Part 1 (CP1) and Part 2 (CP2).

Chapters 5 to 10 of the following book contain a readable survey of applied valuation. It complements the material in CP1 and offers an alternative viewpoint on some topics:


For review of concepts studied in previous courses, particularly the material on option pricing:


These books are available at the Library Reserve Desk.

Problems: The assigned problems will assist you in testing and further developing your understanding of the subject. The solutions are not to be turned in. The answers are included in the case packets. Review sessions on the assigned problems will be held on Fridays as per the schedule listed at the end of this syllabus.
### Class Schedule and Assignments

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 8 (W)</td>
<td>Session 1-2. <strong>Financial contracting and venture capital financing</strong></td>
</tr>
<tr>
<td>Sept. 13 (M)</td>
<td><strong>Objectives:</strong> (a) To examine the initial stages in the financing of a company, and the roles of the venture capitalist and the private placement market. (b) To explore the form and purposes of &quot;deals&quot; in corporate finance.</td>
</tr>
<tr>
<td></td>
<td><strong>Readings:</strong> “Financial Contracting,” pp. 2-8 in CP1.</td>
</tr>
<tr>
<td></td>
<td><strong>Problems:</strong> CP1, &quot;Financial Contracting,&quot; problems 1-6.</td>
</tr>
<tr>
<td>Sept. 13 (M)</td>
<td>Session 3. <strong>Valuing acquisitions</strong></td>
</tr>
<tr>
<td>Sept. 15 (W)</td>
<td><strong>Objective:</strong> To examine approaches to valuing an acquisition from the point of view of a strategic publicly traded acquirer.</td>
</tr>
<tr>
<td></td>
<td><strong>Case:</strong> Morehouse Industries (CP1).</td>
</tr>
<tr>
<td></td>
<td><strong>Readings:</strong> The following readings apply to Sessions 3-5.</td>
</tr>
<tr>
<td></td>
<td>CKM, Chs. 5-10, an alternative to CP1 readings on valuation and the cost of capital</td>
</tr>
<tr>
<td></td>
<td><strong>Problems:</strong> The following problems corresponds to Sessions 3-5. CP1, &quot;An Introduction to Valuation,&quot; problems 1-15</td>
</tr>
<tr>
<td>Sept. 20 (M)</td>
<td>Session 4. <strong>Issuing securities: Initial public offers</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Objective:</strong> To examine the new issue underwriting process starting with the company's decision on whether or not to become a public company and the selection of the underwriter.</td>
</tr>
<tr>
<td></td>
<td><strong>Case:</strong> CML Group - Going Public (A) (CP1).</td>
</tr>
<tr>
<td>Sept. 22 (W)</td>
<td>Session 5. <strong>Issuing securities: Implementation</strong></td>
</tr>
</tbody>
</table>
Objective: Deciding the size and price of an initial public offering.

Case: CML Group - Going Public (B) (CP1).

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 27 (M)</td>
<td>Session 6. <strong>Quiz 1 on valuation and IPOs</strong> (positively no make ups)</td>
</tr>
<tr>
<td>Sept. 29 (W)</td>
<td>Session 7-8. <strong>Cross-border offerings</strong></td>
</tr>
<tr>
<td>Oct. 4 (M)</td>
<td>Objectives: (a) To assess the interrelationship between the international competitiveness of a company and its cost of capital. (b) To develop approaches to valuing emerging market companies.</td>
</tr>
<tr>
<td></td>
<td><strong>Case:</strong> Petöfi Printing Company (CP1)</td>
</tr>
<tr>
<td>Oct. 6 (W)</td>
<td>Sections 9-10. <strong>Private equity and leveraged transactions</strong></td>
</tr>
<tr>
<td>Oct. 11(M)</td>
<td>Objectives: How to finance a leveraged buyout and estimate the return to the suppliers of capital. Determining the debt capacity of a leveraged transaction.</td>
</tr>
<tr>
<td>Oct. 13(W)</td>
<td><strong>Case:</strong> Morehouse Industries (CP1).</td>
</tr>
<tr>
<td>Oct. 18 (M)</td>
<td>Section 12. <strong>Quiz 2 on LBO financing and valuation</strong> (positively no make-ups)</td>
</tr>
<tr>
<td>Oct. 20 (W)</td>
<td>Section 13-14. <strong>Financial Restructuring</strong></td>
</tr>
<tr>
<td>Oct. 25 (M)</td>
<td></td>
</tr>
</tbody>
</table>
Objectives: To design the recapitalization of company under financial distress and value the new equity and debt claims.

