

NEW YORK UNIVERSITY
Stern School of Business
B40.2302.91 – Corporate Finance

Professor Anjolein Schmeits
E-mail: aschmeit@stern.nyu.edu
Office hours: Wednesdays 5:00 - 6:00 p.m.

Office: KMC 9-83
Phone: (212) 998-0370
Fax: (212) 995-4233

1 Course Description and Objectives

This course addresses a broad range of issues faced by corporate financial managers. We analyze the core financial decisions made by firms – the investment decision and the financing decision – and their impact on the valuation of the firm in the financial market. Topics that will be covered are: financial planning and forecasting, corporate investments and capital budgeting (including real options), capital structure and financial contracting, dividend policy, IPOs and corporate restructurings.

The course builds on the main concepts taught in Foundations of Finance and the core accounting course, and is designed to provide you with an opportunity to apply the theory learned over time to real-world problems in corporate finance. You will be actively engaged in case analysis and decision-making. This enables you to develop: (i) the ability to identify financial problems and opportunities; (ii) the ability to analyze such situations and identify alternative courses of action; (iii) the ability to defend alternative choices and recommend, support and defend the best course of action; and (iv) a richer appreciation for the theory of finance with respect to both its value and its limitations.

The class meets on Wednesdays from 6:00 p.m. – 9:00 p.m. in W-1038 (Westchester).

2 Course Materials

The required textbook for the course is:

Principles of Corporate Finance, by Richard A. Brealey, Stewart C. Myers, and Franklin Allen, 8th edition, Irwin McGraw-Hill, 2006. Henceforth, this book will be referred to as BMA.

There is also a required course packet, which contains Harvard cases and a selection of readings. The course packet is available at the NYU Campus Bookstore. Finally, there will be lecture notes and handouts for most classes. These materials will be distributed in class, and they will also be available at Blackboard.

3 Course Design, Requirements and Grading

Since this course is heavily case-based, it requires maximum involvement, participation and sharing of ideas on the part of all students. The cases will be taught through interactive class discussion. The success of this method of instruction critically depends on the degree of preparation by class participants. I therefore expect you to attend each class and to be well prepared for each case. This will not only determine your grade, but

also how much you learn. You are expected to actively participate in class. When called upon, you should not only be prepared to present your own point of view, but you should also be able to think on your feet and to comment constructively on alternative views. As an instructor, I will guide the class discussion by bringing up issues that merit further attention, and by relating the case to the topics and concepts central in the course. The conceptual part of the course will have the format of lectures.

Your grade for the course will be determined by 5 case assignments (see below), a midterm exam, a final exam and class participation. The cases are group assignments. Since a group approach to the case assignments is subject to the free-rider problem, I reserve the right to assign part of the grade for the case assignments to peer review. The composition of the final grade is as follows:

<i>Assignments</i>	<i>Percentage of Final Grade</i>
Case Reports (5)	30%
Class participation	10%
Midterm exam	15% or 25%
Final exam	35% or 45%

Your total grade will weigh the final exam more heavily if you do better on the final than on the midterm exam. That is, your final score in the class will be determined using the following formula:

$$\text{Final score} = 0.30 \times (\text{score case reports}) + 0.10 \times (\text{score class participation}) + \text{Max} \{0.15 \times \text{midterm exam score} + 0.45 \times \text{final exam score}, 0.25 \times \text{midterm exam score} + 0.35 \times \text{final exam score}\}$$

There will be no make-up exams, so please mark the following dates in your calendar:

Midterm exam: Wednesday, October 31 (in-class)
 Final exam: Wednesday, December 19 (in-class)

Following the Stern departmental guidelines, all corporate finance sections will be graded on a curve with the following (approximate) grade distribution: A (10%), A- (10-15%), B+ (10%), B/B- (50-60%), C+/C/C- (10-15%), and D/F (0-10%).

4 Suggestions for the Preparation of Case Classes

For each case in your course packet a list of questions will be posted to help guide and focus your analysis. These questions are not meant to be comprehensive. Your analysis therefore should not be limited to answering these questions. In general, the following suggestions apply to the case preparation:

1. Determine the major problems and/or opportunities in a case (“*main issues*”). Critically evaluate the information provided in the case.

2. Think of and search for alternative courses of action and/or methods of analysis, and motivate your *approach*. Consult reference texts or other references pertinent to the problem(s) you have identified, if necessary. You should be able to provide references for all sources used. Clearly describe any assumptions you make in your analysis and discuss their plausibility.
3. *Analyze* and *evaluate* the alternatives, considering both the strengths and the weaknesses of each alternative. Keep in mind both the condition of the firm itself and the status of its competitors.
4. Decide what your specific *recommendation* is to be and fully develop the logic supporting your recommendation. Do not attempt to hedge your bets or be wishy-washy. Failure to come up with or to back up a specific recommendation will be viewed negatively.

