ADVANCED CORPORATE FINANCE

SUMMER 2018

PROFESSOR JOHN J. MOON

Professor Office Location: 218 Uris Hall

Phone: (646) 596-4030

E-mail: jjm2001@columbia.edu

Office Hours: TBD

REQUIRED COURSE MATERIAL

Required readings, cases and case questions will be available to you either on the course website or in the required textbook:

Required

Recommended but not Required

In addition, the course will have a dedicated website for other timely information and relevant downloadable material as it becomes available (including class notes). The course website can be accessed through Canvas.

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

Advanced Corporate Finance should be considered a capstone course. This is an advanced course in which students are expected to perform professional level work. The class is open to both 1st and 2nd year students who have completed B8306 Capital Markets and Investments, as the material covered in B8306 is necessary throughout the course. In particular, students should be familiar with notions of options pricing including valuation using the Black-Scholes formula. Students are also expected to be familiar with the key concepts introduced in core Corporate Finance.
COURSE DESCRIPTION

Advanced Corporate Finance builds directly upon the basic valuation tools developed in Corporate Finance and extends in the following directions: (1) The course introduces more advanced concepts into valuation (such as corporate securities beyond simple debt and equity) to equip students with the tools necessary to analyze more complex (and therefore, more realistic) capital structures and corporate transactions. (2) The course incorporates richer institutional detail into quantitative analysis, bringing students closer to real-world situations while maintaining a fundamentally analytical approach to financial decision-making. (3) The course explores new topics and recent developments in corporate finance theory and practice (especially post-financial crisis) as a means of exposing students to the ever-changing nature of the capital markets, both its terms and its practices. The more advanced tools and deeper understanding of the valuation process in this course serve the same goal stated in Corporate Finance: To improve corporate financial decision-making by executives and to provide value-creating tools of analysis for investors.

COURSE OBJECTIVES

The classes are structured to maximize the synergy between theory and practice, providing students portable, durable and marketable tools for their internships and careers.

This class is suitable for students looking to make executive strategic financial decisions, including investment bankers, consultants, CFOs and corporate treasurers, portfolio and investment managers, and students interested in private equity.

ASSIGNMENTS

All written assignments for each class (after the first class) will be discussed, completed and submitted by study groups (typically comprised of three students) prior to each class.

METHOD OF EVALUATION:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation</td>
<td>50%</td>
</tr>
<tr>
<td>Problem Sets</td>
<td>25%</td>
</tr>
<tr>
<td>Final Project</td>
<td>25%</td>
</tr>
</tbody>
</table>
CLASSROOM NORMS AND EXPECTATIONS

Each session will be comprised of an introductory lecture with class discussion of the session’s reading assignment followed by time dedicated to the analysis of a case study which covers the concepts for that session. The first (approx.) 90 minutes of each class will be dedicated to lecture and class discussion of the session’s topics. The class discussion will be followed by an analysis of the session’s case study for the remaining (approx.) 90 minutes. (A 15 minute intermission will divide the two segments.) This course will rely heavily on class participation and requires substantial preparation for each session. It is essential that students complete all required reading and prepare for substantive class discussion with detailed notes on the assigned case study each session. To facilitate class discussion, please remember to bring name cards to every session.
Assignment for First Class

Given the amount of material to cover in the course and the three-hour session format, much of the first day of class will be devoted to substantive class discussion on the readings and the session’s case, *Fleetwood Enterprises, Inc., 1990*. Students should be prepared to discuss the readings and the case in detail on the first day of class. Again, to facilitate class discussion, please remember to bring name cards to every session. Please find questions which will be used to guide class discussion below:

1) Consider Fleetwood Enterprises’ current capital structure. In what sense, if any, is this capital structure “optimal” or at least desirable?

2) What are some of the factors which should influence Mr. Bingham’s decision on whether to undertake a share repurchase (i.e., recapitalize)? Consider:
   a. corporate finance theory (e.g., Modigliani-Miller, the tradeoff theory of capital structure, etc.)?
   b. the Company’s business strategy and industry environment
   c. the Company’s chosen operating/organizational structure
   d. any other relevant matters.

3) Considering solely the facts provided in the case, create your own financial projections for Fleetwood Enterprises and complete a discounted cash flow analysis of the Company. Provide a specific price per share as part of your answer.

4) Assume Mr. Bingham has decided to repurchase shares. As Fleetwood’s investment banker, consider and propose various alternative methods for returning capital to Fleetwood shareholders. Discuss the pros and cons of each alternative.

5) What amount should Mr. Bingham repurchase and what strategy should the Company employ to repurchase those shares? If you argue for no repurchase, discuss why you have concluded so. What specific considerations, quantitative or qualitative, influenced your decision?

NOTE: For all of your work on this assignment and for the sake of simplicity, you can assume that the commercial paper outstanding is supporting the finance company receivables in a bankruptcy remote (completely standalone) subsidiary. Hence, such debt can be netted against the finance company receivables and ignored for your analysis.

