



Advanced Corporate Finance I

VL: Tue: 16:00 – 18:00, DOR 26, Room 208

ÜB: Wed: 10:00 – 12:00 or Wed: 12:00 – 14:00, SPA 1, 21b

Overview

This course examines how financial decisions, such as capital structure, payout policy, leasing, and fund raising, can affect the value of a firm. While Introduction to Finance II introduced you to the effects of taxes and bankruptcy costs, in this course we explore how agency problems and information asymmetries affect corporate financial policy and thus firm value. We also examine how corporate governance mechanisms and executive compensation can be used to align the incentives of managers with those of shareholders. Recent history in corporate America has shown vividly the importance of these issues for corporate treasures, shareholders, employees and the general public.

This course exposes you to some of the most important advances in corporate finance of the last two decades. It is a fun course but also fast-paced and challenging. It is advisable to simultaneously enroll in the case seminar “Advanced Cases in Corporate Finance”.

Prerequisites

Introduction to Finance II

Team

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| Instructor | Dr. Tobias Berg Office hours: Tue 15-16, Room 301 |
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| Teaching assistant | Daniel Streitz Office hours: TBA, Room 302 <i>daniel.streitz@wiwi.hu-berlin.de</i> |
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Readings

The course textbook is Grinblatt and Titman, *Financial Markets and Corporate Strategy*, 2004, 2nd edition, Irwin/McGraw-Hill (GT hereafter).

Cases can be purchased from HBSP for appr. US\$ 10 at <http://cb.hbsp.harvard.edu/cb/access/5963809> using a credit card.

Additional readings, such as journal articles and book chapters, as well as lecture slides, are available from Moodle.

Course Outline

| # | Date | Topic | GT book chapters |
|----|--------|---|------------------|
| 1 | Oct 19 | Overview of course: Neoclassical finance/Valuation, agency theory, information asymmetries, raising funds Valuing cash flows I | |
| 2 | Oct 26 | Valuing cash flows II: APV, WACC, and CCF | 11 & 13 |
| 3 | Nov 2 | Real options valuations | 12.1-12.2 |
| 4 | Nov 9 | The Effects of Taxes on Corporate Financial Decisions | 14.1-14.6 & 15 |
| 5 | Nov 16 | Agency costs of debt: The debt holder – equity holder conflict | 16 |
| 6 | Nov 23 | Agency costs of equity: The principal – agent problem – Corporate governance | 18.1-18.4 |
| 7 | Nov 30 | Executive compensation | 18.5 |
| 8 | Dec 7 | Capital Structure and Stakeholders | 17 |
| 9 | Dec 14 | Information asymmetries & capital structure | 19 |
| 10 | Jan 4 | Information asymmetries & payout policy HBS Case: Dividend Policy at FPL Group | 19.4 |
| 11 | Jan 11 | Review: Valuation, agency theory, information asymmetries | |
| 12 | Jan 18 | Raising funds: Venture capital and private equity | |
| 13 | Jan 25 | Raising funds: IPO, HBS Case: Google's Initial Public Offering | 3.4-3.9 |
| 14 | Feb 1 | Raising funds: Syndicated Loans | |
| 15 | Feb 8 | Raising funds: Project finance | |
| 16 | Feb 15 | Review of course | |

Reading Assignments

Valuation and Taxes

- 2 Valuing cash flows: APV, WACC, and CCF
 - GT 11 & 13
 - Technical Note: Valuing Companies in Corporate Restructurings, HBS 9-201-073
 - Optional: Cooper and Nyborg, 2007, Valuing the Debt Tax Shield, Journal of Applied Corporate Finance 19, 50-59
- 3 Real options valuations
 - GT 12.1-12.2
- 4 The Effects of Taxes on Corporate Financial Decisions
 - GT 14.1-14.6 & 15
 - Note on Bankruptcy in the United States, HBS Note 9-292-062
 - Optional: Graham, J., (2003) Taxes and Corporate Finance: A Review, Review of Financial Studies 16, 1075-1129

Agency Costs of Debt and Equity

- 5 Agency costs of debt: The debt holder – equity holder conflict
 - GT 16
 - Optional: Miller, M. (1991) "*Leverage*," Journal of Finance, 46, 479-88, Nobel Prize Lecture
- 6 Agency costs of equity – Corporate governance
 - GT 18.1 – 18.4
 - Myers (2001) Capital Structure, Journal of Economic Perspectives
 - Optional: "*Where's all the fun gone?*," The Economist, March 18th, 2004.
 - Optional: Köke (1999) New Evidence on Ownership Structures in Germany
- 7 Executive compensation
 - GT 18.5
 - Optional: Optional: Edmans and Gabaix (2009), "Is CEO Pay Really Efficient? European Financial Management 15, 486–496
- 8 Capital Structure and Stakeholders
 - GT 17

- Optional: Jensen, Michael (1986) "*Agency Costs of Free Cash Flow, Corporate Finance and Takeovers*," American Economic Review, 76, 323-29

Asymmetric Information

9 Information asymmetries & capital structure

- GT 19

10 Corporate payout policy

- GT 19.4
- Dividend Policy at FPL Group Inc. (A), HBS Case 9-295-059
- Optional: Bagwell, Laurie Simon and John Shoven (1989) "*Cash Distributions to Shareholders*," Journal of Economic Perspectives, pp. 129-140
- Optional: Brav, Graham, Harvey, and Michaely (2005) Payout policy in the 21st century, Journal of Financial Economics, 483-527

Raising Funds

12 Private equity and venture capital

- Kaplan and Strömberg (2009), Leveraged Buyouts and Private Equity, Journal of Economic Perspectives 23(1)
- Optional: Moon (2006) Public vs Private Equity, Journal of Applied Corporate Finance, 76-82

13 IPO

- GT 3.4-3.9
- Netscape's Initial Public Offering, HBS Case 9-296-088
- Optional: Brau and Fawcett (2006), Initial Public Offerings: An Analysis of Theory and Practice, Journal of Finance 61, 399-435.

14 Syndicated Loans

- None

15 Project finance

- Brealey, R.A., I.A. Cooper, and M.A. Habib (199?), "*Using Project Finance to Fund Infrastructure Investments*," Journal of Applied Corporate Finance, 25-38

16 Review of course