



# **Rotman** Commerce UNIVERSITY OF TORONTO

## Course Outline

### RSM 433H1 S Advanced Corporate Finance Winter/Spring 2012

**Course Meets:** L0101-Monday/9-11am/WO25 (S.Davydenko); L0201–Monday/1-3pm/WO25 (S.Davydenko); L0301–Monday/4-6pm/WW120 (S.Davydenko); L0401-Friday/12-2pm/WO30 (A.Ganguly); L0501-Friday/3-5pm/WO35 (A.Ganguly);

<b>Instructors:</b>	<b>Sergei Davydenko. RT-444</b>	<b>Arup Ganguly, RT-261</b>
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Office Hours:	Tuesdays 2-4PM	Fridays 2-3PM & 5-6PM

**Webpages:** <http://www.rotman.utoronto.ca/davydenko/433>, <http://portal.utoronto.ca>

## Course Scope and Mission

The main aim of this course is to help you learn to apply fundamental ideas of financial economics to real-life problems of business valuation and financial decisions with all the complexities the real world entails. Case studies will be used to bridge the gap between rigorous finance theory and its applications to **practical problems** in corporate finance, on the assumption that you are already familiar with basic concepts from previous courses such as RSM333. Topics that will be discussed include valuation, mergers and acquisitions, financial distress, capital structure, securities issuance, and corporate governance. The course builds on concepts and techniques that Rotman Commerce students have learned in accounting, statistics, micro-economics, and business finance.

## Target audience

The course is suited for those who wish to obtain a deeper understanding of the theory underlying corporate finance in order to apply it sensibly to practical situations. The course is targeted to students who wish to pursue careers in consulting, financial institutions, and investment banking, and for those planning to work in corporations, especially in the finance, planning, and treasury areas.

## Course Prerequisites

ECO204Y1/ECO206Y1, MGT337Y1/RSM333H1/ACT349H1 (At least B+)

## Course Materials

The course is based on lecture notes, a course package, and a set of articles that are accessible online from the University of Toronto network. The (required) **course package** contains assigned case studies and readings (chapters from various textbooks and research papers), and is available from the bookstore. Students should also review their RSM333 notes and the accompanying textbook material. Links to optional readings for each week, as well as Excel spreadsheets for the three case studies, will be posted on the course website.

Students are responsible for announcements made in class. Students should read the assigned readings before each class. Class participation – questions, comments, discussion, etc. – is essential and contributes to the final grade.

### **Evaluation and Grades**

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

<u>Work</u>		<u>Due Date</u>
Class Participation/Attendance	10%	Ongoing
Case Studies	45%	9AM on Feb 6, Mar 12 and Apr 2
Final Exam	45%	During Faculty of Arts & Science Final Examination period

### **COURSE FORMAT AND EXPECTATIONS**

#### Class Participation:

This grade component reflects significant and original contributions to the class discussion in the form of intelligent and constructive questions as well as thoughtful and topical answers. It does not reflect merely the quantity of verbal utterances. I expect you to come to each class, be on time and be prepared to participate. Please bring your name cards to each class - I need to know who you are in order to track participation marks and my name/face memory is poor.

Also: I reserve the right to have unannounced mini pop-quizzes or mini case-write-ups if I should find that your preparation for cases is insufficient for an active case discussion. The grades on these would count towards class participation. I am hoping that the excellence of your case preparation will allow me to skip these exercises.

#### Case Write-ups (to be done in teams of up to 4 students):

Home assignments consist of **three case studies**, each of which contributes 15% to the final grade. They should be done in groups of between 1 and 4 people. Only one report from each group should be submitted. Each report should be typed and include no more than 8 standard pages, plus tables, if any. (For longer reports, only the first 8 pages will be read and graded, and the rest ignored.) For each case, the deadline for case submissions is the same regardless of the group or whether your class meets on Mondays or Fridays. Cases are to be submitted electronically. Late write-ups will not be accepted.

