

STERN SCHOOL OF BUSINESS

TOPICS IN CORPORATE FINANCE (B40.3160) FALL 2009

APPLICATIONS OF CORPORATE FINANCE THEORY IN THE REAL WORLD

COURSE DESCRIPTION:

This 6-week course is designed to show students that corporate finance theory can be taken out of the ivory tower and be used to make practical real-world corporate financial strategy decisions. The approach will be to couple the theory with some handy analytical tools and incorporate practical considerations and constraints that many companies face (or impose on themselves). We will study a specific set of important financial decisions that corporate treasurers or chief financial officers are often asked to make.

SYLLABUS

The following is a (preliminary) set of issues that we will cover:

- 1) What really drives corporate bond ratings? What measurable factors are closely linked to the observed credit ratings in various industries?
- 2) How can a company's debt portfolio be structured to best manage its interest rate risk? How much fixed vs. floating rate debt is appropriate? What maturity profile is appropriate?
- 3) The recent economic and financial crises have created havoc in many financial markets. In particular, equity market volatility has significantly increased. How has this increase in volatility impacted the hurdle rates that corporations should use to make investment decisions and allocate capital? Can we develop a cost of capital model that is more explicitly sensitive to higher volatility than traditional models such as CAPM and DCF?
- 4) What are the appropriate criteria for a company to use in allocating capital to its international investments?
- 5) What are the important drivers of shareholder value? What is the theory and what is the empirical evidence? In the "brave new world" of significant government intervention, what might be different going forward? A case study of a consumer products company will serve as the backdrop for this discussion.
- 6) What are the theoretical and practical advantages of equity-linked (e.g., convertible) financing? What are the cost of capital and financial flexibility advantages?

COURSE MATERIALS:

Presentation slide material will be distributed in advance of each discussion topic along with copies of selected relevant readings.

GRADES:

Class participation will be encouraged (weighted 10%-20%) in order to have our discussions benefit from students' experiences, insights and intuition. Students will also be required to submit a short critique of the approaches presented to each of two issues discussed in the 6-session class (students' choice). These critiques should include practical suggestions on how to improve upon the methods presented in class (weighted 80%+). As an option, students may present a third critique, with only the best two counted in the final grade.

INSTRUCTOR: PROFESSOR ERIC LINDENBERG

Eric Lindenberg is the principal of EBL Advisory Services LLC, a corporate finance consulting firm focusing on advising corporate clients on matters of financial strategy including capital allocation and shareholder value. Previously, he was for two years Managing Director and Head of Lehman Brother's European Global Finance Analytics group based in London, and prior to that, for 19 years, Managing Director and Head of the Global Financial Strategy Group at Citigroup Global Markets (formerly Salomon Smith Barney). These groups served as the analytical corporate finance advisory arms for the Investment Banking, corporate capital raising and risk solutions businesses at each firm.

Prior to Citigroup, Eric worked at Bell Laboratories where he was involved in economic and financial research and then at AT&T where he was responsible for corporate financial planning and regulatory matters related to cost of capital and capital structure.

Eric holds a B.S. in Mathematics from Brooklyn College, a M.S. in Operations Research from Cornell University and a PhD in Economics from New York University.