



Boston University Questrom School of Business

Department of Finance Advanced Corporate Finance FE821 Spring 2016 Syllabus

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COURSE DESCRIPTION

The objective of FE821 is to study the major decision-making areas of managerial finance and a few topics in corporate finance theory. The course reviews the theory and empirical evidence related to investment and financing policies of the firm and attempts to develop decision-making ability in these areas using both lectures and cases. Another goal is to learn how to assess and criticize the relevance and validity of assumptions, such as the ones used for a firm valuation model, which arises common in managerial practice and also in economic or financial consulting firms.

This course serves as a complement and supplement to FE721/722, FE810, and FE820. Some areas of corporate finance not covered in these courses are covered in FE821. For example, these may include security design, leveraged transactions, mergers and acquisitions, private equity, venture capital. Other areas that are covered in these courses are covered more in depth and more rigorously in FE821. These may include e.g. advanced financial modeling and valuation, bankruptcy and corporate reorganizations, and the pricing of financial instruments and corporate liabilities.

COURSE MATERIALS

Given the advanced nature of the topics, there is no required or suitable textbook that covers the course content. However, good sources for background reading are:

1. CORPORATE FINANCE by Jonathan Berk and Peter DeMarzo, 3rd edition;
2. PRINCIPLES OF CORPORATE FINANCE by Richard Brealey, Steward Myers, and Franklin Allen, 11th edition; or
3. CORPORATE FINANCE by Ivo Welch, 3rd edition (which is available online at <http://book.ivo-welch.info/ed3/>).

We will discuss a series of cases, which are all available electronically for purchase from the Harvard Business School website (<http://hbsp.harvard.edu/>), and can be easily found as a Coursepack at the following website that I created at HBS publishing: <https://cb.hbsp.harvard.edu/cbmp/access/44632044>.

I recommend you only purchase the first few cases, as it is possible I may switch some of the later cases as the class progresses. It is expected that the required readings pertinent to each class will be completed before the lecture. I reserve the right to pose questions to individual students during lectures ("cold calls") in order to stimulate class participation.

Lecture notes and additional content, such as newspaper or other articles (e.g. from the *Harvard Business Review* or the *Journal of Applied Corporate Finance*) will be available on the course website (see below).

All materials handed out in class are also posted on the class website on QuestromTools (under Resources). In addition to all class materials, I will also post supplementary assignments and repeat important announcements on the website; it is your responsibility to visit it frequently, and definitely before each class.

PERFORMANCE EVALUATION

Performance will be based primarily on team case presentations, written case analyses, and class participation. The weights put on each of these components when computing the final average grade are as follows:

Component	Weight
Case analysis	20%
Case presentation	20%
Class participation	20%
Exam 1 (March 2)	20%
Exam 2 (April 27)	20%

Grades are non-negotiable. The quality of written work and participation is a matter left to the instructor's judgment. Grade appeals (e.g. because points were not added up correctly or a correct answer was overlooked) must be submitted within a week after the grades are released. If you have a question about feedback or an assigned grade, please ask.

Exams: There are two exams. One is in the week before spring break and the second one in the last week of the classes.

Case analyses: Groups of 2-3 students should prepare six *write-ups* for the cases listed on the next page of the syllabus. Each report should include 2-3 pages of careful and detailed *case analysis* (in 11 point font size and double-spacing) with references to tables, figures, and notes attached as appendices. The analysis should be preceded by a one page, double-spaced *executive summary* (which does not count towards the 2-3 pages of *case analysis*). The *write-up* should address the suggested study questions for case (which are posted to QuestromTools), but students are strongly encouraged to address additional points that may be important for the analysis. *Hard copies of the write-ups are due at the start of class on assigned dates.* No late submissions can be accepted given that the class discussion being about the case analysis.

Team Case Presentations: Groups of 2-3 students present their solutions to the cases on the next page of the syllabus. On dates in which cases are due, there will be at least two student PowerPoint presentation of the case. You are encouraged to sign-up as groups (again, there is a maximum of 3 students per available slot). A list of the available slots is given on the syllabus, slots are first-come, first-serve. Note that some slots require you to take a particular view. E.g. in Team Case #2, one team must argue that LBO is a bad investment, whereas the other presenting team must argue it is a good investment. This is used to help facilitate discussion of the case in class. If a presentation slot remains empty one week prior to a case being due, I will randomly allocate a team to do the presentation.

Overall, the goal of this course is to develop and enhance the ability to make decisions based on corporate finance theory. Hence, it combines lectures with case analysis. The purpose of the cases is not to introduce these topics, but to examine how corporate finance theory may be applied to reasonably realistic situations. It should be noted that there are usually no absolutely correct solutions for case studies. Rather, the best cases are deliberately written to be ambiguous, lack some of the information needed to make better decisions, or may even contained flawed arguments that need to be identified. While there are no right answers, there are good arguments/assumptions and bad arguments/assumptions. This course is designed to help students learn to distinguish between sensible and weak arguments, make additional assumptions if needed, debunk weak or wrong statements, but not to provide detailed answer keys to specific case studies. Therefore, "case solutions" will generally not be handed out, although I may occasionally provide you with my "suggested solutions". If you are uncomfortable with ambiguity, this class may not be for you.

