



UNIVERSITY OF
ARKANSAS
SAM M. WALTON
COLLEGE OF BUSINESS

COURSE SYLLABUS

Course: **FINN 4233 Advanced Corporate Finance**

Prerequisite: FINN 3603

Course Motto:

“The point is, ladies and gentlemen, that greed, for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit.”

(Gordon Gekko in movie ‘Wall Street’)

“Oh, smashing, groovy, yay capitalism!”

(Austin Powers in movie “Austin Powers: International Man of Mystery”)

Course Objective:

Welcome to the **Advanced Corporate Finance**, the most exciting college course ☺. This course is a **very real-world-oriented course based on frequent analysis of financial cases and focused on valuation of companies and applied corporate finance topics**. The main goals of this course will be:

- 1) to introduce you to some *additional interesting, previously uncovered corporate finance topics*, such as bankruptcies, initial public offerings, and possibly mergers and acquisitions, firm compensation policies, as well as issues of optimal corporate governance;
- 2) to discuss project valuation methods that go beyond the traditional NPV framework and estimate the extra project value of managerial flexibility – so called *Real Options* (during this portion of the course, you will also be introduced to the advanced option valuation methods, such as binomial tree method).
- 3) to make you acquainted with problems of *valuation of international projects and companies* (estimation of cost of capital in foreign countries, valuation of foreign companies)
- 4) (and maybe the most importantly) to familiarize you with the most-frequently used corporate valuation techniques – such as dividend discount model, valuation using discounted cash flows, valuation using value-multiples.

Throughout the course, I plan to show you step-by-step valuation of a real-world company (H.J. Heinz Company)!

To sum it all, we will learn *why* greed (or less emphatically, the ever-present desire to make more money) works – by analyzing the sources of value creation, and by learning methods how to evaluate the impact of managerial activities, and how to properly value corporations and corporate assets.

This course is elective and as such it covers a lot of material and is very challenging. However, the work and lectures are designed to help you succeed. If you keep up with the reading assignments, spend time working the problems and your class project, you will do well in the course. And consider this – at the end of this course you will know all the necessary tools that will allow you to value any company you want – i.e. the tools that will ultimately make you STINKIN' RICH!!!

Teaching Philosophy:

My goal is to see you learn. I want you to do well and I use a straight scale, so lots of people can get A's if the class as a whole is highly motivated. Plus, I will do my best to help you to understand the material and to do well on the exams. I realize that you have a busy schedule and often face difficulty in getting enough time to study. This makes it all the more important to get involved while you are here. We are going to have fun but expect to work hard. Remember, Intermediate Financial Management is a prerequisite for this course, some of material we will cover has already been covered in the introductory course. However, the level of difficulty and the pace will be higher.

If you feel you cannot commit the necessary time to learning this material at this point in your education, I recommend you drop the course now and re-register for it at a more appropriate time.

Required Materials:

- 1) Investment Valuation (2nd Ed.) by Aswath Damodaran, and a calculator with y^x and e^x functions. Financial calculators are recommended, but not necessary.
- 2) Assigned readings – students are expected to make copies of selected articles from financial journals that will be discussed during classes (the financial journals can be found in the UofA library and on the Internet). Assigned reading will be announced in class, and is subject to change. In addition, as future star financial analysis, you are expected to be conversant with the topics covered by *The Wall Street Journal*.
- 3) 2002 *H.J. Heinz Company* Annual Report (will be distributed in class)
- 4) Assigned cases (can be purchased at UA bookstore and/or Dickson Street Book Exchange at least one week prior to the class discussion)

Initial set of cases:

Harvard Business Press:

Netscape Initial Public Offering 9-296-088

Arundel Partners: The Sequel Project 9-292-140

MW Petroleum Corporation (A) 9-295-029

Project Valuation in Emerging Markets 9-702-077

University of Western Ontario (Ivey Management Services):

Valuing Coca Cola Stock 9A97N017

The T. Eaton Company Limited's Initial Public Offering 9A98N024

Oxford Learning Centres Inc.: The Childtime Alternative 9A98N013

Donaldson, Lufkin, & Jenrette and Netia S.A. – Marketing the First Polish IPO on NASDAQ 9B00N023

In addition, students are asked to bring the lecture notes to the class. The lecture notes for every week can be downloaded from <http://wcob.uark.edu/tjandik> , starting with the evening before the first class of every week (i.e., on Monday evening).

Recommended reading:

A corporate finance textbook which you used in your introductory course in Corporate Finance (e.g. Fundamentals of Corporate Finance, by Ross, Westerfield, and Jordan; or Fundamentals of Corporate Finance by Brealey, Myers, and Marcus)

A cool, friendly website: Damodaran Online <http://damodaran.com> (contains tons of useful valuation-related material)

Examinations and Grading:

Your final grade will be determined by your performance on the following:

Take-home Exam I (22.5%)

In-Class Exam II (27.5%)

Final Exam (30%)

Class Project (20%)

Bonus for 100% attendance (3%), Bonus for Attendance with at most one absence (2%), or

Bonus for attendance with at most two absences (1%).

