ADVANCED CORPORATE FINANCE

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Course description

Advanced Corporate Finance (the "Course") focuses on strategic decision-making by applying corporate financial theory to cases of financial policy, financial instruments and valuation. Participants will realize that such decision making is frequently more a matter of art and that reality poses certain limits on what is reasonably achievable. In this Course we will – among others – cover themes, such as valuation approaches, payout and payback policies, equity and debt financing, corporate control, recapitalizations and corporate governance (latter in a Corporate Finance context).
The classes are structured to optimize a synergy between theory and practice, providing portable, durable and marketable tools.
Themes will be introduced in Case Study format, then discussed in class and subsequently deepened in presentations. Case Study Assignments will put you into the role of an executive requiring a thorough analysis, assess alternatives and then take – sometimes tough – decisions.

Course requirements, grading, and attendance policies

Participation

- Mandatory and conditional to be graded is a full and timely participation in all classes
- Preparation of mentioned literature
- Mandatory handing of individual and group Case Study Assignments

Grading

- Grading will be dependent upon the quality of your preparation, active participation and qualitative contribution in class room, the Case Study Assignments as well as your scores in several small Interim Tests
- A student can receive a maximum of 100 points (plus additional bonus points), whereby the eventual grades will be as follows:

Points	Grade
0 – 30	1
31 –49	2
50 – 55	3-
56 – 60	3
61 – 66	3+
67 – 72	4-
73 – 77	4
78 – 83	4+
84 – 89	5-
90 – 94	5
95 – 100	5+

- A participant can achieve along the following criteria a certain maximum of points:
  - Quality of class room participation a maximum of 21 points
    - 3 points in each of 7 sessions
  - Interim Tests a maximum of 9 points
  - Case Study Assignments a maximum of 70 points
    - 10 points for each of the 3 mandatory group hand-ins
    - 10 for each of the 4 mandatory individual hand-ins
    - +5 bonus points for class presentations

Attitude

The Course is intense and will require time effort, energy and concentration, but basically we want to learn and also have fun … - Precondition for this is a professional attitude:

- You are to professionally prepare, be in class on time and show a professional attitude
- You are supposed to actively participate in all class sessions, the discussion of Case Study Assignments and the Interim Tests
- In class, you will always have with you: A financial calculator; further, the Case Study Assignment; and your presentation material **on a USB stick** (and not online or else).

Case Study Assignments

- You are required to hand in following presentations:
    - Case Studies #2, #4 and #6 are mandatory Group Case Study Assignments
    - Case Studies #1, #3, #5 and #7 are mandatory Individual Case Study Assignments
- A study group to crack a Group Case Study Assignment must not exceed 5 individuals
- Grading for the Group Case Study Assignments will be on a group basis
- Grading for the Individual Case Study Assignments will be on an individual basis
- Please note: Grading will be driven by your analytical insights, creativity, precision … and **not** just by summarizing facts from the case …
- Volume / page numbers / structure of the presentation are up to you (ideally not more than 7-10 slides, though ...); be creative and come to a compelling conclusion backed up with material, analytics or else to support your arguments. In most of the cases you will expected to back your conclusions also with a (limited) financial model which you are invited to send in an appendix. A good structure may look like following:
    - What are the issues?
    - What are the alternatives?
    - What would you recommend to do and why?
- You will have to send the presentation via email to christian.schopper@aon.at by latest 24.00 on the night prior to the respective session in which the Case Study Assignment will be discussed and bring a copy on a USB stick to class
- Subsequently 2-3 individuals (or groups) will either volunteer or be chosen arbitrarily to present their conclusions (ideally each 5-7mins) in front of class, followed by approx. 2-3 questions (3-5mins), whereby you will have to support your conclusion(s)

Case Study 1: The chief financial officer of **Granite Apparel** is trying to determine which of the three fundraising options is optimal for Granite Apparel to finance a projected rapid growth strategy. The three options are an initial public offering of equity, a privately placed debt issue and a private placement of preferred shares.

Case Study 2: You are provided an opportunity to explore financial policy in a situation of broad strategic change. In recent years, **Nokia**, the world's leading producer of mobile phones, had seen its market share and profits eroded by rival products such as Apple's iPhone and phones featuring Google's Android operating system. In February 2011, Stephen Elop, the recently appointed president and CEO of Nokia, announced a broad strategic plan and partnership with Microsoft to correct the company's course and improve its competitive position. Analysts regard the next two years as a period of great uncertainty for the company. The CFO of Nokia must reassess the firm's financial policy in light of the plan and consider its effects on the potential need for external funds, and the appropriate mix and cost of the debt or equity financing that might be used to raise those funds. Nokia, like many technology companies, often carried high cash balances to preserve financial flexibility, but in 2008 and 2009 in response to the global financial crisis it had drawn down cash to historically low levels and experienced several downgrades of its debt by major credit rating agencies. You must evaluate the tradeoffs between maintaining cash reserves and the need for external funds and work through the implications of financing the projected need for external funds with debt or equity.

Case Study 3: This case examines the cost of capital estimation for British postal service company **Royal Mail** plc in 2015, a time when company managers and government regulators were adjusting to private ownership after 500 years of government ownership. The case features a flawed cost of capital estimation analysis that includes common blunders. You, as an expert, are invited to evaluate this analysis and provide your own alternative estimate for the cost of capital for Royal Mail.