Class participation: I will expect active participation by students. "Active participation" does not mean that you need to try to answer every question posed in class. Thoughtful questions, answers, and remarks will be rewarded, where "thoughtful" does not coincide with "correct". The goal of participation is to arrive together at the right answer.

Special Needs: Any student with special needs should bring this to the attention of the instructor as soon as possible, but not later than the second week of class. Please take a note the dates and times of the exams.

Academic Integrity: We will abide by the school's code of academic integrity as per the attached link: <http://questromworld.bu.edu/acc/>. Please note that while you are encouraged to work as a group in all of the assignments as well as the valuation project, all examinations are to represent individual work! Note that working as part of a group implies that you are an active participant and fully contributed to the output produced by that group.

COURSE SCHEDULE

Class meetings will be on Wednesday between 6:00 pm and 8:50 pm, HAR 304. The following table describes the material that we will cover during each class. All the readings should be completed before each class, and assigned case write-ups are to be handed in at the beginning of class. We might deviate from this schedule if we will need to spend more or less time than expected on certain subjects, so this is only a preliminary or tentative schedule.

Date	Topics	Readings	Assignments
1 (01/20)	Course Introduction & Overview Review of Valuation Techniques	<i>After the Revolution</i> <i>What's It Worth?</i> <i>Using APV</i>	
2 (1/27)	Marriott Convertibles and Warrants, Part I	HBS 9-289-047 <i>The Case For Convertibles</i>	Case Write-up #1: (due at beginning of class)
3 (2/3)	Harris Seafoods Convertibles and Warrants, Part II	HBS 9-281-054 <i>Evidence of Why Companies Use Convertibles Bonds</i>	Case Write-up #2: (due at beginning of class)
4 (2/10)	Corning (Team Case #1) Leveraged Transactions, Part I	UV2487 <i>How to Value Recaps and Leveraged Buyouts</i>	Case Write-up #3: (due at beginning of class)
5 (2/17)	Leveraged Transactions, Part II Congoleum Corporation (Team Case #2)	<i>Rehabilitating the Leveraged Buyout</i> HBS 9-287-029	Case Write-up #4: (due at beginning of class)
6 (2/24)	Mergers and Acquisitions, Part I Mergers and Acquisitions, Part II	<i>Creating Value With M&As</i> <i>The Takeover Controversy</i>	
7 (3/2)	<i>First Exam</i>		
8 (3/9)	Spring Break		
9 (3/16)	Mergers and Acquisitions, Part III Conrail A (Team Case #3)	<i>Management Buyouts as a Response to Market Pressure</i> HBS 9-298-006	Case Write-up #5: (due at beginning of class)
10 (3/23)	Conrail B (Team Case #4) Raising Capital (Overview)	<i>Takeover Defenses</i> HBS 9-298-095	Case Write-up #6: (due at beginning of class)
11 (3/30)	Private Equity, Part I Private Equity, Part II	<i>A Note on Valuation in Private Equity Settings</i> HBS 9-287-050	
12 (4/6)	Guest Speaker on Private Equity: Mark Jansen (Managing Director, Holland Park Capital)	<i>Global Private Equity Report 2015 by Bain & Company</i>	
13 (4/13)	Venture Capital, Part I Venture Capital, Part II	<i>A Note on Valuation of Venture Capital Deals</i> Stanford E95	
14 (4/20)	Substitute Monday Schedule of Classes		
15 (4/27)	<i>Second Exam</i>		

RECOMMENDED READINGS

Brennan and Schwartz, "The Case for Convertibles," *Journal of Applied Corporate Finance*, 1993.

Gifford, "After the Revolution," *CFO Magazine*, 1998.

Hazelkorn, Marc Zenner and Anil Shivdasani, "Creating Value With M&As," *Journal of Applied Corporate Finance*, 2004

Inselbag and Kaufold, "How to Value Recapitalizations and Leveraged Buyouts," *Journal of Applied Corporate Finance*, 1989.

Jen, Choi, and Lee, "Some Evidence of Why Companies Use Convertible Bonds," *Journal of Applied Corporate Finance*, 1997.

Jensen, "The Takeover Controversy: Analysis and Evidence," *Midland Journal of Corporate Finance*, 1986.

Luehrmann, "What It's Worth? A General Manager's Guide to Valuation," *Harvard Business Review*, 1997.

Luehrmann, "Using APV: A Better Tool for Valuing Operations," *Harvard Business Review*, 1997.

Kester and Luehrman, "Rehabilitating the Leveraged Buyout," *Harvard Business Review*, 1995.

Shleifer and Vishny, "Management Buyouts as a Response to Market Pressure," *Mergers and Acquisitions*, 1987.

Ruback, "An Overview of Takeover Defenses," *Mergers and Acquisitions*, 1987.