

University of South Carolina
Moore School of Business
FINA 761: Advanced Corporate Finance
Instructor: Eric Powers

Class time:	T/Th 10:15:12:55
Location:	128
Office Hours:	TBD
Office Location:	457i
E-mail:	epowers@moore.sc.edu
Course website:	blackboard.sc.edu

The objective of this course is deepen your understanding of the many issues faced by firms as they identify valuable investment opportunities, raise funds for those investment opportunities, distribute profits to share-holders and debt-holders and deal with the consequences of both good and bad investment financing decisions. We will expand on the concepts that you have learned in DMSB 715.

Class time will be divided between lectures and case studies. My lectures will briefly review concepts from prior courses. The bulk of my lectures will present advanced material that will be new to you. It is assumed that you understand the concepts from your earlier finance and accounting courses. If not, it is your responsibility to review. In order to reduce your note-taking, my lecture notes will be available on the class web-site in PowerPoint format.

I suspect that you will have difficulty paying attention for a full 2.5 hours some days. Thus, I intend to supplement live lectures with recorded lectures on a case-by-case basis. Recorded material can be viewed at your leisure when you are fresh and attentive.

In addition to lectures, we will spend a significant amount of time analyzing cases. These cases have been written by leading researchers in the field of finance and discuss actual financial problems and resulting decisions made by firms. The cases provide an excellent means of illustrating the concepts discussed in lecture and in the text, but in complicated real world environments. With both cases and lecture, our focus will be on practical applications of material.

Case analysis will be done in groups of 2 to 4 students. I will provide a framework of questions to be addressed for each case. Every group is required to hand in a 2 to 4 page recommendation memorandum for each case. The memos are due before class starts on the day that the case is discussed (see the section on recommendation memorandum for details.) In addition, each group will be responsible for presenting one case during a class period. After the case presentation is made, a second group will be randomly selected from class to critique/rebut the presentation. Remaining class time will be dedicated to class discussion.

I cannot emphasize enough, how important your contributions will be to the success of this class. Case study classes live and die on the enthusiasm of the students. I don't care how outlandish your views are on a particular case. If you think you can justify your viewpoint, I (and the class) want to hear it! Note: if you are not physically present for class, by definition, you are not participating.

Textbook

Applied Corporate Finance 4th Edition, Aswath Damodaran, John Wiley and Sons Inc, 2014, ISBN 978-0-470-38464-0 (paper back and or etext). Damodaran has a good web site with lots of supporting material for the text at <http://pages.stern.nyu.edu/~adamodar>. Go to “writing” then “books” and select the web site for the fourth edition. Note that a third edition will work nearly as well and will be much cheaper...but it has an annoying number of minor typos.

Course Pack

The Course Pack with the cases that we will cover is available via Harvard Business Publishing at <https://cb.hbsp.harvard.edu/cbmp/coursepacks/overview/38143368>. It costs \$31.60 with three optional items that cost \$3.95 each. While you can share a course pack with other students, it is forbidden to make multiple electronic or hard copies. Doing so is a gross violation of copyright laws. Your purchasing of the course pack entitles you to one copy.

Case Memorandum

As noted, each group is required to submit a 2-4 page recommendation memorandum for each case. These must be typewritten and double spaced. Technical appendices such as spreadsheets will be appropriate for most cases. I will grade you on quality, clarity and correctness of your arguments. Writing and presentation quality certainly counts. Approach the memorandum as if you are making a concise recommendation to your boss.

The first paragraph of the memo should briefly outline the overall problem presented by the case. If the case questions entail a final recommendation then your recommendation should also be included in the first paragraph. The body of the memo should answer the assigned questions and provide the justification for why your recommendation is the correct course of action. Remember that your boss is a busy person and he/she expects you to be able to make a concrete and concise recommendation. Take a stand and support your stand!

Peer Evaluation

Participation levels inside groups often vary. This is an everyday fact of life, particularly in the modern day work environment where much of your work will be done in groups. Success of any group requires participation and contribution by all members. **Failure to convince your fellow teammates that you are contributing your fair share will result in a significant grade reduction.** Following case presentations, At the end of the semester you will be required to fill out a peer evaluation form. This form must be completed by all members of your group, or else you will all receive a 0 for the peer evaluation component of your grade.

Attendance and Participation:

Attendance is mandatory on days when cases are discussed. Unexcused absence will impact your class participation grade. Note – I am reasonably accommodating to your scheduling needs. Just let me know ahead of time.

As noted, class participation is very important for this class to succeed. Your class participation grade will be based on my subjective evaluation of quality and level of your participation in class discussion. Disruptive behavior such as arriving late, continually surfing the internet on your laptop/tablet/smart phone or conducting conversations that are not part of the class discussion will negatively affect your participation grade.

Exams

There will be two exams in this course covering material discussed in the lectures and in the cases. These exams will mostly be essay questions. The exams are not cumulative.