Cases will be graded based on your demonstrated understanding of concepts as exhibited by your analysis of the case specific issues and problems. In addition to showing an understanding of the concepts developed up to date in all your Rotman Commerce courses, your write-up should be clear, concise, creative, internally consistent, logical coherent, and professional. You are not expected to know facts that come from outside the course materials. If you choose to include factual information or data from outside the case, please restrict yourselves to information known at the time of the case and reference your sources if necessary. Please make clear what question(s) you are answering with your analysis. Do not hand in exhibits that you do not use in your arguments. Points will be deducted for gratuitous and unnecessary stuff. Make sure all fonts are legible (this includes exhibits! 10 point Times New Roman or equivalent size is the absolute minimum).

Please note that clear, concise, and correct writing will be considered in the evaluation of case write-ups. That is, you may lose points for writing that impedes communication: poor

organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre ([www.asc.utoronto.ca](http://www.asc.utoronto.ca)) or one of the College Writing Centres ([www.writing.utoronto.ca/writing-centres](http://www.writing.utoronto.ca/writing-centres)). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

Your write-ups may be put through Turnitin.com for a review of textual similarity and detection of possible plagiarism, and may be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the university's use of the Turnitin.com service are described on the Turnitin.com website.

### Group Work:

Case studies are to be prepared in teams of up to 4 students. When working as a team, students are reminded of the following expectations with respect to their behavior and contributions to the project:

Each team member is expected to:

- Treat other members with courtesy and respect;
- Establish a positive and productive team dynamic;
- Contribute substantially and proportionally to the final project;
- Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
- Meet the project timeline as established by the team.

Learning to work together in teams is an important aspect of your education and preparation for your future careers. Project work is often new to students; conflicts can - and do - occur. Teams are collectively expected to resolve disputes or misunderstandings as soon as they arise (and prior to submission of the final project). In cases where teams are unable to reach a mutually agreeable solution, the entire team must meet with the departmental advisor as soon as possible. The departmental advisor will listen to the team and help the team develop options for improving the team process. All members of the project team must commit to and utilize their action plans.

The departmental advisor, Leigh Gauthier, may be reached at [leigh@coachleigh.com](mailto:leigh@coachleigh.com) for an appointment. Leigh Gauthier is an expert in team dynamics and facilitation.

### Final examination:

The final exam will be comprehensive and will cover material from lectures, assigned readings, and cases. You are allowed to bring a calculator and one 8½" by 11" and a crib sheet (both sides). The crib sheet can include anything you like, including definitions or examples seen in class.

## Weekly Schedule

<b>Session</b>	<b>Date</b>	<b>Topic</b>
1	Jan 9—13	Traditional valuation and cost of capital
2	Jan 16—20	Advanced valuation
3	Jan 23—27	Mergers & Acquisitions: Strategy
4	Jan 30—Feb 3	M&A: Valuation and execution
5	Feb 6—10	Case #1 discussion (case due Feb 6 at 9AM)
6	Feb 13—17	Financial distress and Bankruptcy
7	Feb 27—Mar 2	Capital structure
8	Mar 5—9	Long-term financing
9	Mar 12—16	Case #2 discussion (case due Mar 12 at 9AM)
10	Mar 19—23	Initial Public Offerings
11	Mar 26—30	Corporate governance
12	Apr 2—6	Course overview and Case #3 discussion (case due Apr 2 at 9AM)
Final Exam	TBA by FAS	

**NOTICE:** Required reading for each week can be found on the course webpage:  
<http://www.rotman.utoronto.ca/davydenko/433>

## **Required reading**

Articles marked “+” are included in the course package. Articles marked “\*” can be accessed online from the University of Toronto network.

