

Applied Corporate Finance

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Course Description

This elective's main aim is to enable you to use the ideas and techniques of Financial Economics to deal with key applied Corporate Finance issues. These issues are also highly relevant for the understanding of everyday developments in financial markets and investment decisions. You are already familiar with the material from prerequisite Finance courses (capital structure, valuation, CAPM, option pricing, etc.). Therefore, we will mainly focus on practical applications, discussing the usefulness as well as the limits of these concepts and tools.

The course has two parts:

1. *Company Valuation and Financial Policy*: critical evaluation of company valuation methods, share repurchases and dividend policy, initial public offerings, leveraged buy-outs, mergers and acquisitions.
2. *Applications of option pricing to corporate finance*: real options, warrants, convertible bonds, financial innovations to resolve issues faced by companies.

Required Readings

To solve the cases you will most probably find it helpful to refresh your memory by reading relevant chapters from your favourite Finance textbook:

Jonathan Berk and Peter DeMarzo "Corporate Finance" (2nd edition) Pearson, hereafter referred to as CF,

Class notes from Financial Markets and Valuation and Corporate Financial Policy.

Students who have taken this elective earlier have found the following book helpful:

Copeland, Koller and Murrin, "Valuation: Measuring and Managing the Value of Companies", John Wiley, 3rd or 4th Edition (referred to as C,K & M)

The topics, especially the valuation part, are (brilliantly) covered in a recent book written by two INSEAD faculties:

Gabriel Hawawini and Claude Viallet: "Finance for Executives: Managing for Value Creation", South-Western College Publishing, 3rd Edition, 2007.

To better understand how shareholder value is created, participants are strongly encouraged to read the following (fascinating) book:

G.P. Baker and G.D. Smith: "The New Financial Capitalists: KKR and the Creation of Corporate Value", Cambridge University Press, 1998.

Preparation for class

A mixture of lecturing, case discussions, and intensive sharing of experience will provide an interactive learning environment allowing for an in-depth understanding and an appreciation of the interplay between a company's financial strategy and its corporate strategy and practices. To prepare for class, you should go through the assigned cases and readings and make a serious attempt to answer the assignment questions so that you can actively participate in the class discussions and share your analyses, recommendations, and comments with the rest of the group.

Feedback

I encourage you to provide feedback on class topics, content, and cases. We appreciate any concerns, questions, or opinions regarding the course. We would like to continuously improve this course; participants' feedback is critical in guiding this effort.

Course Requirements/Grading

Group Case Write-ups: 50 %

Each team has to prepare 4 cases in total. The team has to hand in a typewritten report of each of the 4 cases (double-spaced) of maximum 3 pages + 3 pages of exhibits (6 pages total). Teams are expected to be formed at the end of the first day. Participants can create the groups as they wish provided that group size is 3-4 students from the same section. Students not part of a group by then will be assigned to a group. During the case discussion, the instructor will randomly select participants from teams that did the write-up to discuss their solutions. All students are expected to read the cases before class even if they are not participating in the case write-up, and to participate in the class discussion.

Class participation: 50%

Class participation will be evaluated based on the depth and quality of your analysis, and frequency with which you speak up in class. Class preparation is of course required. The quality of your contributions in class will be evaluated in terms of how your input helps move the discussion forward toward a better understanding of the

topics covered. Posing questions, raising alternative viewpoints, and providing well-reasoned challenges to expressed views are very valuable forms of contribution. We encourage you to prepare for cases in small groups. It is very important that you attend most of the classes. Please, bring your name cards to each class.

Honor Code

We expect that the students absolutely follow the following rule:

As we and other professors have used the cases previously at INSEAD and other institutions, the students are not allowed to consult any material (e.g. student reports or professors' hand-outs) while preparing their reports. One of the main strengths of the case-teaching method is that the students get intimately involved with the case material while struggling to solve them. Violation of the code of ethics of this course will result in an automatic failing grade for the course!

Submitted written case analyses should be your own or your team's work only. We assume that each member of the team contributes equally to the group report.

Preparation

For each class session, you should familiarize yourself with the topics covered in the assigned readings. You may come across articles relevant to the corporate finance topics we are studying as you read the financial press. We encourage you to bring them to our attention.

Further In-Depth Readings

Chapters 16, 18, 19, from “Applied Mergers and Acquisitions” by Bruner, Robert, 2004, Wiley: New Jersey

Chapters 3, 4, 22, from “Takeovers, Restructuring and Corporate Governance” Weston, J. Fred, Mark L. Mitchell and J. Harold Mulherin, 2004, (4th edition), Pearson: New Jersey

Course Outline

Valuation Issues

- Session 1: Tuesday 8th May
Lecture: Company Valuation Methods
Reading: C,K & M (3rd edition), Chapter 3, 5, 8, 12
Or : C,K & M (4th edition), Chapter 3, 5, 9,
- Session 2: Thursday 10th May
Case: Paramount Communications Inc.
Reading: C,K & M (3rd edition), Chapter 8-10
Or : C,K & M (4th edition), Chapter 5, 7,10

Corporate Structure

- Session 3: Friday 11th May
Case: Diageo
Reading: CF Chapters 14, 15 and 16
- Session 4: Tuesday 15th May
Case: RJR Nabisco
Reading: CF Chapter 15
- Session 5: Thursday 17th May
Case: Intel Corporation
Reading: CF Chapter 17

Strategies and Financial Policies

- Session 6: Tuesday 22nd May
Case: MCI
- Session 7: Tuesday 29th May
Case: InterBrew Part 1

Equity Financing

- Session 8: Thursday 31st May
Lecture: Equity Offering: IPOs and SEOs.
Reading: CF Chapter 23
- Session 9: Friday 1st June
Case: InterBrew Part 2
- Session 10: Tuesday 5th June
Cases: Amazon.com and Time Warner

Mergers and Acquisitions

Session 11: Thursday 7th June

Lecture: M&A I: Valuation

Reading: CF Chapter 28

Session 12: Friday 8th June

Case: Arcelor

Session 13: Tuesday 12th June

Lecture: M&A II: Strategic Issues

Reading: Chapters 6 and 19, from: "Theories of Mergers and Tender Offers" from Takeovers, Restructuring and Corporate Governance by J.F. Weston, K.S. Chung and J. A. Siu.

Session 14: Tuesday 19th June

Case: Conrail A

Session 15: Thursday 21st (2 sections) and Friday 22nd (1 section)

Case: Conrail B

Session 16: Tuesday 26th June

Case: M&A Negotiation Exercise "Eli Lilly – Hybritech (A)"