

ADVANCED CORPORATE FINANCE

University of Amsterdam

Business School

Spring 2009

Instructors:

Enrique Schroth (ES, coordinator)
Christel Karsten (CK)
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Office:

E 4.21
E.4.33
E 4.28
E 4.30
E.4.29

Office hours:

By appointment
By appointment
By appointment
By appointment
By appointment

Objective:

The aim of this course is to provide an in-depth understanding of the tools and concepts of modern corporate finance. Starting from the unifying principles of value maximization and the law of one price, we discuss how successful organizations value and identify profitable investment opportunities, manage their capital structures, and create shareholder value. Some of the topics covered during the course include: capital budgeting and valuation methodology, managing and valuing real options, the choice between debt and equity, managerial incentives and executive compensation, mergers & acquisitions, restructuring, initial public and seasoned equity offerings, and, time permitting, corporate governance. Our discussion of the key concepts of corporate finance will be illustrated with real-world business cases and complemented by guest lectures from the industry.

Prerequisites:

- Corporate Finance (Financiering basisvak): required
- Investment and Portfolio Theory: strongly recommended
- Questions regarding course and exam registration should be addressed to the study administration ("Onderwijsadministratie"), office E 1.15.

Time and Venue:

Lecture: Tuesdays, 15.00-16.30, in B 2.28 (ES)

Tutorial Group 1: Thursdays, 13.00-14.30, in E 0.03 (CK/RI/ZS/RV/ES)

Tutorial Group 2: Thursdays, 15.00-16.30, in E 0.03 (CK/RI/ZS/RV/ES)

Tutorial Group 3: Fridays, 13.00-14.30, in A 1.02 (CK/RI/ZS/RV/ES)

Tutorial Group 4: Fridays, 15.00-16:30, in A 1.02 (CK/RI/ZS/RV/ES)

Working Language:

The working language for all matters concerning this course is English.

Course Material:

- Textbook: Berk, Jonathan and Peter DeMarzo (BdM): *Corporate Finance*, Pearson International Edition
- Selected research articles: distributed via Blackboard course site
- Case reader
- Additional course material (lecture notes, problem sets, case questions) will be distributed via the Blackboard course site.

Grading:

- The final grade for this course will be based on a written final exam, case studies, and presentation of a case solution.
- To pass the course you must have a grade of at least 5.0 in the final exam. If your grade in the final exam is 5.0 or better your final grade will be determined by a weighted average of your final exam grade (60%) and your grade for the cases (40%)
- In addition, you may receive a bonus of half a grade (+0.5) to your final grade if you present a case solution in class (see below).

Cases:

- You must hand in written case discussions for three out of the following four cases included in the case reader: *Marriott Corporation*, *Massey Ferguson Corporation*, *Vodafone-Mannesmann*, and *Marvel Entertainment*. The other cases included in the reader (*Arundel Partners*, *Level 3*, and *Perrier & Nestle*) will be discussed in class only. *All case material is exam relevant.*
- Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find sorting through this complexity and ambiguity to be frustrating. The case questions you will have to provide answers to may not have one and only one correct answer. However, there will generally be a set of insights and solutions that are better than others. And it is in working through the messy details to find these insights and solutions – both in your own preparation and in class discussion – that the concepts and principles introduced in the readings and lectures will come alive and be enriched for you.
- You should prepare case discussions in teams of *no more than five* people. Do not forget to list the names (in alphabetical order) and student numbers of all your group members on the title page of your solution. Do not use nicknames.
- Please hand in a *printout* of your solution before the deadline (we cannot accept handwritten solutions). The deadline will be announced at the Blackboard course site (venue: E building, 4th floor, mailbox secretary). *Deadlines are strictly binding.* Do not e-mail solutions.
- For each case, no more than two groups will have the opportunity to present their solutions in class. A good presentation will be rewarded with a bonus of 0.5 to your final grade. You cannot give more than one case presentation. **Slots are allocated on a first-come first-serve basis** (send an e-mail to enrique.schroth@uva.nl, stating the preferable date of your presentation, and names (and student numbers) of the members of your group in alphabetical order).

