COURSE DESCRIPTION

This is an advanced course in corporate finance. We will focus on the entire gamut of corporate decisions through a series of cases. The first part of the course deals with the fundamental areas of corporate finance: capital structure, payout policy, capital budgeting and investing. We will, in particular, emphasize the importance of valuation (including real options) in corporate decisions. The second part of the course deals with major events the firm deals with in capital markets, in particular going public, issuing convertible debt and seasoned equity. Finally, we also examine financial innovation, risk management and financial engineering strategies of large firms.

GROUP FORMATION

Class participants are expected to organize themselves into groups of 4 students per group. Please form groups prior to the first class and email me a list by the first day of class.

CLASS FORMAT

The material in the class will be covered largely in case discussions. Students are expected to have read and prepared the case thoroughly as well as read and absorb any necessary theory or background material before coming to class.

I will typically not hand out the solution to cases. Cases are often ambiguous and different assumptions can lead to different solutions. In most cases, there is rarely one “correct” answer. However, there are good or bad ways about thinking about problems. Our objective is not to solve every problem without dispute but to learn how to frame and think about the underlying issues. Thus, tackling cases will involve understanding some conceptual material, working through some number crunching and doing intelligent guesswork. Different elements are less or more important in different cases. Students must develop the ability to distil the major issues, develop alternative strategies to deal with them, and evaluate pros and cons of each alternative in a coherent manner.
CLASS PREPARATION AND PARTICIPATION

Class preparation and participation are an absolute must. Without these, your own learning and that of your classmates will be adversely affected. Each student must be prepared for all classes. In addition cases should typically be discussed in groups prior to the relevant class session, and every student must come prepared to open a discussion.

EVALUATIONS

30% - Class Case Write-ups
Each group is required to turn in three case write-ups. The write-ups should be no longer than 2-4 pages, plus a few appendices or tables. Turn in the write-ups (hard-copy) at the beginning of the class after a case is discussed. You may choose what cases you wish to write up but it will help to disperse them uniformly through the quarter. This means that you should probably turn in one write up every other week. Hard copies should be given to me in class; please **do not** email the write-ups.

In the write-ups, do not re-invent the wheel. No detailed background is needed in the write-up – a few lines should suffice. On the other hand, do not assume I am intimately familiar with every number in the case. Exercise judgment on what is necessary to make the write-up coherent. In any event,

- Take a clear stand on the central case problem
- Provide a recommended solution.

25% - Outside Class Case Write-up
Each group is also required to turn in a write-up of a case that I will distribute to you as an assignment. This case will be given to you towards the end of the quarter. The tentative dates are: The case will be handed out after class on February 17 and will be due back at the beginning of class on February 24.

25% - Class Participation
The give-and-take in class discussion forms an important component of learning. Accordingly, about a quarter of the course grade is based on class participation. Quantity and quality both count, the latter more than the former.

20% -- Peer Evaluations
Towards the end of the quarter, each student will evaluate every other group member individually on participation and attendance in group meetings, contribution to group preparation, write-ups, and the overall rating as a team player.
GUIDELINES FOR REPORTS

For each case you will be provided with a list of questions designed to help guide and focus your analysis. The questions are not intended to be a complete list of the relevant issues in the case and, therefore, should not be used to define the limits of your analysis. Here are some suggestions to help you in preparing the reports:

1. Determine the major problems and/or opportunities in the case. Critically evaluate the information provided in the case.
2. Having identified the relevant issues, list the alternative courses of action. If needed, consult general texts and references pertinent to the problem. Critically evaluate, and if necessary, supplement the statistical data and legal issues provided in the case. Confine your analysis to facts known at the time of the case.
3. Analyze the strengths and weaknesses of each alternative, considering both the strengths and weaknesses of each and their relation to the firm’s strategy, its environment and its competitive situation.
4. Determine a specific recommendation and fully develop the logic supporting it. In general this is the most important phase of your analysis, and the focus on the report that we will primarily focus on.

COURSE PACKAGE

The course packet is the only required textbook for the course. I might sometimes hand out additional material in class as needed. It is useful to supplement the course readings with related material from standard textbooks such as Brealey and Myers. I provide these references as needed in a detailed course outline.

I have also assigned a few useful chapters from a book called “The New Corporate Finance: Where Theory Meets Practice,” edited by Donald J. Chew, 3rd Ed., published by McGraw Hill. I provide chapter references where relevant. This book is available in the Fuqua library and can be accessed there.
TENTATIVE CLASS SCHEDULE

1: Capital Structure & Dividend Payout Policy (January 20-24)

1/20 Sealed Air Corporation’s Leveraged Recapitalization
1/24 Dividend Policy at FPL Group, Inc.

Readings:
- Brealey and Myers, Chapter 16.

2: Capital Budgeting & Real Options (January 27-31)

1/27 Southport Minerals
1/31 Arundel Partners

Readings:
- Brealey and Myers, Chapter 22.
- “Capital Projects as Real Options: An Introduction,” Harvard Business School

3: IPOs (February 3)

2/3 Initial Public Offerings: The Process
G-III

Readings:

4: Convertible Debt & Equity (February 7-10)

2/7 MCI Corporation
2/10 AT&T

Readings:

5: Securitization & Financial Innovation (February 14-20)

2/14 American Express and Lehman Brothers
2/17 Times Mirror Company PEPS Proposal Review
2/17 Outside case group write-up to be handed out


2/21 American Barrick Resources
2/24  Banc One
2/24  Outside case group write-up due
2/28  Resurgent India Bonds

Readings:
-  Note on Commodity Futures