Grading

The weighting scheme for the different elements of the course will be as follows:

	Weight
Memoranda	50%
Peer Evaluation	5%
Class Participation	10%
Exam #1	15%
Exam #2	20%

Grade cutoffs:

$$F < 60 \leq D < 65 \leq C < 77 \leq C+ < 79.5 \leq B < 87 \leq B+ < 89.5 \leq A.$$

Academic Honesty

University of South Carolina Honor Code:

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline.

The Honor Code is intended to prohibit all forms of academic dishonesty and should be interpreted broadly to carry out that purpose. The following examples illustrate conduct that violates this Honor Code, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code:

1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.
2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.
3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.
4. Use of another person's work or ideas without proper acknowledgment of source.

5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).
6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.
7. Conduct intended to interfere with an instructor's ability to evaluate accurately a student's competency or performance in an academic program.

Whenever a student is uncertain as to whether conduct would violate this Honor Code, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor of record prior to engaging in such conduct.

For more information about academic integrity issues, go to the following website:

<http://www.sc.edu/academicintegrity/>

Academic Integrity

You may use any information source for background information for your write-ups and case presentations. Information obtained from an outside source, however, should be properly attributed via footnotes or other references. The only source of information you are prohibited from using is outside solutions to the case being analyzed. Utilization of outside solutions, whether obtained from prior students or the web, will result in severe punishment. Your group is not to discuss the case with other groups in either this class, other sections of this class or previous classes.

Course Outline

Online Review: Financial Statements (powerpoints and a recorded lecture are on the website.)

Th Aug 20: Financial Statement Analysis, Financial Planning:

Readings:

Option 1: "Financial Statement Ratios" and "Budgeting" posted as pdf's on the Blackboard in the Course Documents/Readings section.

Option 2: "Introduction to Financial Ratios and Financial Statement Analysis" (9-193-029) and "Note on Financial Forecasting" (9-206-048). The readings in Option 2 are optional components of the course pack and cost \$3.95 each. The two pdfs that I have posted, while not as well written, are open source and free.

Also read Chapter 1 of Damodaran.

T Aug 25 Case #1: Hartsville Supply
Lecture: Estimating the Cost of Capital

Readings: Chapters 2 and 3 of Damodaran.

Th Aug 27: Lecture: Estimating the Cost of Capital
Using Bloomberg for Cost of Capital

Readings: Chapter 4 of Damodaran.

Readings: Posted on Blackboard in the Course Documents/Readings section: A Supply Model of the Equity Risk Premium, Equity Risk Premiums Around the World, The Equity Risk Premium, The Equity Risk Premium in Emerging Markets.

T Sep 1: Case #2: Midlands Energy Resources Cost of Capital.
Lecture: Cash Flows, NPV & IRR

Th Sep 3: Lecture: Cash Flows, NPV & IRR, Capital Budgeting Errata.

Readings: Chapters 5 and 6 of Damodaran (skip section on Options Embedded in Projects for now.)

T Sep 8: Case #3: Ocean Carriers, Equivalent Annual Cost Exercise.

Readings: Chapter 12 of Damodaran

Th Sep 10: Case #4: Compass Marine.

Readings: Posted on Blackboard in the Course Documents/Readings section: What Managers Think About Corporate Finance – Evidence from the Field.

T Sep 15: Open/Catch Up.

Th Sep 17: Case #5: Rosetta Stone IPO
Using Capital IQ

T Sep 22: **Exam #1**

Th Sep 24: Lecture: Capital Structure Theory, Capital Structure Practice.

Readings: Chapters 7, 8 and 9 of Damodaran.

Readings Posted on Blackboard: What Managers Think of Capital Structure Theory.

T Sep 29: Case #6: Swedish Match
Lecture: Payout Policy

Readings: Chapters 10 and 11 of Damodaran.

Readings Posted on Blackboard: Payout Policy in the 21st Century.

Th Oct 1: Case #7: Gainesboro Tools, Lecture: Risk Management.

Readings Posted on Blackboard: Berk & Demarzo Chapter 31

T Oct 6: Case #8: Student Educational Loan Fund

Th Oct 8: Case #9: Hedging Currency Risk at AFIS, Lecture: Real Options.

T Oct 13: Lecture: Real Options

Readings: Damodaran Chapter 6 section on Options Embedded in Projects.

Th Oct 15: Case #10: Real Options – Arundel Partners

T Oct 20: Exam #2.

Course Objectives: Students will be able to -

- Prepare pro-forma financial statements based on historical performance ratios coupled with sales forecasts.
- Estimate a company's Weighted Average Cost of Capital for both domestic and international projects.
- Calculate Free Cash Flows using both the Direct and Indirect methods.
- Calculate the Net Present Value and Internal Rate of Return of investment projects.
- Evaluate investment projects using the Equivalent Annual Flows technique.
- Estimate the value of a company using Free Cash Flow techniques and comparable company multiples.
- Model the valuation of real options in capital budgeting.
- Describe the factors that affect a firm's Optimal Capital Structure.
- Understand the costs and benefits of the various methods of returning cash to shareholders.
- Hedge interest rate and currency risk using operational hedges and derivative securities.