The grades will be computed using a straight scale (90 and above = A, 80 and above = B, 70 and above = C, 60 and above = D).

The exams will incorporate both applied and conceptual problems and will contain a mixture of problems, short answers, multiple choice question, and case analysis. **Regarding the take-home exams, students are not allowed to discuss the exams with their classmates, colleagues, friends, etc. prior to the submission.** Students will have at least one week to submit the test. **No late submissions will be accepted for a grade. Please, make a photocopy of your answers!!**

The in-class exams (midterm and final) will be “closed book”. I will provide a formula sheet for each exam but it will not have definitions or instructions on how to use the formulae. Exam grades will be based on both the approach taken and the correctness of the response. Calculators will be permitted. Both midterm and final exams may contain a take-home question(s) related to the analysis of financial cases.

Exams are scheduled well in advance so that you can plan around these dates. Do not ask to be excused from exams for matters of personal convenience. An unexcused absence without supporting documentation (e.g. doctor’s note, police report, government certificate of alien abduction) will result in a grade of zero.

Class Project:

The class project for this course will involve the valuation of a particular company. Additional details about the project will be handed out during week 5. The project is due April 20, 2004. **No late submissions will be accepted for a grade.**

Other Course Policies:

Lectures:

Lectures will stress the most important issues addressed in the text and assigned readings. You are responsible for all material covered in class, assigned readings, suggested problems and study questions, and problem sets. Lectures will go beyond the scope of the textbook for certain topics. Therefore, it is important for you to attend class. **You are responsible for all announcements made in class.** Class lectures will sometimes involve working through problems. Thus, you should bring a calculator to class so that you may work problems and participate in class.

Academic Dishonesty:

Cheating on exams and other academic misconduct is grounds for failing the course and additional sanctions. Refer to “Policy on Academic Honesty”, as published in the *Undergraduate Catalog of Studies*.

Inclement Weather Policy:

Simple – if the university closes, there is no class.

Other Issues:

Communication in a class this size can be difficult and I want to make it as efficient as possible. It is easy and effective to email me your questions and I will reply as soon as I can. I am available during office hours and will gladly schedule an appointment with you if the alternatives listed above do not meet your needs. In addition, prior to exams I will have expanded office hours to assist with those last minute questions.

If you don't know/understand something, ask!!

Last (but definitely not the least) – have fun!!

Course Outline:

This is tentative. Reading material may be added or deleted as the semester progresses. The in-class exam dates will remain firm (the take-home exam dates may change). **Students are asked to complete the reading assignments *in advance* (i.e. before the particular class sessions).**

Week 1 (January 13): Motivation, Review of investment criteria, Approaches to valuation, Estimation of growth rates

Read: Chapter 1,2,11

Week 2 (January 20): Valuation using Dividend Discount Model

Read: Chapter 13

Week 3 (January 27): Valuation using Dividend Discount Model

Read: Ivey Case: Valuing Coca Cola Stock

Week 4 (February 3): Valuation using Discounted Cash Flows approach

Read: Chapter 9,10,15

Week 5 (February 10): Valuation using Discounted Cash Flows – extension and applications
Read: HBS Case: Netscape Initial Public Offering
Read: Chapter 12

Take-home Exam 1 on February 12

Week 6 (February 17): Valuation using value ratios
Read: Chapter 17,18

Take-home Exam 1 due on February 19

Week 7 (February 24): Valuation using value ratios (conclusion)
Read: Chapter 19,20

Week 8 (March 2): Comprehensive valuation case: comparison of alternative valuation methodologies, valuation of bankrupt and IPO companies
Read: Ivey Case: The T. Eaton Company Limited's Initial Public Offering 9A98N024

Week 9 (March 9): Comprehensive valuation case: comparison of alternative valuation methodologies, valuation of bankrupt and IPO companies (conclusion)

Week 10 (March 16): Spring Break ☹☹☹

Week 11 (March 23): Valuation of Real Options
Read: Chapter 28

In-Class Exam II: March 25

Week 12 (March 30): Valuation of Real Options
Read: Chapter 29

Week 13 (April 6) Valuation of Real Options – Practical Applications
Read: HBS Case: MW Petroleum Corporation (A), *Arundel Partners: The Sequel Project*

Week 14 (April 13): International Cost of Capital
Read: HBS Case: Project Valuation in Emerging Markets
Read: Chapter 7,8

Week 15 (April 20): International Cost of Capital (concl.), Valuation of foreign companies
Read: Ivey Case: Donaldson, Lufkin, & Jenrette and Netia S.A.

Week 16 (April 27): Acquisitions and Takeovers
Read: Chapter 25

FINAL EXAM: Thursday, May 6, 3:00pm – 5:00pm!!