Overview
This is an advanced course in corporate finance. The course provides an opportunity to apply financial models and concepts to decision-making in real world situations, focusing on the interface of firms with financial markets. The course will examine both investment and financing decisions. The former will illustrate techniques for valuation of projects. The latter will focus on the raising of capital and financing strategies of firms at different stages in their life cycles.

On most occasions, we take the perspective of the executive who is responsible for the financial decision as, for example, the Treasurer or the CEO. The objective of the class is to get students to develop the ability to distil the major issues, develop alternative strategies to deal with them, and evaluate pros and cons of each alternative in a coherent manner.

Class Preparation & Participation
Class preparation and participation is a must. It is expected that each student has read the case and is prepared to start the discussion. The cases will typically be discussed over two days. I will discuss the case and analyze the main issues on the first day. On the second day, there will be presentations on the case by student groups.

Group Case Work
Please form a group of about five members.

Grading
The course grade will be based on the following requirements – group write-ups of cases and presentation and a final. The final element of the grade is linked to class participation and peer evaluation.

50%-Case Write-ups
Each group must turn in five case write-ups and present two of these cases in class. You may choose any cases as your assignment, but I recommend you space them out through the semester.
No detailed background is needed in the write-up – a few lines should suffice (in other words, don’t repeat the material from the case except to the extent that you want to focus on a particular number). On the other hand, do not assume I am intimately familiar with every number in the case. Exercise judgment on what is necessary to make the write-up coherent. In any event,  
- Take a clear stand on the central case problem  
- Provide a recommended course of action.

20% - Mid-Term Exam  
The mid-term exam will cover some of the basic valuation techniques, and will consist of numerical problems.

20% - Final Exam  
There will be a final exam which will test the analytical skills developed by the case analyses.

10% -- Peer Evaluations and class participation  
Towards the end of the semester, each student will evaluate every other group member individually. Use participation and attendance in group meetings, contribution to group write-ups and discussions, and the overall rating as a team player as criteria to grant these grades. In addition, I will also take into account the class participation and attendance of the student in determining this portion of the grade.

Course Package  
  1. American Chemical Corporation, HBS Case: 9-280-102  
  4. A Note on the Venture Capital Industry, HBS Note: 9-295-065  
  5. A Note on Private Equity Securities, HBS Note: 9-200-027  
  6. Securicor Wireless Networks: HBS Case 9-899-134  
  7. Metapath Software: 9-899-160  
  8. Capital Projects as Real Options, HBS Note: 9-295-074  
10. Immulologic Pharmaceutical Corporation, HBS Case: 9-293-087  
11. Tiffany and Company, HBS 9-288-022  
12. MCI Corporation, HBS Case 9-284-057  

In addition, you may use any corporate finance textbook as reference (e.g. Ross, Westerfield, Jaffe, Corporate Finance or Brealey and Myers, Principles of Corporate Finance).
CLASS SCHEDULE

DETAILED CLASS SCHEDULE
February 18th is Presidents’ Day, and Monday schedule will be followed on Tue, February 19th.
Spring Break begins Saturday March 15th.
Last day of class is May 13th.

Week 1: January 28 and 30
Course Overview
Review of Capital Structure and Cost of Capital
Valuation techniques

Week 2: February 5 and 7: Using Weighted Average Cost of Capital (WACC)
Case: American Chemical Corporation

Reading:
1. American Chemical Corporation HBS Case: 9-280-102

Week 3: February 12 and 14: Adjusted Present Value (APV) Analysis
Tuesday: Student presentation of American Chemical Corporation
Thursday: Southport Minerals

Readings:

Week 4: February 21
Thursday: Student presentation of Southport Minerals

Week 5: February 25 and 27: Venture Capital
Tuesday: Introduction to Venture Capital
Thursday: Securicor

Readings:
1. A Note on the Venture Capital Industry, HBS Note: 9-295-065
2. Securicor Wireless Networks: HBS Case 9-899-134
**Week 6: March 4 and 6**
Tuesday: Student Presentation of Securicor

Thursday: Review for Mid-Term

**Week 7: March 11 and 13**
Tuesday: Mid-Term

Thursday: Metapath Software

Reading:
1. Metapath Software: 9-899-160

**Spring Break – March 15 to March 23**

**Week 8: March 25 and 27: Real Options**
Tuesday: Student presentation of Metapath Software

Thursday: Arundel Partners: The Sequel Project

Readings:
1. A Note on Private Equity Securities, HBS Note: 9-200-027
2. Capital Projects as Real Options, HBS Note: 9-295-074

**Week 9: April 1 and 3: The IPO Decision**
Tuesday: Student Presentation of Arundel Partners

Thursday: Immulogic Pharmaceutical Corporation

Readings:
1. Immulogic Pharmaceutical Corporation, HBS Case: 9-293-087.

