

Advanced Corporate Finance
FINC 453: Spring 2016
Quinlan School of Business, Loyola University Chicago
Schreiber's Center, Room 525

Instructors: Abol Jalilvand, Ralph Marotta Chair in Free Enterprise, and Professor of Finance)
Phone: 312-915-7101
E-Mail: *ajalilv@luc.edu*
Office Hours: Tuesday 3:00 pm – 5:00 pm: Schreiber's Center, Room 703, or by Appointment

Course Description (Prerequisite: FINC 450)

Recently, rapid economic, technological and political changes have significantly increased the turbulence level in the global business environment. We have also witnessed declining survival rates and diminished profitability across many sectors of the economy. Yet, successful firms continue to remain profitable by rapidly adapting their financial and operating strategies to changes in global environment and financial markets.

FINC 453 offers an integrated financial and strategic perspective on managing a firm's operating and financial resources (cash, debt, equity, plant and equipment) to undertake value-enhancing investment opportunities. Through lectures and real world cases, the course discusses the role that financial and operating flexibility (liquidity, leverage, and real options), M&A, and restructuring play in creating value by investing in core assets and future growth opportunities. Further, students will be provided with an opportunity to conduct an in depth enterprise-wide evaluation of a company to assess whether it is optimally positioned to grow and enhance its future market cap.

Learning Outcomes Become familiar with a thorough and comprehensive understanding of the firm's valuation theory and its application in areas such as raising capital, cost of capital, real options, mergers and acquisitions, and restructuring.

Text Book Stephen Ross, Randolph Westerfield and Jeffrey Jaffe (RWJ), Corporate Finance, 10th (or 11th) Edition, McGraw Hill/Ryerson, 2013.

Note: The text only provides basic level knowledge and observations on the selected topics in this course. Class lectures are more comprehensive and detailed.

Lecture slides, articles, and other presentation material will be on Sakai. The lecture slides are complementing the material in the book and those covered in the assigned articles. Students are responsible to carefully study all sources.

Evaluation The final grade will be based on individual work (mid-term exam, and two assignments) as well as a group project (presentation and final report, see Appendix (B)). A representative set of end-of-chapter problems is included in Appendix (A). These problems will assess your analytical and conceptual understanding of the concepts and theories advanced in the course. They will not be graded or collected. Students are responsible to do the problems on their own. Solutions are found on Sakai. In addition, other representative problems and questions are discussed during the class time.

Key success factors in this course

As an analytical and financial strategy course, students will face a fair amount of formulae, statistics, numerical analyses, and conceptual essay-type questions. It is important to regularly keep up-to-date with all material. Specifically, the following steps are highly recommended.

1. Complete all homework assignment and understand them fully.
2. **Doing the homework assignment alone does not guarantee success and a good grades.**
You also need to fully master the concepts and examples provided in the lectures. So, please use office hours and appointments judiciously.
3. Select the company you will be analyzing and form your group by the end of the 2nd or 3rd week of the classes.
4. Be current on financial news covered by outlets (print and online) such as the Wall Street Journal, Financial Times, etc.

Group Project Objective

- (1) Applying the knowledge from the course to a specific company.
- (2) Developing and delivering a clear and interesting presentation of the case.
- (3) Evaluating the adequacy of an argument, position, and plan.
- (4) Posing worthwhile questions.
- (5) Offering and receiving criticism in a professional manner.

Course grade framework

1. Two equally weighted take-home assignments	30 %
2. In-Class Mid-term Exam	30 %
3. Final Group Project Presentation	10 %
4. Final Report	30%
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Total	100

Grading Scale

A, A+	90 – 100
B+/A-	86 – 89
B	80 – 85
B-	75 – 79
C	70 – 74
D	60 – 69
F	Below 60

Course Policies

Academic honesty and honor code will be enforced strictly in the course. Please see: http://www.luc.edu/eblast/gsb/honor_code.pdf for more information.

CLASS SCHEDULE

February 24/March 2 (Weeks 1&2)

Financial Flexibility, Cost of Capital, and Valuation

RWJ: Chapters 16 and 17; Also RWJ: Chapters 10, 11

NOTE: Chapter 10 and 11 present basic statistical knowledge and risk-return relationship previously covered in your introductory finance course at the MBA or MSF programs. You are expected to review these chapters prior to the first class. I will highlight the related issues as well.

Real World Case: “Capital Structure for Trans-Quebec Maritimes Pipeline Inc.: An Empirical Study”, A. Jalilvand.

Based on a true event, this case discusses an expert witness report and related court cross-examination focusing on estimating the appropriate debt to equity ratio for a Canadian Gas distributor regulated by the Canadian National Energy Board. It provides an excellent example of the application of capital structure theories to a real world situation.

March 9

Spring Break

March 16 (Week 3)

“Le Beau Footwear: A Business Valuation Case for a Privately-Held Firm”, A. Jalilvand and J. Kostolansky, 2015.

