

VANDERBILT UNIVERSITY
Owen Graduate School of Management
Corporate Value Management
Course Syllabus

MGMT 432A (Fall 2004, Mod I)
Tel: 322-2626; Fax: 343-7177

Professor Craig Lewis
craig.lewis@owen.vanderbilt.edu

Course Objectives

This course develops analytical tools used in corporate finance and is intended to enhance your confidence, skill and sophistication in applying these tools to more realistic case study problems. Current theoretical developments and empirical findings are also covered. Case study assignments are designed to improve your effective use of accounting and other economic data for asset valuation and optimal corporate finance decisions.

The course consists of approximately equal numbers of lectures and cases. Lectures will cover company valuation, capital structure decisions, and valuing real options. Cases are integrated throughout the course to reinforce and clarify major topics.

Prerequisite

The prerequisite for this course is Managerial Finance (MGMT 331).

Case Reports/Presentations

There will be six assigned cases and one group project. The questions for these cases and the group project will be given to you at least a week in advance. You need to form a case group of four students. Groups will present one case each and a few groups will also present their group valuation project on Wednesday, October 6. Each presenting group will have 20 minutes to present their case analysis. The presentation should include an outline of the main issues, address the assigned case questions, and suggest specific recommendations supported by a thorough analysis. The presentation must briefly mention the assumptions, the justifications for making these assumptions, and specify any additional data needed to arrive at conclusions. Copies of your case analysis should also be left in my mailbox by 10:00 P.M. the day prior to the scheduled presentation.

The case presentations will be graded based on form, content and handling of the questions from other students. Following the case presentation, students will have an opportunity to discuss the case in further detail, including critiquing the analysis and recommendations of the presenters and offering alternative solutions. I will attempt to bring some clarity to the problem and to suggest alternative solutions.

The presenting and non-presenting groups must respectively prepare a typed case report of at most 5 and 2 pages of text (double spaced, font size 11 pt or higher) excluding the cover sheet and at most 5 pages of exhibits, tables and figures. Both reports should outline the main issues, address the assigned case questions, and suggest specific recommendations supported by a thorough analysis. The report must clearly state the assumptions and the justifications for making these assumptions, and specify any additional data needed to arrive at conclusions. The case reports will be graded based on both form and content.

All students should come to class prepared to discuss the case being presented, the assigned readings, and any relevant lecture material. If a student is not prepared to participate, he/she should alert me prior to class.

Group Project Report/Presentation

Your case group will be required to value the equity of a publicly traded company as a course project. This project utilizes the concepts that we cover during the course. Assigned questions for the project will be given to you at the beginning of the course.

Each group must email me the name of the company and the ticker symbol on Wednesday, September 15th by 5 P.M. Each group must also prepare a typed project report of at most 5 pages of text (double spaced, font size 11 pt or higher) excluding the cover sheet and at most 10 pages of exhibits, tables and figures and leave it in my mailbox by 1:00 P.M. on Tuesday, October 5th. The report should outline the main issues, address the assigned questions, and suggest specific recommendations supported by a thorough analysis. The project report must clearly state the assumptions and the justifications for making these assumptions. The project reports will be graded based on both form and content.

Peer Evaluation

At the end of the course, you will have the opportunity to grade the extent to which the other members of your group contributed to your learning and/or the group's performance on the cases and case presentations. In this form, you will assign an average of 5 points to each of the other members of your group. For example, if you were part of a four-person group, you evaluate the other three members (not yourself) and you will assign a total of 15 points among them. In other words, the feasible range for your peer evaluation score is 0-15 points.

Final Exam

There will be an open book final exam. It will require you to value a firm that recently went public using an information packet that I will make available on October 6th.

Grading

Class Participation	20%
Two-Page Case Reports [5]	20%
Case Presentations [1]	20%
Group Valuation Project [1]	20%
Final Exam	20%

Honor Code

First, some cases and problem sets in this course have been used before at Owen. Do not consult with students who have used these cases or use their notes, or other materials they developed in analyzing these cases. Second, evaluations and critiques found in books or articles from the business press concerning the corporate actions described in these cases are not to be used in your case preparation. However, public information available prior to the decision point in the case can be used. Finally, problem sets may be discussed only within your case group, but each student is responsible for their own individual write up of solutions to the assigned problems. I will treat the use of any prohibited information source or a departure from the above guidelines as a violation of the Owen Honor Code.

Withdrawal from the course

As per the guidelines of the academic administration at Owen, withdrawal from the course is permitted only before 5 P.M. on Thursday, August 26th. I plan to adhere to these guidelines and I do not intend making any exceptions since late withdrawal from the course creates negative externalities to other members of the group.

Required Texts

Brealey, R. and S. Myers. Principles of Corporate Finance, 6th ed., McGraw Hill, 2000. ISBN 0-072-512601

Copeland, T., T. Koller and J. Murrin. Valuation: Measuring and Managing the Value of Companies 3rd ed., John Wiley, 2000. ISBN 0-471-36191-7

Packet Cases

Recommended Texts

Benninga, Simon and Odeed Sarig. Corporate Finance: A Valuation Approach, McGraw-Hill, 1997.

Damodaran, Aswath. Damodaran on Valuation: Security Analysis for Investment and Corporate Finance, John Wiley, 1994.

Fridson, Martin. Financial Statement Analysis: A Practitioner's Guide 2nd ed., John Wiley, 1996.