### **CASE STUDIES**

- + Paramount Communications Inc. 1993, CaseNet ISBN 0-538-85823-0
- + Iridium LLC, HBS 9-200-039
- + G-III Apparel Group Inc., by Ivo Welch

### **VALUATION**

- + Luehrman, T A, 2005, Corporate Valuation and Market Multiples, *HBS Note* 9-206-039.
- + Hatch J E, Dussin D, 2001, Note on Private Company Valuation, Ivey Business School, ref no 9B01N009.
- \* Luehrman, T A, 1997, Using APV: A Better Tool for Valuing Operations, *Harvard Business Review*, Reprint 97306.
- + Bruner, R F, K M Eades, R S Harris, and R C Higgins, 1998, Best Practice in Estimating the Cost of Capital, *Financial Practice and Education*, 8.1, pp. 13-28.

### **MERGERS & ACQUISITIONS**

- + Weston, J., M. Mitchell, and J. Mulherin, *Takeovers, Restructuring, and Corporate Governance*, 4th Ed., (Pearson Prentice Hall) Ch. 6, “Theories of Mergers and Tender Offers”.
- + Weston, J., M. Mitchell, and J. Mulherin, *Takeovers, Restructuring, and Corporate Governance*, 4th Ed., (Pearson Prentice Hall) Ch. 8, “Empirical Tests of M&A Performance”.

### **FINANCIAL DISTRESS and CAPITAL STRUCTURE**

- + Grinblatt, M., and S. Titman, *Financial Markets and Corporate Strategy*, 2nd Ed., (McGraw-Hill Irwin) Ch. 16, “Bankruptcy Costs and Debt Holder-Equity Holder Conflicts”.
- \* Graham, J R, and C Harvey, 2002, How Do CFOs Make Capital Budgeting and Capital Structure Decisions? *Journal of Applied Corporate Finance*, 15.1, 8-23.

### **Initial Public Offerings**

- + Ritter, J.R., 1998, Initial Public Offerings, *Contemporary Finance Digest*, 2.1, pp.5-30.
- \* Ibbotson, R., J. Sindelar, and J. Ritter, 1994, The Market’s Problems With the Pricing of Initial Public Offerings, *Journal of Applied Corporate Finance*, 7.1, pp.66-74.

## **POLICY AND PROCEDURE**

### **Missed Tests and Assignments**

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. a medical certificate) to the Rotman Commerce Program Office within one week of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero).

**Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a report of illness made by the student and documented by the physician.**

A resolution will be determined by the instructor and may take the form of a make-up exam, rewriting the exam at the next offering of the course or a revised grade calculation. The decision as to how to handle the missed assignment or exam is at the instructor's discretion. If a student misses an assignment or final examination for any other reason, a resolution will be determined at the instructor's discretion and may include an academic penalty. Students who do not notify the School of a missed assignment or exam will be given a grade of FZ (failing grade) for the assignment or exam.

### **Late Assignments**

All case write-ups must be submitted electronically before the deadline (Monday 9AM for all groups.) If your case has been received, you will receive a confirmation before the deadline. If you do not receive a confirmation, it means that the case has not been submitted. Should this happen, you must make contact the instructor before the deadline.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

### **Accessibility Needs**

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: [disability.services@utoronto.ca](mailto:disability.services@utoronto.ca) or <http://www.accessibility.utoronto.ca/>.

### **Academic Integrity**

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

### *The University of Toronto's Code of Behaviour on Academic Matters*

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or not is permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

### **Email**

At times, the course instructors may decide to communicate important course information by email. As such, all UofT students are required to have a valid UofT email address. You are responsible for ensuring that your UofT email address is set up AND properly entered on the ROSI system.

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

### **Blackboard and the Course Page**

The online course page for this course is accessed through Blackboard. To access the course page, go to the UofT Portal login at <https://portal.utoronto.ca/> and log in using your UTORid and password. Once you have logged in, look for the My Courses module where you'll find the link to all your course websites. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours. If the course does not appear, go to the Information Commons Help Desk in Robarts Library, 1st floor, for help, or explore the Portal Information and Help at [www.portalinfo.utoronto.ca/students](http://www.portalinfo.utoronto.ca/students) and review the Frequently Asked Questions.