Real World Case: Based on a true event, this case provides a rich and comprehensive example of the application of the accounting return on investment (ROI) and the market-based opportunity cost of capital (OCC) techniques to valuation of a privately-held firm. Further, the case demonstrates a sharp example of economic adjustments that can be applied to capture the valuation implications of initial public offering’s (IPO) degree of underpricing and small firm effect.

Assignment (I) Due

March 23 (Week 4)

Options and Corporate Finance

RWJ: Chapters: 22, 23

Triantis (2005), “Realizing the Potentials of Real Options,” Journal of Applied Corp. Finance JACF).

March 30 (week 5)

MID-TERM EXAM

April 6/13 (Weeks 6, 7)

Managing Corporate Risk: Swaps, Duration, and Debt Portfolio Strategies

RWJ: Chapter 25

Real World Case: “Mean-Variance Debt Portfolio Optimization Approach: The Case for Bell Canada

Based on a true event, this case discusses the application of an optimization model to solve debt portfolio choices for a major Canadian telephone company. It provides a sharp understanding of the interplay between cost and risk characteristics of different debt instruments available to a firm.

Kaplan & Mikes (2012), “Managing Risks: A New Framework,” Harvard Business Review (HBR).

Jalilvand, Switzer, and Tang (200), “A Global Perspective on the Use of Derivatives for Corporate Risk Management Decisions”, Managerial Finance, Vol. 26, Issue 3.

April 20/27 (Week 8, 9)

Strategic Change, Mergers and Acquisitions, and Corporate Performance

RWJ: Chapters: 29

Real World Case: Comcast-Time-Warner Acquisitions: Chicago Tribune Op-ed, 2014. Comcast acquisition of Time Warner Cable (TWC): \$45.2 billion stock deal

- Jalilvand & Kim (2013), “Matching Slack Resources and Investment Strategies to Achieve Long-Term Performance: New Perspectives on Corporate Adaptability” Journal of Economic Asymmetries

Assignment (II) Due

One-Page Summary and the complete power point presentation on group projects due on Week 9.

May 4 (Week 10)

Group Project Presentations (Final written report due in Week 10).

Appendix (A): Suggested Problem Set (RWJ)

Chapter 10: All problems except 20, 21, 27, and 28.

Chapter 11: 8,9,10,11,16,17,23,25,31, and33

Chapter 16: 3, 6,7,12,13,18,25, and 28

Chapter 17: 1, 3, 6, and 8

Chapter 22: 6, 10, 11, 13, 15, 18, 21,22, 24, and 30

Chapter 23: 1, 5 and 6

Chapter 25: 6,7,8,10,11, and12

Chapter 29: 1, 7, 8,9,10

Appendix (B)

Group Presentation Project: An Evaluation of a Company's Resources, Risk, and Investment Strategies

You are expected to select a publicly traded U.S. or multi-national company (excluding the financial and securities sectors) having a minimum market cap of \$10 billion. Your task is to evaluate the company's overall financing, risk, and investment strategies over a five-year period. Specifically, your report should include several components.

1. An analysis of the company's overall financial strategy.
 - Compare the company's financial strategy with that of its industry.
 - Which capital structure theory best describes the company's financial strategy: tradeoff theory, pecking order hypothesis, or neither?
 - Is there a range that best describes the company's optimal leverage ratio?
 - Using insights from the "Capital Structure for Trans-Quebec Maritimes Pipeline Inc.: An Empirical Study" and "Le Beau Footwear: A Business Valuation Case for a Privately-Held Firm", calculate the company's overall cost of capital.

2. An analysis of the company's overall risk management strategies.
 - Prioritize the top five broad sources of risk the company is facing: e.g., financial, regulatory, legal, global, etc.?
 - Compare and contrast the company's risk profile (e.g., cash flow variability, beta, leverage, liquidity, etc.) with industry norms over the five-year horizon.
 - What is the company's risk management philosophy?
 - Does the company use derivatives such as options, interest rate and currency swaps? Give examples. How are they evaluated?
 - Has the company's risk management system performed successfully?

3. An analysis of the company's overall growth and innovation strategy.
 - Is your company a "value" or a "growth" firm?
 - What is the company's innovation and growth strategy?
 - Has the company been involved in M&A activities? Give some recent examples.
 - What were the motivations for the M&A activities?
 - Did they create value for shareholders, bondholders? Why?

All work must be original, not excerpted from buy or sell side industry investment research. Analysis should balance both qualitative and quantitative approaches. Each group will prepare a written report (maximum 15 pages single-spaced) as well as 10-15 minute formal presentation, followed by a 5-7 minutes of Q&A. The key guiding principles of the presentation are highlighted earlier in the course outline. Presentation should be emailed to students and the instructor by week 9 in the program. Students who are not presenting are expected to ask questions from the presenters. The due date for the written report is week 10.