
Tel Aviv University
Faculty of Management

Financial Management – International MBA program
Spring - 2010

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This syllabus describes policies and procedures for this course. Please read it. You will find yourself less disoriented and stressed-out if you read it now, at the beginning of the course. You will also save yourself time and effort, as the syllabus will answer questions you will otherwise have to find some other way to get answered.

Course Objectives:

The purpose of the course is to provide an understanding of the financial decisions of corporations. These decisions concern investing money (capital budgeting, acquisitions), and raising and distributing money (debt, equity, short term credit, convertible bonds, dividends repurchase etc).

The course is divided into three parts. The first part deals with the investment decisions of the corporation. Here we review how to use the discounted cash flow method (DCF) to evaluate firms/projects. The second part of the course deals with the financing decisions, or, the capital structure decisions of the firm. Here we talk about Equity Policy and Debt Policy. Equity Policy is about the interaction between the firm and its shareholders and includes issuing and retiring shares and paying dividends. Debt Policy is not only about the interaction between the firm and its debt holders, but also about the optimal ratio between debt and equity, and about the interaction between debt holders and equity holders. Related topics introduced here include market signalling, agency problems, bankruptcy, and corporate governance. The final part of the course looks at the interplay between financing and investing, and at implications for valuation mergers and acquisitions.

Much of the material will be presented using simple examples designed to demonstrate how financial decisions can or cannot *create, destroy or modify value*. The problem sets expand on examples used in class, and the cases help relate the examples and theory to practical situations.

Course Material:

- **Required text book**
 - *Principles of Finance with Excel*, by Prof. Simon Benninga Oxford University Press, 2006
 - As this is an advanced course, I do not follow the book that closely. However, I recommend reading the relevant chapters which are listed on the schedule (page 4).
 - In the schedule, the book is referred to as PFE.
- **Course Package**
 - The Course Package includes the cases and the articles for the course.
 - Not all *cases* in the packet will be covered. Study questions for the cases are attached at the end of the syllabus.
 - Few *press clippings* from the popular press and few longer *articles* are included in the packet. Some of them offer a nice example of a corporate finance concept. Others are examples of “common sense.” These articles are worth reading. However, not all of them will be required readings. I will let you know which articles you should read and when beforehand.
 - I may hand out additional material as we move on.
- **Overheads**
 - I will post copies of the overhead transparencies in Virtual. Please download them and bring them to class with you.
 - Typically we will work examples using the board, so you want to keep some blank paper handy for note taking.

Prerequisite:

Introduction to Finance. In particular, a solid understanding the basics of discounting, the valuation of bonds, and stocks and capital budgeting is needed. Most of the material will complement rather than build on what you have learned in the Introduction to Finance class. Typically, we will review some of the basic concepts covered in Introduction to Finance before exploring them deeper.

Evaluation:

Quality class participation	15%
Problem sets (4)	15%
Case Presentation	20%
Final Exam	50%

Problem sets and cases

The class will be divided into groups of 3-4 students. The groups will work on the following tasks:

1. *Cases*: Each group will present in class one or two case analyses. Case presentations are expected to be developed using handouts, overheads, etc. You should come to class prepared for about 15 minutes presentation. All group members should take a part in the presentation. I also ask that you submit to me a hard copy of your presentation. This will help me follow your presentation. All students are required to prepare for the case. I encourage you to work with your group also on cases

that you do not present. However, you are not required to. After your presentation is over, please Email it to me. I will give you feedback in a timely manner.

2. *4 Problem sets:* The problem sets are designed to help you learn and understand the material covered in the lectures. Each group will hand **one** solution **at the beginning of class** in which the problem set is due. **Late submissions will not be accepted.** Please make sure all names and the team number appear on the assignment. I may call on groups and ask them to demonstrate their solution on the board. I will hand out solutions to the problem sets. Only your best 3 problem sets will count towards the course grade.

Exams

There will be only a final exam (no midterm) it will be based mostly on the problem sets but also cover material from class. The date for the final exam will be announced during the semester.

Attendance

Because of the nature of this course, class attendance is **mandatory**. Missing more than **one** class will substantially reduce your course grade. If you have to miss a class, be sure to get the class notes from your colleagues.

Class Participation

In case sessions, while only one group will usually present each case, all groups/students are expected to participate in an intelligible discussion. All groups should come prepared and complete the tasks related to the case. Students should also be prepared to discuss the required articles/press clippings. If you come unprepared, I will notice this and I will not give you a good grade.

Office Hours:

Office Hours are right after class, or by appointment. You may also contact me by e-mail. Unless you ask me not to, I may post your question and my answer on Virtual for the benefit of the whole class. Please check Virtual frequently for material/announcements.

The teaching assistant will be available by appointment.

Schedule and Format of Classes:

A tentative schedule appears on the next page. The chapter numbers listed are guidelines. Not everything in each chapter will be covered. I suggest you read the whole chapter, but focus more closely on the material related to class.

