FE 820: Corporate Financial Management

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COURSE SYLLABUS

CONTACT INFORMATION

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COURSE OBJECTIVE

This is an intermediate-level course in corporate financial management. It will build upon the concepts you should already have learned in your Introductory Finance and Accounting classes and prepare you for more specialized electives.

COURSE STRUCTURE

This course relies heavily on case-based learning. The assigned readings are designed to support the topics assigned, but may or may not be directly relevant to the case solutions.

Group Work: The class will be divided into groups of four or five students. The groups will work on the following assignments:

1. **Case Presentations**: Each group will present one case analysis and prepare a presentation for the National Convenience case. Copies of slides and spreadsheets should be made available to all classmates after the in-class presentation is completed.

2. **Final Projects**: Each group will select an industry to analyze. Each student within that group will submit a report analyzing the industry and valuing a different company within that industry.

Note: Case presentations as well as project presentations are expected to be developed using handouts, slides, etc. All class resources will be posted on Questrom Tools. Case solutions and lecture slides will be posted after the corresponding case presentation and/or lecture.

Readings: The textbook readings and articles for each class are designed to either support the case analysis, or expand on the week's topic beyond subject matter covered by the case.

Midterm Exam: A self-administered, open book, open notes, open browser midterm exam will be assigned approximately halfway through the course. You are not permitted to receive assistance from another person.

Class Participation: This is a course that it based primarily on case discussions. Therefore, if you do not participate in class discussions, your grade cannot exceed a B. Class participation is based on the **quality** of what you have to say not the quantity. Quality participation does not mean that you have the right answers but, rather, that your input indicates that you are up to date on the reading material and prepared to tackle the case, article, or problem actively with the class.

Class Attendance: Because of the nature of this course, class attendance is mandatory. A student with more than one absence from a regularly scheduled class will be automatically excluded from the credit list. If you have any special circumstances, please let me know, but this will not guarantee a waiver of the attendance requirement.

Other Notes:

1. To maximize its educational value, I will not discuss a case with students prior to class discussion. Once the case has been discussed in class, I am willing to meet with you as long as needed to clarify key points.

2. Whenever you face difficulties in understanding the material, and it is still unclear AFTER the class meeting, do not hesitate to come and see me. Feel free to email me and call the numbers listed above.

3. Case study is difficult and time consuming. It is also the best way (outside of real world experience) to learn the skills and thought patterns needed to solve real business problems. The units covered in this course build in complexity and often rely on your knowledge of material covered in earlier classes. **If you will not have time to prepare the cases and do the reading you will struggle to complete this course with a passing grade.**

GRADING

Case Preparations and Presentations – 25% of the course grade.
Final Project – 40% of the course grade, consisting of 10% for interim project deliverables, and 30% for the final report.
Midterm – 15% of the course grade.
QUALITY Class Participation – 20% of the course grade.

READINGS

- Fundamentals of Corporate Finance, Ross, Westerfield and Jordan (12th edition).
    - NOTE: The assigned readings in this book support the themes developed by the cases and will give you a broader theoretical framework to analyze the cases. I do not teach directly from the book, or test based on the cases and examples it contains. **Therefore, you likely do not need the most recent version of the textbook**. However, if you have a different edition, **please ensure that you are reading the correct chapter**.

- Case studies (as well as certain select articles) are available as a digital "CoursePack" from Harvard Publishing and may be accessed here: https://hbsp.harvard.edu/import/596405
  Using Harvard Publishing's site should save you money over a physical course pack produced by the Copy Center, and should also give you access to electronic materials, such as supporting spreadsheets saving you a considerable amount of data entry.

- All other referenced materials and articles will be posted online at Questrom Tools well in advance of the class for which they are assigned. If, for some reason, you need them earlier, you can request them from me.

SCHEDULE OF DELIVERABLES

Date	Deliverable
1/28	Teams Selected
2/11	Industries/Companies Selected for Final Project
3/1	Midterm Posted
3/8	Midterm Due
3/30	Final Project Synopsis Due
4/7	National Convenience Restructuring Plan Due
4/22	Final Projects Due
Varies	Case Presentation Materials – Due 24 hours before class

BRIEF COURSE OUTLINE

Unit	Date	Topic	Case
Unit 1	1/28	Introduction/Basic Concepts	Ahold/Tesco
Unit 2	2/4	Estimating Short-Term Funds Requirements	Play Time Toy
Unit 3	2/11	Capital Budgeting	Hansson Private Label
Unit 4	2/19 (Tue)	Capital Structure	Polaroid
Unit 5	2/25	Estimating Long-Term Funds Requirements	Ceres Gardening
Unit 6	3/4	Cost of Capital	Marriott
	3/11	**NO CLASS – SPRING BREAK**	
Unit 7	3/18	Mergers & Acquisitions	Mercury Athletic Footwear
Unit 8	3/25	Initial Public Offerings	Ferrari
Unit 9	4/1	Art and Science of Valuation	
Unit 10	4/8	Financial Distress, Bankruptcy & Restructuring	National Convenience
Unit 11	4/17 (Wed)	Taxation and Corporate Decision Making	Rexford Studios
Unit 12	4/22	Project Presentations/Ethics	
Unit 13	4/29	Project Presentations/Course review	