- You may not discuss a case or consult notes on a case with students who have taken the class previously (for example, in a prior year). Any violation of this rule will result in exclusion from the course. We will regularly check case solutions for plagiarism.
- Should you have the feeling that one of your group members is free-riding on the efforts of the rest of the group, please feel free to contact the course coordinator, who will then discuss this matter with the person in question.

Final Exam:

- Exam schedules are online at: <http://www.feb.uva.nl/roosters>
- The exam will be closed book and closed notes.
- You will be allowed to use a pocket calculator (but you need to bring your own!).

Course Schedule

Review readings:

- BdM, chapters 1 to 6

Weeks of February 3, 10 and 17 (Weeks 1 to 3)

Lecture: Valuation and Capital Budgeting: DCF, APV & WACC

Tutorial: Exercises (RI)

Readings: BdM chapter 7, Fundamentals of Capital Budgeting

BdM chapter 8, Valuing Bonds

BdM chapter 9, Valuing Stocks

BdM chapter 10, The Risk and Return Tradeoff

Week of February 24 (Week 4)

Lecture: Real Options

Tutorial: **Case: Marriott Corporation (RI/ZS)**

Readings: BdM chapter 22: Real Options

Case: Arundel Partners

Week of March 3 (Week 5)

Lecture: Capital Structure I

Tutorial: Exercises (ZS)

Readings: BdM chapter 14, Capital Structure in a Perfect Market

BdM chapter 15, Debt and Taxes

Week of March 10 (Week 6)

Lecture: Capital Structure II

Tutorial: Exercises (ES)

Readings: BdM chapter 16, Financial Distress, Managerial Incentives and Information

Week of March 17 (Week 7)

Lecture: Capital Structure III

Tutorial: **Case: Massey-Ferguson (ES/CK)**

Tutorial: Exercises (ES/CK)

Readings: BdM chapter 16, Financial Distress, Managerial Incentives and Information

Weeks of March 24 and 31: exam period**Week of April 7 (Week 8)**

Lecture: Managerial Incentives & Executive Compensation

Tutorial: Exercises (ES)

Readings: BdM chapter 16, Financial Distress, Managerial Incentives and Information

Hall/Murphy (2003). The Trouble with Stock Options. *Journal of Economic Perspectives*

Case: Level 3

Week of April 14 (Week 9)

Lecture: Mergers and Acquisitions

Tutorial: Exercises (ES/CK)

Readings: BdM chapter 28, Mergers and Acquisitions

Week of April 21 (Week 10)

Lecture: Corporate Restructuring

Tutorial: **Case: Vodafone-Mannesmann (SA)**

Readings: BdM chapter 28, Mergers and Acquisitions

Weston/Mitchell/Mulherin (2003), Takeovers, Restructuring, and Corporate Governance, chapters 11-13

Week of April 28 (Week 11)

Lecture: Distinguished Guest Lecture (Dennis Jullens, UBS)

Tutorial: *no tutorials this week*

Week of May 5 (Week 12)

Lecture: *no lecture this week*

Tutorial: Exercises (RV/CK)

Week of May 12 (Week 13)

Lecture: Securities Issuing

Tutorial: **Case: Marvel Entertainment Group (RV)**

Readings: BdM chapter 23, The Mechanics of Raising Equity Capital

BdM chapter 24, Debt Financing

Ritter (2003), Investment Banking and Security Issuance

Week of May 19 (Week 14)

Lecture: Corporate Governance

Tutorial: no *tutorials this week*

Readings: BdM chapter 29, Corporate Governance

Becht/Bolton/Roell (2003), Corporate Governance and Control

Case: Perrier-Nestle

Week of May 26 (Week 15)

Lecture: Distinguished Guest Lecture: tba

Tutorial: Exercises, Q&A (RV)