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**

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation</td>
<td>20%</td>
</tr>
<tr>
<td>Two-Page Case Reports [5]</td>
<td>20%</td>
</tr>
<tr>
<td>Case Presentations [1]</td>
<td>20%</td>
</tr>
<tr>
<td>Group Valuation Project [1]</td>
<td>20%</td>
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<tr>
<td>Final Exam</td>
<td>20%</td>
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</tbody>
</table>
**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**


Packet Cases

**Recommended Texts**


Course Outline

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

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


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

Topic II. The Determinants of Value (1 Lecture)


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


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


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)


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).


**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).


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

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