* * * Written responses to bold italicized questions are due prior to each class. * * *
Session 1. Review of Capital Structure and Valuation

A. Required Reading
   1. “An Introduction to Cash Flow Valuation Methods” Case #9-295-155
   2. “Note on Adjusted Present Value” Case #9-293-092

B. Topics
   1. Review of cash flow valuation methods
   2. The cost of capital
   3. Review of Modigliani-Miller Propositions: Is capital structure irrelevant?
   4. A tradeoff theory of capital structure
   5. Leverage and implications on DCF analysis


D. Additional Reading
   1. Berk and DeMarzo - Ch. 14: “Capital Structure in a Perfect Market”
   2. Berk and DeMarzo - Ch. 15: “Debt and Taxes”
   3. Miller (1977)
   4. Miles and Ezzell (1985)

Session 2. Practical Considerations in Corporate Finance

A. Required Reading

B. Topics
   1. Perfect and imperfect capital markets
   2. Efficient markets
   3. The implications of shareholder heterogeneity for corporate finance
   4. Sources of shareholder heterogeneity: Overview of practical considerations in valuation
C. Case Study: “Vereinigung Hamburger Schiffsmakler und Schiffsgenten e.V. (VHSS): Valuing Ships” Case #9-210-058

D. Additional Reading
1. Black (1986)
2. Fama and French (1992)
3. Fama and French (1996)

Session 3. Information Problems in Capital Markets

A. Required Reading
1. Berk and DeMarzo – Ch. 17: “Payout Policy”

B. Topics
1. Market for lemons and adverse selection
2. Signaling
3. Asymmetric information and implications for the capital markets

C. Case Study:
1. “Going to the Oracle: Goldman Sachs, September 2008” Case #9-309-069

D. Additional Reading
1. Asquith and Mullins (1986)
2. Smith (1986)
4. Spence (1973)
5. Fazzari, Hubbard and Peterson (1988)

Session 4. Information Problems in Capital Markets - Continued

A. Required Reading
1. Berk and DeMarzo – Ch. 16 “Financial Distress, Managerial Incentives, and Information”
B. Topics
   2. The pecking order theory of capital structure
   3. In Practice: Due diligence

C. Case Study:
   1. “MOGEN, INC.” Case #UV 1054

D. Additional Reading
   1. Asquith and Mullins (1986)
   2. Smith (1986)
   4. Spence (1973)
   5. Fazzari, Hubbard and Peterson (1988)

Session 5. Agency Problems and Corporate Finance

A. Required Reading
   1. “Eclipse of the Public Corporation” HBR Reprint #89504

B. Topics
   1. Agency costs of equity and debt
   2. An agency theory of capital structure
   3. Large shareholders and monitoring
   4. Debt as a bonding mechanism
   5. The LBO considered
   6. In Practice: Governance and incentives

C. Case Study: “Kinder Morgan, Inc. – Management Buyout” Case #5-209-075

D. Additional Reading
   1. Demsetz (1983)
   2. Fama and Jensen (1983)
Session 6. Agency Problems and Corporate Finance - Continued

A. Required Reading

B. Topics
   1. Boundaries of the firm and optimal firm size: markets vs. hierarchies
   2. The rise of the modern corporation
   3. The entrepreneur’s role in the growth and development of an industry

C. Case Study: “The Management of Berkshire Hathaway” Case #CG16-PDF-ENG

D. Additional Reading
   1. The Visible Hand, Chandler (1977)
   2. Jensen and Meckling (1992)
   4. Markets and Hierarchies, Williamson (1975)

Session 7. Real Options

A. Required Reading
   1. Berk and DeMarzo – Ch. 22 “Real Options”
   2. “The Options Approach to Capital Investment” HBR Reprint #95303

B. Topics
   1. Review of basic option pricing theory
   2. Identifying real options
   3. Implications of real options on the traditional valuation of enterprises
   4. Potential approaches to valuation
   5. In Practice: Practical considerations when valuing real options

C. Case Study: “MW Petroleum Corporation (A)” Case #9-295-029

D. Additional Reading
   1. Berk and DeMarzo – Ch. 20 “Financial Options”
   2. Berk and DeMarzo – Ch. 21 “Option Valuation”
4. Black and Scholes (1973)
5. Dixit and Pinkdyck (1994)

Session 8. The Market for Corporate Control

A. Required Reading
   1. Berk and DeMarzo – Ch. 28 “Mergers and Acquisitions”

B. Topics
   1. Control premia in takeovers
   2. Value creation in M&A
   3. Division of gains

C. Case Study: “Dow’s Bid for Rohm and Haas” Case #9-211-020

D. Additional Reading

Session 9. Debt Markets and Highly Leveraged Transactions

A. Required Reading
   1. Berk and DeMarzo – Ch. 24 “Debt Financing”
   2. Sample bank term sheet
   3. Overview of public vs. private high yield terms

B. Topics
   1. Banks vs. bonds
   2. Trends in syndication
   3. In Practice: Overview of provisions in a credit term sheet
C. Case Study: “Dressen” Case #9-200-041

D. Additional Reading
2. Smith (1990)
4. Smith and Warner (1979)
5. Warner (1977)

Session 10. Initial Public Offerings

A. Required Reading
1. Berk and DeMarzo Ch. 23 “Raising Capital”

B. Topics
1. When is a company ready for an IPO?
2. In Practice: The IPO process
3. IPO-related anomalies

C. Case Study: “Knoll Furniture: Going Public” Case #9-202-114

D. Additional Reading
1. Ritter (1991)

Session 11. The Board of Directors and the Fairness Opinion

A. Required Reading
1. Berk and DeMarzo - Ch. 29 “Corporate Governance”

B. Topics
1. Duties of a board of directors
2. The fairness opinion and related analysis
3. Recap of practical considerations in corporate finance
C. Case Study: “Canadian Pacific’s Bid for Norfolk Southern” Case #9-216-057

Session 12. Special Advanced Topic: Venture Capital and Private Equity

A. Required Reading

B. Topics
   1. Persistence in PE/VC returns
   2. Application of advanced corporate finance topics to PE/VC

C. Case Study: “Weston-Presidio Offshore Capital: Confronting the Fundraising Challenge” Case #9-296-055

D. Additional Reading
References


