

MBA 2009 - Corporate Finance - SECTION C

SYLLABUS

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1 About the Instructor

Prof. Saffi is a member of IESE's Financial Management department and received a PhD in Finance from London Business School in 2007. His main area of research is asset pricing, more specifically liquidity risk, trading volume, and the impact of short-selling constraints on financial markets. Prof. Saffi's previous teaching experience includes courses at IESE, London Business School, Reykjavik University (Iceland), Fundação Getulio Vargas (Brazil) and Nile University (Egypt). He also has consulting experience in the pharmaceutical sector.

2 Introduction

As the name suggests, we will look at companies from a financial perspective. The ultimate goal of a corporation is to take on the best possible projects, whether physical (e.g., a plant expansion) or monetary (e.g., issue debt or equity). The time and uncertainty of investment payoffs make these problems nontrivial and essential for the company's long-term success. Corporate finance answers the following questions:

- (a) Valuation: How can we value and choose projects?
- (b) Capital Structure: Should corporations get money? For what projects? How?

The aim of this class is to give you a framework to understand and answer these issues in theory and in practice. We will see how to apply discounted cash flows to value bonds, stocks and other risky projects; we will use the CAPM model to estimate a firm's cost of capital. We will see how to find the value of a company and analyze the impact from having different capital structures. We will discuss how firms should return money to their shareholders. Lastly, we will apply these methods to consider the value created (or destroyed) by several types of financial transactions (MBOs, IPOs, M&As, etc.).

3 Objectives

The main objective is that students are able to critically analyze corporate decisions from a financial perspective. After the course, you should be able to:

- Compute the expected rate of return for investment projects.
- Apply several valuation methods to value projects and companies.
- Evaluate the optimal capital structure of a firm.
- Identify the best way to return money to shareholders.

4 Course Content

The course is divided in five parts:

- Introduction: Focused on the study of bond pricing to introduce the valuation of projects with certainty in cash flows.
- Project evaluation: This part provides the basic tools to make decisions on projects. What is the value of a project? Should the firm undertake it?
- Cost of capital: How do firms take risk into account when making decisions about their projects?
- Market Efficiency: How prices react to information? How do they affect corporate decisions?
- Valuation and corporate value creation: This part develops the different methodologies to value a firm and discusses different ways to create corporate value.

5 Methodology

The course is based on a mixture of cases (65%) and lectures (35%). Technical notes and other readings will be assigned in some sessions. The cases will require heavy preparation. Students are expected to participate actively in the discussions that will occur throughout the course. For **each** case you must submit a 3-4 page executive summary (write-up) and come to class prepared to answer questions; you will be cold-called about your views. You are urged to form groups to prepare the write-ups. The case questions are inside the preparation sheets.

Main Textbook:

- *Corporate Finance*, by S. Ross, R. Westerfield and J. Jaffe, 7th edition.

Preparation sheets show detailed instructions for each session, with all the reading requirements from RWJ (Ross, Westerfield and Jaffe's textbook), technical notes and articles. Preparation sheets also include additional materials such as lecture slides, spreadsheets, and optional readings.

5.1 Keeping in Touch

My office-hours on Wednesdays from 4pm to 5pm are completely dedicated to the course. They are a great opportunity to discuss any questions you might have about the course and Finance in general. Just send me an e-mail (psaffi@iese.edu) to book an appointment and come to my office at E-306. Otherwise, I am more than welcome to answer questions via email (and usually very quickly, i.e. less than 24 hours). As a general rule, I **WON'T** discuss any question related to the cases before we go over them in class, but I am more than happy to do so afterwards.

I'll occasionally send emails to the entire class. They will be mainly used for three reasons:

1. Logistical matters, e.g. typos or information about when an assignment is due.
2. Answering student questions/comments. If a student emails me a question or comment that is particularly illuminating, I will sometimes forward it (along with my response) to the entire class. If for some reason you don't want me to use your question in this manner, please let me know.
3. For analyzing late-breaking events relevant to the course, like newspaper articles.

5.2 Class Etiquette

In your own interest and of your colleagues, please try to observe the following courtesy rules:

1. Arrive in class on time; do not leave early.
2. Keep your mobiles and laptops off; do not use wireless network emailing in class.
3. Minimize wandering in and out of the classroom.
4. Participate fully in class.
5. Pull your weight in group/joint work. Do not free-ride on your colleagues!
6. Hand in assignments on time. Late submissions will be heavily penalized.
7. Ensure that corporate interviews do not clash with the classes.

6 Course Evaluation

Your final course grade will depend on three components:

- Class Participation + Case Write-ups (30%)
- Midterm (30%)
- Final Exam (40%)

Introduction

Session 1 - Lecture March 16th - 9:45am	Course Overview & Math Refresher <ul style="list-style-type: none"> • RWJ: Chapter 4
Session 2 - Case March 17th - 9:45am	Bond Pricing I <ul style="list-style-type: none"> • Case: F-727-E Atlas Investment Management • RWJ: Chapter 5 (5.1-5.3), chapter 20, and chapter 25
Session 3 - Case March 23rd - 9:45am	Bond Pricing II <ul style="list-style-type: none"> • Same as previous session.