Case: Euro Disney: Beyond the Restructuring (CP1)

Oct. 27 (W) Sessions 15-16. **Equity derivatives in corporate finance**

Objectives: (a) To examine the role of equity-linked securities in corporate financing as alternatives to debt and equity financing. (b) To understand issues of signaling, reputation and sequential financial strategies.

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 27 (W)</td>
<td>Sessions 15-16. <strong>Equity derivatives in corporate finance</strong> (cont'd)</td>
</tr>
<tr>
<td>Nov. 3 (M)</td>
<td><strong>Equity derivatives in corporate finance</strong> (cont'd)</td>
</tr>
</tbody>
</table>

Readings: "Option Pricing," pp. 175-193, and "Note on Options in Corporate Finance," pp. 201-216. Both in CP2. Instead, you may want to review this material in one of the textbooks available at the Library: BM, Chs. 20 and 22, or RWJ, Chs. 21 and 22.

Case: Citicorp's Convertible Preferred Issue (CP2).

**Problems**: CP2, "Notes on Options in Corporate Finance," problems 1, 4-6, 9 and 11.

Nov. 3 (M) Session 16-18. **Equity derivatives: Design and Pricing**

Objectives: (a) Design and pricing instruments with embedded warrants. (b) Design of tax-advantaged securities.


**Problems**: CP2, "Notes on Options in Corporate Finance," problem 12.

Nov. 15 (M) Section 19. **Quiz 3. Designing equity-linked securities** (positively no make ups)

Nov. 17 (W) Session 20. **Mergers and acquisitions**

Objectives: Examination of the current developments in the global market for corporate control and its determinants. Estimating the effect of the merger on the shareholders of the acquirer and the target.

Readings: "Evaluating the Terms of a Merger," pp. 311-316, in CP2.

Nov. 22 (M) Sessions 21-24. **Strategic mergers**

Nov. 29 (M)

Dec. 1 (W) **Objectives:** (a) The role of a merger policy in competitive strategy. (b) Recent developments in offer structures. (c) Valuation approaches.

Dec. 6 (M)


**Cases:** Borland's Acquisition of Ashton-Tate (CP2).
Pirelli-Continental (CP2)

**Review Sessions**

To be held on Fridays: 10:30 - 12:00 noon

<table>
<thead>
<tr>
<th>Problems</th>
<th>Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial contracting</td>
<td>Sept. 17</td>
</tr>
<tr>
<td>2. Valuation</td>
<td>Sept. 24</td>
</tr>
<tr>
<td>3. Review of Quiz 1 answers</td>
<td>Oct. 1</td>
</tr>
<tr>
<td>4. LBO and recapitalizations</td>
<td>Oct. 8</td>
</tr>
<tr>
<td>5. LBO and recapitalizations (continuation)</td>
<td>Oct. 15</td>
</tr>
<tr>
<td>6. Review of Quiz 2 answers</td>
<td>Oct. 22</td>
</tr>
<tr>
<td>7. Option problems</td>
<td>Oct. 29</td>
</tr>
<tr>
<td>8. Option problems (continuation)</td>
<td>Nov. 5</td>
</tr>
<tr>
<td>9. Percs design assignment</td>
<td>Nov. 12</td>
</tr>
<tr>
<td>10. Review of Quiz 3 answers</td>
<td>Nov. 19</td>
</tr>
<tr>
<td>11. M&amp;A problems</td>
<td>Dec 3</td>
</tr>
</tbody>
</table>

*Room number and dates to be confirmed in class.