Tentative Schedule:

	Date	Topic	Text-PFE	Due
1	Su Feb 21	Lecture: Overview of Corporate Finance	1-2	
		INVESTING		
		Lecture: Review DCF valuation and working capital	5-6	
		FINANCING		
2	We Feb 24	Lecture: Overview of Financing	20	
		Lecture: Issuing equity - transaction costs	21	
3	We Mar 3	PS1 solution, Analysts		PS1
		Equity Policy:		
		Lecture: Issuing equity - problems of asymmetric information		
4	Su Mar 7	Case 1: MRC - Valuation		
		Lecture: Dividend policy	22	
5	We Mar 10	Lecture: Stock repurchases		
		Guest Lecture: Israel Shaked – Michel-Shaked Group		
6	Su Mar 14	Case 2: Netscape's IPO – Initial public offering and valuation		PS2
		Debt Policy:		
		Lecture: MM with and without corporate taxes	20	
7	We Mar 17	Lecture: Levering up transactions, bond yields	18	
		Lecture: Bankruptcy		
8	Su Mar 21	Case 3: Marvel Entertainment - bankruptcy		
		Lecture: Agency costs of debt		
9	We Mar 24	Case 4: American Home Products - debt policy		PS3
		Lecture: Other issues in debt policy		
		INVESTING AND FINANCING		
10	We Apr 7	Lecture: Three methods of accounting for market imperfections: APV, CFTE, WACC	10	
		Lecture: Understanding and using the WACC		
11	Su Apr 11	Case 5: Atlantic corporation - Estimating the cost of capital, acquisition		PS4
		Lecture: Understanding and using the WACC cont.		
12	We Apr 14	Catching up and review		

Study questions for cases:

MRC, Inc.

1. What are the key elements of MRC, Inc.'s corporate strategy?
2. Would MRC's strategic interest be advanced by the acquisition of American Rayon, Inc. (ARI)? If so, why?
3. Should MRC acquire ARI at the price now available? (You need to do a DCF valuation to answer this question).
4. Is MRC's management control system well suited to handle ARI?

Netscape's IPO

1. Why has Netscape been so successful to date? What appears to be its strategy? What must be accomplished if it is to be highly successful going concern in the long run?
2. Does Netscape need to go public to satisfy its capital needs? What would you estimate might be the magnitude of its capital needs over the next 3 to 5 years? What sources other than the public equity market could be tapped to satisfy those needs?
3. Why, in general, do companies go public? What are the advantages and disadvantages of public ownership?
4. The case points out that the IPO market is sometimes characterized as a "hot issue" market, and that many IPOs are viewed in retrospect as having been "underpriced." What might explain these phenomena? Should the Netscape board be concerned about underpricing? Why or why not?
5. Can the recommended offering price of \$28 per share for Netscape's stock be justified? In valuing Netscape, make the following assumptions:
 - Total cost of revenues remains at 10.4% of total revenues,
 - R&D remains at 36.8% of total revenues,
 - Other operating expenses decline on a straight-line basis from 80.9% of revenues in 1995 to 20.9% of revenues in 2001 (this would give Netscape a ratio of operating income to revenues close to Microsoft's which is about 34%),
 - Capital expenditures decline from 45.8% of revenues in 1995 to 10.8% of revenues in 2001,
 - Depreciation is held constant at 5.5% of revenues,
 - Changes in net working capital of essentially zero,
 - Long-term steady-state growth of 4% annually after 2005, and
 - A long-term riskless interest rate of 6.71%.

Given these assumptions, and starting from its current sales base of \$16.625 million, how fast must Netscape grow on an annual basis over the next ten years to justify a \$28 share value?

6. As an executive in Netscape, what would you recommend with respect to the proposed offering price? As an investor in Netscape, what would you recommend? As the manager of an institutional fund who was willing to buy and hold Netscape's stock at the originally proposed price of \$14 per share, would you be willing to buy and hold at an initial offering price of \$28 per share?

Marvel Entertainment Group

1. Why did Marvel file for Chapter 11? Were there problems caused by bad luck, bad strategy, or bad execution?
2. Evaluate the proposed restructuring plan. Will it solve the problems that caused Marvel to file Chapter 11? As Carl Icahn, the largest unsecured debt-holder, would you vote for the proposed restructuring plan? Why or why not?
3. How much is Marvel's equity worth per share under the proposed restructuring plan, assuming it acquires Toy Biz as planned? What is your assessment of the pro-forma financial projections and liquidation assumptions?
4. Will it be difficult for Marvel or other companies in the MacAndrews and Forbes holding company to issue debt in the future?
5. Why did the price of Marvel's zero-coupon bonds drop on Tuesday, November 12, 1996? Why did portfolio managers at Fidelity and Putnam sell their bonds on Friday, November 8, 1996?

American Home Products

1. How much business risk does American Home Products (AHP) face? How much financial risk would AHP face at each of the proposed levels of debt shown in Exhibit 3? How much potential value, if any, can AHP create for its shareholders at each of the proposed levels of debt?
2. What capital structure would you recommend as appropriate for AHP? What are the advantages of leveraging this company? The disadvantages? How would capital markets react to a decision by the company to increase the use of debt in its capital structure?
3. How might AHP implement a more aggressive capital structure policy? What are the alternative methods for leveraging up?
4. In view of AHP's unique corporate culture, what arguments would you advance to persuade Mr. Laporte or his successor to adopt your recommendation?

Atlantic Corporation

1. What is the outlook for linerboard prices? For the profitability of the linerboard industry?
2. Is the acquisition of Royal's linerboard mill and box plants a sound strategic move?
3. What basis, if any, is there for expecting Atlantic-Royal's combined linerboard and box mill operations to do better/worse than the industry overall?
4. What prices should Atlantic Corporation be willing to pay for the linerboard and box mill operations of Royal Paper Corporation? To answer this question, you will need to consider
 - a. How reasonable are the assumptions on which the cash flows are based?
 - b. How would you estimate and appropriate discount rate?
 - c. What value, if any, should be assigned to the years after 1993?
5. Assuming that Atlantic does acquire Royal Paper's mill and plants for \$319 million what would be the magnitude of Atlantic's external funding needs over the next 4 years, and what would be the most appropriate means of financing those needs?