Higgins, Robert. Analysis for Financial Management 5th ed., Irwin-McGraw-Hill, 1998.

Palepu, Krishna, Victor Bernard and Paul Healy. Introduction to Business Analysis & Valuation, South-Western, 1997.

Stewart, Bennett III. The Quest for Value: A Guide for Senior Managers, Harper Business, 1991.

Course Outline

Topic I. Valuation by Multiples (1 Lecture and 1 Case)

Copeland-Koller-Murrin, 2000, Chapter 1 and 3.

Brealey-Myers, 6th ed. 2000, Chapter 6.

Kim M. and J.R. Ritter, "Valuing IPOs," *Journal of Financial Economics*, v53, 1999, 409-438.

Lie, E. and H. Lie, "Multiples Used to Estimate Corporate Value," *Financial Analysts Journal*, v58, 2002, 44-54.

Trueman, B., J.H.F. Wong, and X. Zhang, "The Eyeballs Have It: Searching for the Value in the Internet Stocks," *Journal of Accounting Research*, v.38, 2000, 137-162.

HBS Case: ARCH Communications Group Inc, HBS 9-197-047

Topic II. The Determinants of Value (1 Lecture)

Copeland-Koller-Murrin, 3rd edition, 2000, Chapter 1.

Bernard, V. L., J. K. Thomas, and J. S. Abarbanell. "How Sophisticated Is the Market in Interpreting Earnings News?" *Journal of Applied Corporate Finance*, Summer 1993, 54-63.

Rendleman, R., P. Jones, and A. Latane. "Empirical Anomalies Based on Unexpected Earnings and the Importance of Risk Adjustments," *Journal of Financial Economics*, v10, 269-288.

Topic III. The Cost of Capital (1 Lecture and 1 Case)

Copeland-Koller-Murrin, 3rd edition, 2000, Chapter 10 and 14.

HBS Case Note: Leveraged Betas and the Cost of Equity, HBS 9-288-036.

CASE: Marriott Corporation: The Cost of Capital, HBS 9-289-047.

Topic IV. Forecasting and Valuing Free Cash Flows (2 Lectures and 2 Cases)

Copeland-Koller-Murrin, 3rd edition, 2000, Chapter 7 (111-125), Chapter 8 (131-146), Chapter 9 (157-176), Chapter 11 (233-249), Chapter 12 (267-285), and Chapter 13 (289-294)

Tully, S. "The Real Key to Creating Wealth." *Fortune* September 20, 1993, 30-50.

Kaplan, S. and R. Ruback, "The Valuation of Cash Flow Forecasts: An Empirical Analysis", *Journal of Finance* (September 1995), 1059-1093.

CASES: Pinkerton (A), HBS 9-291-051
Nova Chemical Corporation, HBS 9-290-059

Topic V. Optimal Capital Structure and Adjusted Present Value (1 Lecture and 1 Case)

Brealey-Myers, 6th edition, 1999, Chapter 17 (473-488), and Chapter 18 (499-516, 522-528) and Chapter 19 (555-563).

Copeland-Koller-Murrin, 3rd edition, 2000, Chapter 8 (146-150).

Luehrman, T., "Using APV: A Better Toll for Valuing Operations," *Harvard Business Review* (May-June 1997).

Miller, M. "Debt and Taxes," *Journal of Finance* (May 1977), 261-276.

DeAngelo, H. and R. Masulis. "Optimal Capital Structure Under Corporate and Personal Taxation." *Journal of Financial Economics* (March 1980), 3-29.

CASE: American Home Products, HBS 9-283-065.

Topic VI. Option Pricing Applications in Corporate Finance (1 Lecture and 1 Case)

Brealey-Myers, 6th edition, 1999, Chapter 20 (601-608), and Chapter 21 (619-628).

Copeland-Koller-Murrin, 3rd edition, 2000, Chapter 20 (399-423).

Trigeorgis, L. "Real Options and Interactions with Financial Flexibility." *Financial Management* (Autumn 1993).

CASE: Arundel Partners, HBS 9-292-140.

Topic VII. Group Project Presentations

CORPORATE VALUE MANAGEMENT

CLASS SCHEDULE

Lecture	Date	Topics
1	Mon, Aug 23	Valuation by Multiples
2	Wed, Aug 25	Determinants of Value Names of group members via email by 5 PM today
3	Mon, Aug 30	Case 1: ARCH communications – Valuation by Multiples
4	Wed, Sep 1	Costs of Capital
5	Mon, Sep 6	Case 2: Marriott Corporation – The Cost of Capital
6	Wed, Sep 8	Forecasting and Valuing Free Cash Flows – Lecture 1
7	Mon, Sep 13	Case 3: Pinkerton (A) – Valuation & Forecasting
8	Wed, Sep 15	Forecasting and Valuing Free Cash Flows – Lecture 2 Company name for group project due by 5PM today
9	Mon, Sep 20	Case 4: Nova Chemical Corporation – Valuation & Forecasting
10	Wed, Sep 22	Capital Structure and Adjusted Present Value (APV)
11	Mon, Sep 27	Case 5: American Home Products – Capital Structure
12	Wed, Sep 29	Pricing Applications (Real Options)
13	Mon, Oct 4	Case 6: Arundel Partners – Real Options
14	Wed, Oct 6	Group Project Presentations