Case Study 4: In 2014, **Alibaba**-the Chinese e-commerce giant who, in September 2014, completed the largest initial public offering (IPO) in New York Stock Exchange (NYSE) history-was preparing itself for an additional round of capital fundraising. This time, Alibaba focused its efforts on a new, large bond issue. Its chief executive officer would lead Alibaba's finance team in meetings with investors in Hong Kong, Singapore, and London to gather information about this pending bond issue. Although Alibaba was listed on the NYSE, an overwhelming majority of its revenues originated in China. Most U.S. investors had not heard of Alibaba until just a few months prior to its IPO in September 2014. Also, being a high-tech company, Alibaba was subject to the potential for large swings in valuations typical for the industry. Fluid valuations and matters related to country risk premia meant pricing the bond issue was going to be a challenge. How would Alibaba estimate the bonds' pricing? Further, how should the firm determine the location and timing of the new bond issue?

Case Study 5: In January 2012, Ellen Kullman, CEO and chairman of **DuPont**, must decide whether to retain or sell the company's Performance Coatings (DPC) division. The case focuses on a publicly listed corporation's decision to divest a large division and you are to compare the division's value if it remains under DuPont's control or is sold to an outside party. The transaction size of approximately $4 billion is too large for potential strategic buyers in the industry, making private equity (PE) firms the most likely bidders. You are to assess the value of DPC as a stand-alone company and to analyze the division's potential value under PE ownership (e.g., EBITDA growth, multiple arbitrage, and increased leverage). You are asked to discuss the differences between a public company's valuation based on unlevered free cash flows and a PE sponsor's valuation based on residual (levered) cash flows …

Case Study 6: Franz Humer, CEO of the **Roche** Group, must decide whether to mount a hostile tender offer for the publicly-owned shares of Roche's biotechnology subsidiary, **Genentech**. The case provides opportunities to analyze Roche's strategy with respect to Genentech, the pros and cons of merging the two companies with different cultures, the value of Genentech, and the tactics of a hostile tender offer.

Case Study 7: In September 2013, Miles Griffin, CEO and chairman of the board of **Newfield Energy**, prepares to present financial proposals to the board of directors for approval. Newfield, based in Houston, Texas, was a large independent energy company primarily engaged in the exploration, development, and production of crude oil, natural gas, and natural gas liquids. It had experienced declines in earnings and cash flows in recent years because of the decline of natural gas prices and asset write-downs. The proposals to the board, prepared by the CFO, included (1) a press release outlining that the company was planning to divest several natural gas projects immediately, probably at significant book losses; (2) a significant reduction of common stock dividends; and (3) an exchange offer under which the company would exchange up to 20% of its common stocks into newly issued preferred stocks. Griffin was concerned that the breadth and complexity of the proposals might cause investors to worry …

Interim Tests

- An Interim Test will be a small written exam – it may be announced or not - each lasting for approx. 5mins; format is "closed book", only a calculator is allowed

Course contents

Content

Course objective is to apply theoretical concepts in real life situations, requiring setting a policy and financial decision making. We will study alternatives and their respective impact on value creation. The Course includes lectures, problem solving, discussions and case study assignments. Subjects will comprise – among others:

- Advanced Capital Structure (including Signaling Theory, Pecking Order Theory, et al)
- Initial and Secondary Public Equity Offerings and Debt Offerings
- Payout Policy (including dividend policy and share repurchases)
- Company Valuation
- Mergers & Acquisitions
- Advanced and Complex Corporate Finance Constellations

Learning Approach

Theory / concepts / techniques will be jointly reviewed in the Course. – The Course will also include:

- Case Study Assignments as well as;
- Possibly, small Interim Tests (each lasting 5-10mins)

Learning Outcomes

When you have completed this Course, you will be able to

- Evaluate financing, transactional and investment decisions
- Apply analytical techniques to a variety of problems in corporate financial management
- Describe the institutional environment in which financial decisions are made including identifying the sources of financial risk and their relevance in financial management,
- Critically evaluate finance theories, concepts, assumptions, limitations and arguments
- Apply critical thinking, problem solving and presentation skills to activities dealing with advanced corporate finance and demonstrate in an individual summative assessment task the acquisition of a comprehensive understanding of the topics covered

Schedule

The topics allocated to certain days may be adapted, as required

	Session 1	**Session 2**	**Session 3**	**Session 4**	**Session 5**	**Session 6**	**Session 7**
	TBD	TBD	TBD	TBD	TBD	TBD	TBD
	TBD	TBD	TBD	TBD	TBD	TBD	TBD
	Advanced Capital Structure 1	**Advanced Capital Structure 2**	**Capital Markets 1**	**Capital Markets 2**	**M&A Sell-Side**	**M&A Buy-Side**	**Payout Policy**
	Intro	Interim Test	Interim Test	Interim Test	Interim Test	Interim Test	Interim Test
1	**Case Study** - Granite Apparel	**Case Study** - Nokia	**Case Study** - Royal Mail	**Case Study** - Alibaba	**Case Study** - DuPont	**Case Study** -Roche / Genentech	**Case Study** - Newfield Energy
2	Corporate Analysis	Restructuring	Cost of Capital	Credit Rating Process	LBO Valuation	M&A Tactics	Dividend Policy
3	Capital Structure Theories		IPO Approach		Private Capital Markets		Payback Policy
	= Group Assignments						
	= Individual Assignments						

Course materials

<u>Preparation</u>

- Familiarize yourself with literature / readings about the principles of Strategic Corporate Management. Basically, you are free to select any literature which suits you. Good references in this context are the books by Damodaran – Corporate Finance or by Brealey / Myers -- Principles of Corporate Finance

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.