Advanced Corporate Finance

This is a course on applied corporate finance dealing with the design and valuation of transactions and their financial instruments.

We review the basic enterprise valuation model based upon discounted free cash flows and multiples, and recent advances in the estimation of the cost of capital, including prospective estimates, small cap premia, and allowances for country risk.

We develop the concept of financial contract or "deal" and apply it to public and private transactions and financing decisions. The focus is on how deals are made in the real world, and how contract design can allow parties to agree to disagree in a transaction. Students acquire expertise in applying core finance concepts and techniques and master the most creative aspects of finance.

We examine the estimation and use of debt capacity, and financing with convertibles and tax favored securities. The final part of the course is devoted to recapitalization of troubled companies and asset restructuring decisions.

Specifically, the course coverage is organized along the following main themes:

I. Valuation and shareholder value
II. Deal making
III. Debt capacity and private equity
IV. Financing with convertibles and tax favored securities
V. Recapitalizations and restructuring

Grading: Grades will be based upon class participation (10%), individual assignments (10%), an in-class midterm examination (40%) and a take-home final examination. Students are expected to prepare in advance for each class and participate in class discussion.

Readings:


Cases and session guides: *Course Packet*. 

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Problems: Problems from the text are assigned to test and further develop the understanding of the subject. There will be three problems sets to be solved by teams of 3 to 5 members. Each student is required to solve these problems and submit written answers for grading. Summary answers to selected problems are contained in Appendix C of the text and detailed answers to assigned problems will be posted on BOLD.

Class Schedule and Assignments

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<td>I – Valuation and Shareholder Value</td>
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Sessions 1.1-2.1. Free cash flow valuation and the cost of capital

In these sessions we review the basic enterprise valuation model; examine the evidence on the nature and magnitude of the equity premium; and learn how to estimate the prospective equity premium in practice.

Case: Morehouse Industries Inc. (A).

Readings: (Omit * marked sections) Chapters 2, pp. 9-17, 21-25, 27-30 (up to Section 2.7), Ch. 3, 35-50, 54-62 (start at Section 3.5.4), and Ch. 4, pp. 63-70 (up to Section 4.5).

Assignment No. 1 (due date TBA): 7, 4.6, and estimation of equity premium as of August 2005, model building exercise (download data, instructions and hints from Bold).

Sessions 2.2-3.1. Accessing the global capital market

We examine how to access the global capital market, how to attain liquidity events in private equity, and the valuation of private placements and emerging market companies.

Case: Petöfi Printing Company.

Reading: Ch. 12, pp. 205-219.

Session 3.2. Shareholder value company growth

Growth strategies and market value.

Case: Three Active Acquirers.

Reading: Ch. 5, pp. 77-87.
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Session Topic

II – Deal Making

Sessions 4.1-4.2. Transaction analysis

We examine the role acquisitions within the competitive strategy of a company. We discuss the options open to the potential acquirer, including the possibility of acquiring its main competitor. Valuation issues related to the acquisition of the target, including the premium to offer and its possible recovery via synergies are examined in detail.

Cases: For the first session: Borland-Ashton Tate.
For the second session: Borland's Acquisition of Ashton Tate.
Readings: Ch. 9, pp. 143-144 and 147-177.

Sessions 5.1-6.1. Deal making with differences of opinions

We review the role and purpose of “deals” in corporate finance and examine the design and valuation of earnouts and tracking stock.

Reading: Ch. 10, pp. 179-188 (up to Section 10.6.3).

Assignment No. 2 (due date TBA): 9.6, 10.8, 10.9 and 10.10.

III – Debt capacity and private equity

Session 6.2. Debt capacity

We study how to finance a leverage buyout and how sponsors and lenders estimate the debt capacity of a buyout target.

Reading: Ch. 7, pp. 107-120.

Session 7.1. Midterm Exam

Session 7.2 Private Equity: Design and valuation of LBOs

We study how to structure a leveraged buyout and estimate the return to the suppliers of capital.

Case: Sirona.

Reading: Chapter 13, 221-240.
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| Session                  | Topic
|--------------------------|---------------------------------------------------
| IV – Financing with Convertibles and Tax Favored Securities |  

Assignment No. 3 (due date TBA): 13.1.

Sessions 8.1-8.2. **Equity-linked securities in corporate financing**

Examination of the role of equity-linked securities in corporate finance as an alternative to debt and equity financing, and the role of signaling and pre-commitment in capital markets.

**Case**: Citicorp's Convertible Preferred Issue.

**Reading**: Appendix A, pp. A4-A6 (start at Section A.7), skim the rest.

Session 9.1-9-2. **Mandatory convertibles and tax favored securities**

Financial innovation as response to market conditions and taxation. Design and pricing of mandatory convertibles. Attaining flexible financing with tax deductibility. Credit agency equity credit and accounting treatment.

**Reading**: Article on “Percs, Decs and Other Mandatory Convertibles”.

V – Recapitalizations and Restructuring

Session 10.1. **Dealing with financial distress**

We study how to reduce the burden of debt on the cash flows of the company to make it consistent with its debt capacity, and to maximize the recovery to the claimants.

**Reading**: Ch. 14, pp. 243-263 (skim Section 14.7).

Session 10.2. **Asset restructuring**

Review of asset disposition and other measures to close the value gap of a company (share repurchases, asset sales, IPOs, carve-outs, spin-offs, and tracking stock).

**Reading**: Ch. 15, pp. 265-281.

Session 11.1. **Review and conclusion**

Take-home final due on Monday December 18.