Course Materials:

1. Course Packets: These contain the cases that will be used in the course as well as articles that will help you prepare for cases and class lectures. The packet costs about $85 but there is no required textbook.

2. Class Handouts and/or Canvas Postings: Throughout the class I will be giving you handouts of additional readings, notes that relate to the lectures, problem sets, and case assignments. These will generally be on Canvas Resources page if not handed out in class (and even if handed out in class). Some are articles and some are personal notes. Powerpoint notes are generally handed out in class as well as posted online.

3. Your prior Intro textbooks can be used as additional reference materials.

4. Knowledge of Basic Valuation techniques is assumed, though I will endeavor to not make this a “valuation course.”

Course Overview:

This course reviews and applies material taught in the intro Finance courses and introduces the student to additional more advanced financial theory and its applications through the use of cases, lectures and discussions. The classes will be mostly lectures/discussions with a four or five cases strategically discussed as well. Spreadsheets are essential for some of the cases. You will need to be comfortable working with spreadsheets.

The course objective is:

To introduce students to financial theory, building upon prior coursework, that is used to make financial decisions and that will help students to understand the effects of corporate level financial decisions.
Cases:

1. Selection: The cases we will discuss in class are real companies and real situations. Hopefully, this will give you a feel for the difficulties of real world decision making as opposed to solving problems assigned by an instructor (as useful as this may be). Some of the cases involve situations from a number of years back, but the concepts are still just as applicable.

2. Using Cases in the classroom: For the most part, I intend to approach the cases using something akin to the Harvard Case teaching method. I ask questions and you provide answers! It is then my job to further demonstrate some general points that can be drawn from each case. You should always be prepared to discuss any aspect of the case at hand! Your participation in case discussions will influence your course participation grade.

3. Some cases will require extensive write-ups. For cases requiring a write-up I will give you some questions to answer and a page limit to answer them in. For some cases, there is a reasonable amount of number cranking. In such cases, I generally encourage statistical exhibits and tables. I generally put no limit on the number of tables and exhibits. Case write-ups should always include the assumptions underlying the analysis. Assumptions can often be incorporated into tables and exhibits. In some cases, there is no “right” answer. For any answer that is chosen, however, there are good justifications that are grounded in financial theory or good economic reasoning. Also, your answers should be consistent with your assumptions. There will be three extensive case write-ups.

Not all cases will require a major write-up. One Case will be related to a short problem set and for one other case I will give you questions for discussion only (Humana).

Grading

1. Group Assignments: 55%

Three extensive case write-ups and one shorter problem set assignment. The questions will be distributed on the class website. The due date will also be clearly denoted on each case.

**Assignment grading policy:** Cases and problem sets are to be done in groups of 4 or 5. You can form your own groups. You should give me your group pairings by the end of this week. **There will always be one-week notification of an assignment. Late assignments are not accepted.** I will also adjust group case and problem set grades based on peer evaluations! **Beyond the first assignment (probably due in 3rd week), the timing and exact topic will depend on the speed with which we move through syllabus. YOU WILL ALWAYS HAVE ONE WEEK NOTICE BEFORE ASSIGNMENTS ARE DUE.**
NOTE: At the end of the course, I will ask you to do a confidential peer evaluation of group members. If all members are equally pulling their weight, then each should be given an equal weight. In some groups, however, there may be free-riders. I reserve the right to increase or decrease the grades associated with group work on the basis of these peer evaluations. One poor opinion of a peer member is not sufficient to make me alter grade levels.

2. Individual Course Participation: 5%

I am not looking for fine distinctions here. Most people will simply get 70 on a scale of 100. Higher grades are reserved for those (usually a small number of students) that make frequent and insightful commentary with respect to class and case discussion. Lower grades are reserved for those who simply don’t show up and when present have nothing of importance to say.

3. Final exam: 40% (see grad school schedule for date)

This gives me a chance to look at an independent effort on your part. To reduce stress, I generally post sample questions as the exam draws near and if you work through those you should improve your performance. You will have a cheat sheet for the final to be discussed at that time.

Topic Coverage:

1. When Financing Decisions matter and when they don’t

   Reading: “Dispelling Some Financing Myths” (Course Packet)
   Financing Growth Firms (Cornell and Shapiro) (Course Packet)

   Case: Humana: Managing Change in a Changing Industry (Packet)
   For class discussion only on January 10, 2017

2. The Credibility Gap and Pecking Order Theory of Finance for seasoned firms

   This section discusses the problem of trying to issue information sensitive securities like equity when managers are better informed than outside investors. What are the costs of issuing seasoned equity and how can those costs be minimized? The fallout is a tendency of managers to rely on internal sources of financing and debt rather than equity.

   Reading: Seasoned Equity Offerings and Asymmetric Information (course packet)
   Case: Radio One (Course Packet)
3. Costs of Debt Financing and Loan Evaluation

Financial distress costs and how to minimize them are discussed. In the process we examine the factors that go into acquiring a bank loan for firms that have some degree of uncertainty in their future.

   Financial Distress costs (Course Packet note)
   Arnold: You Can’t Be Too Conservative (Course packet)
   Bank Loans: Harvard Note (Course packet)
   Case: Redhook Ale (Course Packet)


Discusses primarily the magnitude of tax benefits from debt financing and how to obtain those benefits while minimize distress costs. Conclude by discussing how those tax benefits are weighed off against distress costs to roughly ascertain an “optimal leverage ratio” or debt rating.

   Additional Notes on tax benefits (to be posted on Canvas)
   MIPS, QUIPs, and TOPrs: Old Wine in New Bottles (Packet)
   Follow up note to Canvas on Trust Preferred Securities
   Designing Capital Structure to Create Value (Packet)
   Case: Diageo PLC (Packet)

5. Resolution of Financial Distress in Bankruptcy

This gets into the specifics of the bankruptcy process with a nice illustrative case. The rules and possible outcomes in bankruptcy are important because they determine the bargaining positions outside of bankruptcy when it comes to debt restructuring.

   Chapter 7: The Resolution of Financial Distress (Packet)
   Case: Cumberland Worldwide (Packet)

6. Leasing

What are costs and benefits of leasing relative to buying with conventional debt financing. A key, but not the only, issue is maximizing tax benefits from accelerated depreciation on equipment.

   Additional Notes (to be posted on Canvas)
7. Early Stage Business Financing: Venture Capital, IPOs, and convertibles

Early Stage Businesses face the greatest asymmetries of information between investors and those seeking financing and the greatest need to properly incentivize entrepreneurs. How Start-ups are financed and the ensuing use of IPOs by some firms is examined. Among the questions addressed is why are IPOs underpriced (New Issues typically go up 10% or so on the first day of trading). Also, why are IPOs becoming relatively rare?

Sahlman, Aspects of Financial Contracting in Venture Capital (Packet)
Initial Public Offerings, Lindquist (Packet)
Statistics on IPOs and Underpricing (to be placed on Canvas or class handout)

8. Payout Policy

Pros and Cons of dividends versus share repurchases (may combine with Topic 9)

FPL: Dividend Cut Heard Around the World
Canvas handout

9. Risk Management and Liquidity (Flex Topic)

Why manage risk and how to maintain corporate liquidity so as to be able to fund corporate activities. A related question is does it make sense to stockpile cash?

Are US Companies Really holding that Much Cash? (Packet)
Introduction to Derivatives (Packet)
A Framework for Risk Management (Packet)