5 Further Details on Group Case Assignments

The class will be organized in groups. I would like you to form groups of 5-6 students and to e-mail me the names of group members by the second week of class.

For each of the 5 case assignments, each group must hand in a written case analysis (“case report”). All group members are responsible for the full content of the case analysis. The case reports should be thorough, but concise, and should reflect the structure of analysis described above. They should be written in essay form, *not* in the form of individually answering the questions that accompany the case. In particular, your case reports should start with an executive summary (one paragraph), which describes the case setting, background situation, the main question and your answer to that question (your recommendation). The remainder of the report should provide the logic supporting your recommendation and also address other issues relevant to the case. Finally, you should provide exhibits, references and other supporting details.

Each case report can not exceed 2 pages of type-written text (one-sided, and in a readable font), excluding exhibits. The maximum number of pages *including* exhibits and/or numerical analysis is 5. The group assignments are due at the beginning of the class in which the case is covered. Please note that case reports should satisfy *all* of these requirements in order to be graded. For all cases, I will provide you with a spreadsheet that can be used as a basis for your analysis, and for some cases I may provide you with more focused case questions. Additional information on assignments will be given to you well in advance of the due date.

6 Honor Code

This course will be conducted according to the rules specified in the “Stern Honor Code”, which mandates zero tolerance for academic dishonesty. You are expected to be familiar with the School’s Honor Code and to follow the procedures outlined therein. All discussions about case assignments are to be limited to your group. Materials like case reports from other students, previous years or other courses or other publicized information on cases are not to be consulted. All work handed in for grading has to be your own or your group’s, and all sources of information used have to be accounted for. Each assignment should include a signed statement indicating adherence to the Stern Honor Code.

7 Blackboard

Class handouts and additional course material not included in the course packet or textbook will be posted at Blackboard. I will also post copies of e-mails that I send out to the class at this site. This material is password-protected. You will be provided with Blackboard access to the course by the first day of class. Please check this system on a regular basis in order to remain updated.

8 Assistance

If you have any questions or need individual assistance, you can stop by during my office hours on Wednesdays from 5:00 - 6:00 p.m., or you can call or e-mail me to make an appointment to see me at another mutually convenient time.

9 Tentative Course Outline

Fall 2007

The following class schedule may be adjusted as the class progresses. I will let you know of any changes ahead of time.

Date	Topic	Background Readings
09/26	Introduction to the Course Corporate Objective and Introduction to Valuation Determination of Free Cash Flows <u>Case:</u> Clarkson Lumber Company	BMA 2.1, 2.3, 3, 4, 6.1-6.2 BMA 29
10/03	Overview Capital Budgeting Techniques Valuing Flexibility in Investment Projects <u>Case:</u> Merck & Company: Evaluating a Drug Licensing Opportunity	BMA 5, 6.3-6.4, 10, 21.2-21.3, 22
10/10	<u>Case:</u> The Super Project Risk, Return and Discount Rates (Review)	BMA 5, 6.1-6.2, 12.1-12.4 BMA 7, 8, 9
10/17	Determining the Correct Discount Rate for Firm and Project Valuations	BMA 9, 17 The Corporate Uses of Beta
10/24	<u>Case:</u> Marriott Corporation: Cost of Capital (Abridged) Introduction to Capital Structure	BMA 9 BMA 17, 18.1-18.3
10/31	Midterm exam Capital Structure and Payout Policy	BMA 18.1-18.3

11/07	Capital Structure and Payout Policy Valuation and Leverage (APV versus WACC)	BMA 16, 18.4 BMA 19
11/14	Determining a Target Capital Structure Estimating Leverage Related Benefits and Costs <u>Case</u> : UST	BMA 18.1-18.3, BMA 24.2-24.3
11/28	Valuation and Leverage (APV versus WACC) Financial Contracting: Warrants and Convertibles	BMA 19 Note on Adjusted Present Value BMA 25.5-25.6 The Case for Convertibles
12/05	Designing a Comprehensive Financial Policy <u>Case</u> : MCI Communications Corporation	BMA 25.5-25.6
12/12	Mergers and Acquisitions Firm Valuation (Multiples versus DCF) <u>Case</u> : Interco Course Wrap Up and Review	BMA 32
12/19	Final Exam	