



Universität Konstanz

**Fachbereich
Wirtschaftswissenschaften**

**Der Fachbereichsreferent
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Informationen zum Kurs „Advanced Corporate Finance“ von Ken Shah im Sommersemester 09

Zur Inhaltlichen Ausgestaltungen verweise ich auf die Kursdisposition.

Umfang:

Der Kurs wird in 12 Doppelstunden gehalten. Diese werden im Zeitraum 20. April bis Mitte Juni 2009 durchgeführt.

Anrechnungsmöglichkeit:

Der Kurs kann von folgenden Studierenden angerechnet werden:

Diplomstudierende (nicht MFÖ): Wahlkurs IFM, Seminar ABWL oder IFM

Diplomstudierende (MFÖ): Wahlbereich

Bachelorstudierende: Wahlbereich (5 ECTS)

Masterstudiengang International Economic Relations:

Vorraussetzung:

BWL4 und ABWL 1 bzw. deren Vorgänger im Diplom

Anmeldung:

E-Mail an referent.wiwi@uni-konstanz.de bis 10. April 2009 (Nachmeldungen nur möglich wenn noch Plätze frei sind)

Gez.

Markus Beslmeisl

Anhang: Kursdisposition

UNIVERSITY OF KONSTANZ
ADVANCED CORPORATE FINANCE
Summer 2009

Professor Ken Shah, Ph.D
Kshitij@keningrid.com

Phone:
Office Hours: To be announced

Course Description:

This course is the course in corporate finance designed around analyses of cases. Cases are intended to present examples of real business situations that you may encounter in your career as a finance professional and give you an opportunity to recommend a course of action. We will follow the transformation of a firm from being private and growing rapidly to the stage of maturity and decline. The representative financial decisions that managers face over this life cycle are the focus of the cases.

Importantly, this course will attempt to bridge financial theory to practice. As an integral part of this process, it will expose you to the frustrations that are inevitable in financial decision making in the unstructured corporate world. *You will appreciate that, more often than not, there are no clear solutions to the problem at hand.* In the end, however, by taking this course if you increase the proportion of sound financial decisions to bad ones, its objective will be largely accomplished.

Who should take this course?

This course is designed as an advanced course in corporate finance. I recommend that you have taken a prior course that covers material in either Brealy-Myers or Ross, Westerfield and Jaffe textbooks at the graduate level.

The cases, classroom discussions, and readings are geared towards applying the knowledge you have *already learned in previous finance courses*. The course requires a fair amount of computer work, presentations, and written reports. Group work will be essential. It is important that you come prepared to discuss the case(s) assigned for the day. Although I will not base your course grade on the level of your participation in classroom discussions, the success of this course, and the learning process, depends on lively and critical discussions. Your participation is strongly encouraged.

I will assume that you already have a solid proficiency in the following topics:

- Financial analysis, forecasting and spreadsheet skills
- Good understanding of Capital Asset Pricing Model
- Underpinnings of WACC and its calculation
- NPV, discounted cash flow and other valuation models
- Option valuation (Black-Scholes and Binomial) and payoff diagrams
- Statistics (including hypothesis testing) and algebra

A reasonable estimate of time required outside of class for class work is 4 to 5 hours per week.

Textbooks:

Required:

1. *Case Studies in Finance: Managing for Corporate Value Creation*, 5th Edition, by Robert F. Bruner., McGraw Hill.

Recommended:

1. *Principles of Corporate Finance*, 6th Edition, by Richard A. Brealey and Stewart C. Myers, The McGraw-Hill Companies.

I have found the 'Brealey-Myers' text to be outstanding. Unfortunately it is expensive, but I believe the money is well spent. It is well written, up-to-date, and provides all the necessary corporate financial theory, evidence and seminal references in the field. I recommend purchasing it, especially to those who feel that they need to brush up their basic principles in corporate finance. It also makes an excellent reference text. A good substitute is Ross, Westerfield and Jaffe's *Corporate Finance* textbook published by Irwin-McGraw-Hill Companies.