DETAILED COURSE OUTLINE

Unit 1: Introduction/Review of Basic Concepts

Case: *Ahold versus Tesco – Analyzing Performance*

1. Analyze the relative performance of Ahold and Tesco. In what ways has each company been successful in executing on their financial goals? In what ways could they improve?
2. What can DuPont analysis tell us about each company's performance? What are some of its shortcomings?
3. What explains the underperformance of Tesco stock vs. Ahold stock?
4. Based on your analysis, which stock should Ms. King recommend? Why?

Reading:

- <u>Fundamentals of Corporate Finance</u>
    - Chapter 1: Introduction to Corporate Finance
    - Chapter 2: Financial Statements, Taxes, and Cash Flow
    - Chapter 3: Working with Financial Statements

Unit 2: Estimating Short-Term Funds Requirements

Case: *Play Time Toy Company*

1. What factors should Mr. King consider in deciding whether or not to adopt the level production plan?
2. What savings would be involved?
3. Estimate the amount of added funds required and the timing of needs under level production. Please prepare pro forma income statements, balance sheets and cash budgets to make this estimate. Ignore interest expense in making these estimates, and specify all your other assumptions.
4. Compare the liability patterns feasible under the alternative production plans. What implications do their differences have for the risk assumed by the various parties?

Readings:

- Fundamentals of Corporate Finance
    - Chapter 18: Short-Term Finance and Planning
    - Chapter 19: Cash and Liquidity Management

Unit 3: Capital Budgeting

Case: *Hansson Private Label, Inc.: Evaluating an Investment in Expansion*

1. Analyze Hansson and its position within the private label personal care industry. Among other things, how has the company performed historically vs. its peers?
2. What value can be created through the expansion? Consider projected cash flows and discount rates.
3. Assess the risks of the expansion and the financial projections you are utilizing. Are the projections reasonable? Why? If unreasonable, how would you modify them to provide a better estimate of future performance?
4. How should the discount rate be considered in your analysis? How do your views on the discount rate impact project economics?
5. Consider sensitivity cases. What will be the impact on the company if the contract only lasts three years? If different discount rates are applied?

Readings:

- "MIRR: A better measure," Kierulff (in Course Pack).
- Fundamentals of Corporate Finance
    - Chapter 9: Net Present Value and Other Investment Criteria
    - Chapter 10: Making Capital Investment Decisions

Unit 4: Capital Structure

Case: *Polaroid Corporation, 1996*

1. Recommend a target mix of debt and equity for Polaroid Corporation.
2. Recommend a maturity structure of the company's debt.
3. How do your recommendations impact value creation, flexibility and the firm's bond rating?
4. How reasonable are Polaroid's projections?
5. Assess Polaroid's ability to repay and service its debt.

Readings:

- Fundamentals of Corporate Finance
    - Chapter 16: Financial Leverage and Capital Structure Policy

Unit 5: Estimating Long-Term Funds Requirements

Case: *Ceres Gardening Company: Funding Growth in Organic Products*

1. How has Ceres performed? What are some of the key factors in the company's growth?
2. What should Ceres' strategic plan be given trends in the organic gardening market and its recent performance?
3. What risks does Ceres face?
4. Prepare a presentation to Ceres' bankers, including five years of cash flow projections. What are the company's prospects in 2007 and 2008, in particular?

Readings:

- Fundamentals of Corporate Finance
    - Chapter 4: Long-Term Financial Planning and Growth
    - Chapter 20: Credit and Inventory Management

Unit 6: Cost of Capital

Case: *Marriott Corporation: The Cost of Capital*

1. Are the four components of Marriott's financial strategy consistent with its growth objective?
2. How does Marriott use its estimate of its cost of capital? Does this makes sense?
3. What is the weighted average cost of capital for Marriott Corporation?

a. What risk-free rate and risk premium did you use to calculate the cost of equity?
b. How did you measure Marriott's cost of debt?
c. Did you use arithmetic or geometric averages to measure rates of return? Why?

4. What type of investments would you value using Marriott's WACC?
5. If Marriott used a single corporation hurdle rate for evaluating investment opportunities in each of its lines of business, what would happen to the company over time?
6. What is the cost of capital for the lodging and restaurant divisions of Marriott?
    a. What risk-free rate and risk premium did you use in calculating the cost of equity for each division? Why did you choose these numbers?
    b. How did you measure the cost of debt for each division? Should the cost of debt differ across divisions? Why?
    c. How did you measure the beta of each division?
7. What is the cost of capital for Marriott's contract services division? How can you estimate its equity costs without publicly traded comparable companies?

