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The Jerome A. Chazen Institute  
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## International Innovation in the Classroom

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Professor Laurie Simon Hodrick:  
Advanced Corporate Finance

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With the Dow Jones, S&P 500 and Nasdaq stock indices recently breaking four-year highs, it seems like a dot-com like euphoria has returned to the markets. However, this time the growth has been fueled by international and emerging markets. Yesterday's venture capital firms are today's hedge funds, investment banks and private equity firms. With an increasingly competitive global marketplace, international acquisitions and investments are becoming a more commonplace occurrence as witnessed by today's headlines: China-based Lenovo's acquisition of IBM's Thinkpad Division, CNOOC's bid for Unocal and the acquisition of UK-based Allied Domecq by a French and U.S. investing group. Preparing Columbia Business School's students for this changing marketplace is certainly a high priority.

Fortunately, Professor Laurie Hodrick in her Advanced Corporate Finance class tackles these international M&A issues along with many other aspects of valuing companies. For these efforts the professor was awarded the School's annual Singhvi Prize, given to the professor that most exemplifies excellence in the classroom. Students embraced the course, motivated by her mission to provide them with a toolkit and "intuition" for valuing companies through her case-based teaching method.

The course provides excellent insight into why corporate management teams behave the way they do and how companies should be valued. Although work is done in study groups, with a new case covered weekly, the workload is very demanding. A wide range of advanced finance concepts are taught in detail, including determining costs of capital, valuation methods, signaling by executive management, LBOs and analyzing warrants.

Many of the concepts were integrated in three international cases that were covered: the acquisition of a Brazilian beverage company (Brahma Beer), the merger of Daimler Benz and Chrysler and the takeover battle for Gucci by Louis Vuitton and PPR. These cases addressed the key issues when valuing companies in international transactions, including uncertainty related to country risk premiums, inflation, currency exchange rates and costs of capital. The Brahma Beer case addresses the issues and uncertainty of investing in emerging markets, particularly involving high inflation. Next, the analysis moves across the world to the controversial merger of Daimler-Benz and Chrysler. In a unique role-play exercise, each study group took a position as either the executive management of Chrysler or Daimler-Benz. Each team then negotiated the deal points with another study group which included payment terms, structure of the deal, accounting treatment, tax treatment and governance. Professor Hodrick added closure to the discussion by hosting a panel discussion of those involved in the deal, including a top manager at Chrysler as well as the investment bankers and lawyers involved on the deal.

The class ended with a take-home final: the case of the takeover battle of Amsterdam-based Gucci by multiple French bidders written this year by Professor Hodrick and

Professor Robert Bruner of the University of Virginia. This provided students with an opportunity to put their valuation tools to the test on an international case. In lieu of an answer key being provided, Professor Hodrick distributed the best paper among the 180-plus students to all students. The results were astounding as first-year student Keith Parker's compelling write-up and 14 in-depth exhibits (all done within the requisite page limits) demonstrated his mastery of the subject, as well as Professor Hodrick's teaching excellence.

Professor Hodrick's Advanced Corporate Finance is an example of how Columbia Business School is preparing its students to be the next generation of leaders of the financial world.

*Laurie Simon Hodrick is a professor of finance and economics at Columbia Business School.*