Evaluation:

Group Case Presentation	300
Midterm Case (take home)	300
Final Case (take home)	400

Class Attendance:

Class attendance is mandatory. Given so few class meetings, missing a class session sets you back quite a bit in a case class where learning is a collective process. More than one absence will lower your grade by half a grade point for each class missed. As noted earlier, your grade does not depend on your participation in classroom discussions, but your presence and participation is important to our learning objectives.

Group Case Presentations:

Group presentations are no more than 30-40 minutes in length. All of the students in the presenting group must participate in the presentation. Assume the role of consultant/management, and that your audience is your superiors, typically senior management. You are trying to convince them of the course of action that you recommend. For instance, if the decision maker in the case is a CFO, you will assume that you are presenting to the CEO and the Board. Please feel free to use overheads and other presentation technology if you think it will aid in communicating your ideas.

The presenting group will prepare a one-page handout that distills the critical assumptions and analysis and distribute to the rest of the class. An example of such a handout will be given in the first class.

Students who are not presenting will have to critique the analysis of the group presenting immediately following the conclusion of the presentation. Time allocated for this is approximately 15 minutes. Every group must have an analytical solution to every case, although formal write-up is not required. The entire class should come prepared to a) question the reasonableness of the assumptions, b) comment on the calculations made, c) ask for sources of data, and d) ask for clarifications to ensure that the group has clearly explained its analysis and justified its conclusions. The class should take the role of the senior management, carefully scrutinizing the presenters' analysis.

Presentation Case and exam write-up requirements:

- No more than 5 pages, double spaced, size 12 font, typed main body text
- Properly organized appendix that includes tables, charts, spreadsheets, supplementary analysis
- Main text must specifically refer to all exhibit items – if not, they will be ignored
- A cover page, and a summary table of contents
- Write-ups should not be 'question and answer' format

In today's business world, effective presentation of your ideas is *very* important. People are busy and want *clear, concise summary* that communicates the main points as well as ready access to additional information on demand. As IBM's Gerstner has said, if you can't say it in 10 pages, you don't know what point you are trying to make. Assume that the reader is familiar with the case descriptions and avoid reiterating qualitative background information.

Here's a summary of our roles:¹

The Group Presenting:

1. Read the case and determine the key problems faced by the decision maker. Identify relevant issues.
2. Determine the data required to analyze the problems and for use in arriving at a solution.
3. Develop, analyze, and compare alternative solutions. Sensitivity analysis, scenario analysis, simulation, dependent on the assumptions you make, is appropriate here.
4. Recommend a course of action. Be prepared to defend your recommended solution.
5. Present the case to the class effectively. Prepare a one-page handout for distribution to class.
6. Hand in your formal case report to me.

The Class:

1. Read the case and determine the key problems faced by the decision maker. Identify relevant issues.
2. Understand the issues in the case and the background material so as to be able to critique the analysis on assumptions, calculations, data sources and methodology.

¹ Many of the ideas here are adapted from Emery A. Trahan, "Bridging the Theory-Practice Gap: An Integrated Case-Study Approach", *Financial Practices and Education*, Fall 1993; B. G. Davis, *Tools for Teaching*, Jossey-Bass, San Francisco, 1993.

3. Participate actively in seeking clarifications and discussions.
4. As a group, come to class with an analytical solution to every case. I will collect the analytical solutions every class and grade it acceptable/unacceptable.

The Instructor:

1. To create an atmosphere where students may arrive at their own conclusions.
2. To provide direction. Keep the discussion focused and productive, but not dominate the flow of ideas and arguments. It is up to the students to debate the issues and solutions.
3. To guide students and develop their skills and abilities to analyze real problems that arise in financial management.
4. Expose students to the theory and evidence on topic at hand.
5. To challenge superficial thinking.