Project Evaluation

Session 4 - Lecture March 24th - 9:45am	Project Evaluation <ul style="list-style-type: none"> • Technical Note: FN-517-E Investment Project Analysis
Session 5 - Case March 30th - 9:45am	AC Hotels <ul style="list-style-type: none"> • Case: F-760-E AC Hotels. Investment in New Hotels
Session 6 - Case March 31st - 9:45am	AC Hotels <ul style="list-style-type: none"> • Same as previous session.

Cost of Capital

Session 7 - Lecture April 14th - 9:45am	Risk, Return, Diversification & the CAPM <ul style="list-style-type: none"> • Technical Note: HBS 9-276-183 Diversification, the Capital Asset Pricing Model, and the Cost of Equity Capital • RWJ: chapter 9, and chapter 10
Session 8 - Case April 16th - 11:15am	Ameritrade <ul style="list-style-type: none"> • Case: HBS 9-201-046 Cost of Capital at Ameritrade • RWJ: Chapter 12 (12.1-12.3)
Session 9 - Case April 20th - 9:45am	Marriott - The Cost of Capital (Abridged) <ul style="list-style-type: none"> • Case: HBS 9-289-047 Marriott – The Cost of Capital (Abridged) • Technical Note: FN-518-E Debt and Equity Financing • RWJ: Chapter 12 (12.4-12.6)
Session 10 - Case April 21st - 9:45am	Marriott - The Cost of Capital (Abridged) <ul style="list-style-type: none"> • Same as previous session.

<p>Session 11 - Lecture April 22nd - 9:45am</p>	<p>Market Efficiency and Practical Implications</p> <ul style="list-style-type: none"> • RWJ: Chapter 13 • “<i>The Titanic: The Untold Economic Story</i>”, Arun Khanna, Financial Analysts Journal, Vol. 54, No.5, p. 16-17, September/October 1998.
<p>Session 12 - Lecture April 27th - 14:00pm</p>	<p>Review Session</p> <ul style="list-style-type: none"> • Review course material up to now.
<p>Valuation and Corporate Value Creation</p>	
<p>Session 13 - Case May 4th - 9:45am</p>	<p>Dividend Discount Model & Multiples: Hilton Hotels Corp.</p> <ul style="list-style-type: none"> • Case: F-711-E Hilton Hotels, Corp. • RWJ: Chapter 5 (5.4-5.9) • “<i>The right role for multiples in valuation</i>”, Marc Goedhart, Timothy Koller and David Wessels, Mckinsey Quarterly, Spring 2005.
<p>Session 14 - Lecture May 11th - 9:45am</p>	<p>WACC and Equity FCF Models</p> <ul style="list-style-type: none"> • HBR 97305: “<i>What’s It Worth?: A General Manager’s Guide to Valuation</i>” • RWJ: Chapter 17 (17.2-17.3)
<p>Session 15 - Case May 12th - 9:45am</p>	<p>Valuation Methods I</p> <ul style="list-style-type: none"> • Case: HBS 9-291-033 Interco • RWJ: Chapter 29
<p>Session 16 - Case May 15th - 11:15am</p>	<p>Valuation Methods II and EVA</p> <ul style="list-style-type: none"> • Case: HBS 9-291-033 Interco • Technical Note: FN-519-E Company Valuation – A Summary • “A star to sail by?”, The Economist, August, 1997 • “All About EVA”
<p>Session 17 - Lecture May 18th - 9:45am</p>	<p>APV Valuation and Capital Structure</p> <ul style="list-style-type: none"> • HBR 97306: “<i>Using APV: A Better Tool for Valuing Operations</i>” • RWJ: Chapter 15 and Chapter 17 (17.1; 17.4-17.6)
<p>Session 18 - Case May 19th - 9:45am</p>	<p>Optimal Capital Structure</p> <ul style="list-style-type: none"> • Case: HBS 9-283-065 American Home Products
<p>Session 19 - Case May 22nd - 11:15am</p>	<p>Highly Leveraged Transactions & Management Buy-outs</p> <ul style="list-style-type: none"> • Case: HBS 9-291-008 John M. Case Company
<p>Session 20 - Case May 25th - 9:45am</p>	<p>Private Equity</p> <ul style="list-style-type: none"> • Case: F-792-E Cofinec – A Private Equity Acquisition in Central Europe

Session 21 - Case May 26th - 11:15am	Payout Policy <ul style="list-style-type: none">• Case: HBS 9-204-066 Dividend Policy at Linear Technology• RWJ: Chapter 18
Session 22 - Case May 27th - 9:45am	Initial Public Offering (IPO) <ul style="list-style-type: none">• Case: HBS 9-196-138 Boston Beer Inc.• RWJ: Chapter 19
Session 23 - Presentation June 4th - 14:00pm	Valuation Project Presentations
Review Session and Final Exam	
Session 24 - Lecture June 5th - 11:15am	Review Session <ul style="list-style-type: none">• Review all course material.