**Week 10: April 8 and 10: Pricing the IPO**
Tuesday: Student Presentation of Immulogic
Thursday: Tiffany and Company

Reading
  1. Tiffany and Company, HBS 9-288-022

**Week 11: April 15 and 17: Capital Structure Decision**
Tuesday: Student Presentation of Tiffany.

Thursday: The Capital Structure Decision: Equity vs. Debt

Reading
  1. Class Notes

**Week 12: April 22 and 24: Convertible Bonds**
Tuesday: MCI Corporation

Thursday: MCI Corporation

Reading:
  1. MCI Corporation, HBS Case 9-284-057

**Week 13: April 29 and May 1**
Tuesday: Student Presentation of MCI

Thursday: Review of main concepts

**Week 14: May 6 and 8**
Wrap up and review for final.

Case for Final Exam: Times-Mirror Company PEPS Proposal Review

Reading:
  1. Times-Mirror Company PEPS Proposal Review, HBS Case: 9-296-089

**Week 15: May 13**

Final Case Analysis: Time Mirror PEPS
Case Questions

Reminder
All write-ups for a case are due after it is discussed in class.

American Chemical Corporation
1. Estimate the appropriate cost of capital for the Collinsville investment.

2. Estimate the incremental cash flows
   - without the laminate technology
   - with the laminate technology

3. Should Dixon Corporation acquire the plant?

Southport Minerals
1. Does the Firstburg investment fit well with Southport’s needs?

2. What are the risks of the project?

3. What is the value-added by the supply contracts and financing for Firstburg?

4. What would you possibly re-negotiate if you had to redo the financing terms for the Firstburg project?

5. Which of the four approaches (if any) for analyzing the Firstburg project is correct?

Background Readings:


Securicor Wireless Networks

1) The Securicor Wireless Board must make a decision whether or not to merge with Securicor Telesciences. Analyze each of the board member’s position with respect to what motivates them in making this decision.
2) What are the benefits and liabilities for Securicor Wireless of the Securicor relationship? How about the relationship between Securicor and Bessemer as co-investors?

3) What are the challenges to merging Securicor Wireless and Securicor Telesciences? What are the benefits?

4) How would you value the combined entity of Securicor Wireless and Securicor Telesciences? (If you choose to discount the returns, the beta of three young publicly traded telecommunications firms in this period were 1.24, 1.37 and 1.45; all these firms had virtually all-equity capital structures. The 5-year Treasury rate in February 1996 was 5.81%.)

Background Readings:
- A Note on the Venture Capital Industry
- A Note on Private Equity Securities

Metapath Software

1) Analyze Metapath’s capital structure. How has this capital structure affected the offer from Robertson and Stephen’s?

2) How do you analyze the RSC offer? What are the risks to the Metapath shareholders if they board accepts the RSC offer?

3) Is the Celltech offer fair? How should the Metapath board view the Celltech stock? What are the risks to the shareholders if the board accepts the Celltech offer?

4) If you were on the Metapath board, which option would you choose?

Background Readings:
- A Note on the Venture Capital Industry
- A Note on Private Equity Securities

Arundel Partners

1. Why do the principals of Arundel Partners think they can make money buying movie sequel rights? Why do the partners want to buy the portfolio of rights in advance of the movies production?
2. Estimate the per film value of a portfolio of sequel rights such as Arundel proposes to buy. You may want to use the data in Exhibits 6-9.

3. Evaluate your estimate. What are the strengths and weaknesses of your estimation strategy? Are there reasons to believe that your method will over or underestimate the true value of the sequel’s rights? How could you test your estimation method?

4. What problems or disagreements would you expect to arise between Arundel Partners and the major movie studios once the contract to sell the sequel rights have been signed? Given the potential problems, what contractual terms and provisions should be included?

Background Reading
Capital Projects as Real Options: An Introduction, Harvard Business School 9-295-074

**Immulogic Pharmaceuticals**
1. What are Immulogic’s financial needs?

2. Evaluate Immulogic’s past financial strategy.

3. What should be Immulogic’s financial strategy moving forward? For example, should Immulogic go public? If so, at what stage or at what time?

4. How would you value Immulogic? Work out a few different approaches putting on the hat of a company owner (or pre-IPO investor) and that of an outside investor coming on board through the IPO.

**Tiffany & Co.**
1. Is Tiffany’s decision to go public appropriate?

2. Evaluate Tiffany’s choice of a lead underwriter.

3. What should be the IPO offering price?

4. Should underwriters carry short positions in IPOs at the offering? Does the short position make sense in light of the Green Shoe option?

5. What should the underwriter do if Tiffany’s price falls in after-market trading?
MCI Communications Corporation, 1983
1. Review MCI’s past financing strategies and current financial condition.

2. Review MCI’s projected financial needs.

3. Select MCI’s target capital structure.

4. What should MCI do now? Why?

5. What kind of companies should issue convertible debt? Why?

Times Mirror Company PEPS Proposal Review

1. How can you describe the PEPS in terms of simple “building block” contracts (eg. Stock, puts, etc.)

2. Does the pricing by Morgan Stanley appear to be “fair” from the perspective of potential investors? What are the key sensitivities of your analysis? Please clearly state all assumptions, and any simplifications made to analyze the contract.

3. Why should Time Mirror issue the PEPS? How large is Time Mirror’s net benefit from issuing the PEPS transaction instead of selling its Netscape shares privately. What are the largest sources of value and costs? What risks must Time Warner bear to carry out this strategy?

4. Does everyone “win” in this case? If so, how can that be?