Midterm and Final Exam Cases:

Midterm and final exams are to be completed individually. Please do not collaborate with others on either of the two examinations. You will be given one week to complete them. Assignments that are turned in late will lose one letter grade for each 24-hour period that they are overdue.

The use of files and materials, other than those provided by the instructor, from any outside source is strictly forbidden. This includes, but is not limited to, solutions from the web, solution manuals, previous students, etc. I believe most of us can judge what constitutes cheating, but if in doubt, ask. The focus of this course is learning through experience, and using material developed by others robs of you this experience. Cheating will result, at a minimum, in a grade of zero for the assignment in question.

Class Format:

I believe that the learning experience in a case class is a collective process and enriched through discussions. We will discuss and argue, sometimes energetically, but always politely! I will try to gauge your backgrounds early on in the course, and if I feel that a mini lecture on a particular topic is desirable for providing a framework for future discussions, I will schedule it. The formal case presentation will take place in the first 30-40 minutes of the class, followed by about 15 minutes of Q&A addressed to the presenters by the class. There will be a 10-minute break towards the middle of the class period. The remainder of the class will be devoted to preparation and lecture pertaining to the next case.

Office Hours Policy:

I have scheduled regular hours as noted on the first page of this syllabus. I urge every one of you to meet me at least once during the quarter. The presenting group is encouraged to meet me at least once before presenting so that I can offer guidelines and suggestions. I realize that you have work and lives outside of this course, and that this time may not be suitable for some of you. Don't hesitate to request an appointment, and we will set something up. I request an appointment since it allows me to give you full attention to your needs, which you deserve and not be distracted by other engagements. I also encourage you to communicate to me by email.

Understanding Grades:

Grading performance constitutes a complex and difficult process. While human beings cannot be pigeon-holed, they can be and often are judged on the basis of their achievements. Grades reflect both effort *and* achievement, not effort alone. The following descriptions attempt to explain why different students obtain different results.

The "A" Paper: This paper is excellent in all aspects. The interest of the reader is engaged by the ideas and presentation. Style and organization seem natural and easy. The paper is marked by the originality of ideas.

The paper demonstrates a clear, coherent grasp of theory & tools with appropriate and judicious use of them.

The "B" Paper: This paper is technically competent, with a lapse here and there. The thesis is clear, properly limited, and reasonable, and the organization is generally effective but not exceptional. The attempt to frame the paper in relevant theory and the use of tools is sometimes forced and does not demonstrate a complete grasp.

The "C" Paper: This paper demonstrates effort on the author's part, but the effort is too marred by technical considerations or lapses in thinking and development of ideas to be considered a competent piece of work. Presentation is ineffective and does not flow smoothly. There are lapses in understanding of theory and/or misapplication of it; use of tools is occasionally marred by errors.

An average overall score in the course will result in a grade of B-, as per the University guidelines, provided you have completed all work and attended all classes. To obtain an A, your work must be of an exceptional quality. Typically, no more than top 15% of the class will be assigned an A or an A- grade.

I will assume that all group members have contributed equally to group work and will assign the group score to all its members.

Web Resources:

Please download supplemental cases & spreadsheets from the website for case presentations.

http://highered.mcgraw-hill.com/sites/0072994754/information_center_view0/

Additional links and resources will be placed on the web and announced in class.

Case Schedule:

I plan to adhere to the following schedules as far as possible. Changes may be initially necessary based on class size. If there are any changes, I will alert you to these in class.