Readings:

- Fundamentals of Corporate Finance
    - Chapter 12: Some Lessons from Capital Market History (skim)
    - Chapter 13: Return, Risk, and the Security Market Line (skim)
    - Chapter 14: Cost of Capital

***** SPRING BREAK *****

Unit 7: Mergers & Acquisitions

Case: *Mercury Athletic Footwear: Valuing the Opportunity*

1. Analyze the potential combination of AGI and Mercury considering the strategic fit, operations, and financial metrics of each firm. What do you conclude about the potential combination of the two companies?
2. Why do you think WCF is selling Mercury?
3. Derive a stand-alone "base case" valuation of Mercury utilizing the information provided in the case. At a minimum provide a discounted cash flow valuation of the company.
4. Value the company with under a "synergy case" scenario. What do you conclude from this exercise?

5. If AGI chooses to buy Mercury, what type of sales process would it prefer? Why?

Readings:

- "Discounted Cash Flow Analysis," Schill (in Course Pack)
- Fundamentals of Corporate Finance
  - Chapter 6.1-6.2: Discounted Cash Flow Valuation
  - Chapter 8.1: Stock Valuation

Unit 8: Initial Public Offerings

Case: *Ferrari: The 2015 Initial Public Offering*

1. What are the business, strategic, and financial implications of Ferrari's current strategy?
2. Analyze and comment on the financial forecast in Exhibit 8. Is it reasonable? If not, what specific concerns do you have?
3. What is Ferrari worth in euros? Justify your answer by analyzing data provided in the case.
4. In preparation for Ferrari's listing on the New York Stock Exchange, at what price in U.S. dollars would you recommend that Ferrari shares be sold?

Readings:

- "Playing the Market (Approach): Going Beyond the DCF Valuation Methodology," Shaked/Plastino/D'Arezzo, *Journal of the American Bankruptcy Institute*, January 2010.

Unit 9: The Art and Science of Valuation

Case: *None*

Readings:

- "Choice of Business Entity: Corporate, Pass-Through, and Disregarded Entities," Frank/Garza/Holtan (in Course Pack).
- "What's it Worth: A General Manager's Guide to Valuation," Luehrman (in Course Pack).
- **Optional** - "Marketability and Value: Measuring the Illiquidity Discount," Aswath Damodaran, July 2005 (white paper).
- **Optional** - "The Value of Control," Aswath Damodaran, Presentation.

Unit 10: Financial Distress, Bankruptcy, and Financial Restructuring

Case: *National Convenience Stores Incorporated*

1. Develop a reorganization plan that proposes a set of claimholder recoveries and a capital structure for NCS.
   a. What is the enterprise value?
   b. What are the key assumptions in the value you derived?
   c. Why did you select this particular capital structure?

Readings:

- "Valuing Companies in Corporate Restructurings," Gilson (in Course Pack).
- "A Managerial Primer on the U.S. Bankruptcy Code," Hild/Brady (in Course Pack).
- "Note on Bankruptcy in the United States," Luehrman/Teichner (in Course Pack).
- "Post-Bankruptcy Operating Performance: Two-time Filers vs. One-time Filers," Michel/Shaked
- "The Mirant Valuation Saga: Epic Battle of Experts," Michel/Shaked/ Orelowitz/Marcus

Unit 11: Taxation and Corporate Decision Making

Case: *Tax-Motivated Film Financing at Rexford Studios*

1. What are the risks faced in the production and distribution of films? Are they the same for all studios? Why or why not?
2. Outline the structure of the Film Fund International II deal. Who are the parties, what are their roles, and what is exchanged?
3. If Shaw decides to enter into the proposed structure, how much will Rexford need to deposit into Neue Landesbank when the deal closes? In determining the amount of the deposit, what is the appropriate discount rate to be applied to the cash flows?
4. Based on this deposit, does the deal provide any value to Rexford Studios? If so, how much? Quantify the value to the other parties in the deal as well.
5. Should Rexford pursue the proposed deal? Should it propose any changes? If so, what?
6. At a high level, how does the deal create value for the parties? What are the risks of the deal for each party? How could they be potentially mitigated?

Readings:

- **TBD (potential guest lecturer)**

Unit 12: Project Presentations / Ethical Issues in Corporate Finance

Case: *None*

Readings:

- “Tesco’s Crisis: A Hard Rain,” *The Economist*, September 27, 2014.
- “In Enron Case, a Verdict on an Era,” *The New York Times*, May 26, 2006.
- “Relevance and Bias of Analyst Recommendations: The Case of Bankrupt Companies,” Michel/Shaked, *The Financier*, 2003.
- “A Review of Fairness Opinions and Proxy Statements,” Shaked/Kempainen, *Journal of Applied Finance*, 2009.

Unit 13: Project Presentations / Course Review

Case: *None*

Readings: *None*