Session #	Topic	Cases in Bruner Text
1	Introduction - Finance and tools	No case scheduled
2	Creating Value – Measures of value creation	No case scheduled
3	Short term financing / Private enterprise	Deutsche Brauerei Purinx, Inc.
4	Going public	Jet Blue Airways
5	Cost of capital	Coke vs. Pepsi
6	Payout policy Assign midterm case	Gainsboro Machine Tools Corp.
7	Ethics, incentives & economics Discussion: Causes & consequences of current financial crisis Midterm case due beginning of class	Ben & Jerry's Homemade Discussion
8	Capital structure	Wm. Wrigley, Jr. Company
9	Complex securities – embedded options	Corning, Inc. Zero Coupon (A)
10	Joint Venture	Genzyme/Geltex Pharm. JV
11	Takeovers	Repsol's Acquisition of YPF
12	Highly Leveraged Transaction	Palamon Capital Partners
13	Financial Distress Assign final case	Coleco Industries** Tonka Corp.
14	Final case due	

** Supplemental case to be downloaded from Bruner text website noted above.

Notes to reading list:

1. 'Bruner' refers to the required case text by Robert Bruner; 'BM' below refers to the optional text by Brealey & Myers 7th Edition; 'H' refers to the optional text by Higgins.
2. Required reading in addition to the cases will be discussed in class. You should thoroughly review the articles and be prepared to discuss them.
3. Background reading is intended to alert you to the theory and evidence related to the case and topic that are necessary to frame the discussion of a case. You should be comfortable with it and have a good understanding of it.

Detailed Reading List:

Introduction

Date:

Case: None
Required Reading: None
Background Reading: BM: Ch 12

Managing Growth

Short-term financing / Private enterprise

Date:

Case: Deutsche Brauerei & Purinex, Inc.
Required Reading: R. Brealey & S. Myers, "Short-term financial planning"
Background Reading: BM: 29 - 32

New venture financing and going public

Date:

Case: Jet Blue Airways
Required Reading: B. Uttal, "Inside the deal that made Bill Gates \$350,000,000"
W. Sahlman, "The structure and governance of venture capital organizations"
Background Reading: BM: 15

Financing Policy

Cost of capital

Date:

Case: Coke vs. Pepsi
Required Reading: Class notes on Fama-French Model
Background Reading: BM: Ch 9, 19

Choosing the method and payouts to shareholders

Date: - Midterm Assigned
Case: Gainsboro Machine Tools Corp.
Required Reading: F. Black, "The dividend puzzle"
M. Barclay et al., "The determinants of corporate leverage and dividend policies"
Background Reading: BM: Ch: 16

Hand in Midterm - Discuss Midterm, Ethics & Economics

Date: - Midterm turned in beginning of class
Case: Ben & Jerry's Homemade
Required Reading: J. Brickley et al., "Ethics, incentives and organizational design"
C. Smith, "Economics and ethics: The case of Salomon Brothers"
Background Reading: None

Choosing a capital structure

Date:
Case: Wm. Wrigley, Jr. Company
Required Reading: S. Myers, "Still searching for optimal capital structure"
T. Opler et al., "Designing capital structure to create shareholder value"
Background Reading: BM: Ch. 17, 18

Complex securities

Date:
Case: Corning Zero Coupon (A)
Required Reading:
Background Reading: BM: Ch. 21, 23

Corporate Reorganizations

Joint Venture

Date:
Case: Genzyme/Geltex Pharmaceutical Joint Venture
Required Reading:
Background Reading: BM: Ch. 33

Valuing a takeover

Date:
Case: Repsol's acquisition of YPF S.A. (A)
Required Reading: A. Bhidé, "The causes and consequences of hostile takeovers"
Bruner: Hostile Takeovers: A primer for decision maker
Background Reading: BM: Ch. 33

Highly Leveraged Transaction

Date:
Case: Palamon Capital Partners/ TeamSystem S.p.A.
Required Reading: D. Denis, "The benefits of high leverage: Lessons from Kroger's leveraged recap and Safeway's LBO"
Background Reading: BM: Ch. 34

Financial Distress

Date: - Assign Final Case
Case: Coleco Industries (supplemental case – Bruner website)
Required Reading: K. Wruck, "What really went wrong at Revco?"
S. Gilson, "Managing default: Some evidence on how firms choose between workouts and bankruptcy"
Background Reading: BM: 18, 24.5