

ADVANCED CASE STUDIES IN CORPORATE FINANCE

2021_S01_PGE_M2_FIN_0677_E_L_BOD

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COURSE DELIVERABLE	DUE DATE	WEIGHT ON FINAL GRADE
Final Exam (Individual)	Session 10	100%

Kedge Business School and its professors, encourage you to use your Pro-Acts, company projects and internships as privileged opportunities to apply the reflexions, theories, concepts and tools presented during this course

INTRODUCTION AND OBJECTIVES

Below are some of the interview questions asked of graduates from business schools by Goldman Sachs, Merrill Lynch, J.P. Morgan and Morgan Stanley (source: eFinancialCareers, www.efinancialcareers.com):

- *What kind of multiples should I use to do a comparable company analysis on ABC Company? How would I calculate them?*
- *Visualize the cash flow statement of any company you have audited. Take me through its key line items. Why is it said that "Cash is king"?*
- *If your client has excess cash, what advice would you give him? What are the benefits of each one?*
- *How would you calculate the cost of the financial resources employed by the firm? What for?*

What would you have answered?

This course is designed to provide students with a practical approach to the main corporate financial decisions and enable them **to provide optimal answers to such questions**.

The philosophy of this course may be summarized in the following statement: "*Bridging theory and practice*". Case studies in corporate finance provide the reality of financial decision making. That explains why case study-based teaching is used here.

The great interest of case-based classes is to challenge students by bringing them as close as possible to corporate finance decision-making situations of the real world. As such, they provide financial management lessons that students can put into practice in their professional lives.

Specifically, this course revolves around the implication of the main strategic financial decisions on the value of the firm:

- Estimating the cost of capital
- Valuing projects and stocks
- Raising new funds to undertake investments
- Returning cash to shareholders
- Signaling with payout policy

Organization of the course and the final exam

It should be noted that the final exam is scheduled on the tenth and last session. Also worth mentioning, there is **no resit exam** associated with this course, regardless of why you fail the final examination (even in case of an absence with a medical certificate). Therefore, if you fail the final exam but you want to validate this course, the only way is to take it one more time under the same conditions (attendance to all sessions & final exam). There are no exceptions to this rule.

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Lastly, from an administrative standpoint, **no more than two unauthorized absences are allowed**. Above two absences, you will not be allowed to attend the final examination and your final grade will be automatically set to zero.

Courses contribution to program objectives

KM1. Understand and Integrate Core Management Disciplines

Money is probably the only raw material used by any business in any industry. All managers regularly spend money, whatever their area of responsibility. An understanding of **why** and **how** financial decisions are made is thus essential. The focus of this course is to show every student how to "*think finance*". To be successful, students need to master the core concepts and learn to identify and solve problems that financial managers face. The focus of this course targets the KM1 learning goal in a most relevant manner.

KM8: Provide Value to the Business Community in a chosen Area of Specialization

The value of economic profit is to remind managers that they have not really made a profit until they have earned an economic return on the capital they use. This simple intuition is a powerful and useful tool in financial decision making. By relying on it, future financial managers can avoid the bad decisions. At the heart are the essential intellectual tools students need to differentiate between good and bad decision making. In this sense, this course contributes to the KM8 learning goal without doubt.

Course Contribution to Application of Critical Thinking

The case method immerses students into realistic business situations and places them in the role of the decision maker. There are no simple solutions. Through the dynamic process of exchanging perspectives, countering and defending points, and building on each other's ideas, case studies stimulate students' thinking and encourage discussion. As a result, students become adept at analyzing issues and exercising judgment.

Courses description

Evaluating financial health – Cost of capital – Business valuation – Investment decision techniques – Initial Public Offerings (IPOs) – Capital increases (SEOs) – Capital structure policy – Share Buybacks – Dividend policy – Value creation.

COURSE MATERIAL

All course material (case studies, slides, Excel spreadsheets, and exercises) is available on **KedgeBS LEARN** and should be downloaded before each corresponding session.

Textbooks

1. Berk, J., and DeMarzo P. (2017), *Corporate Finance*, 4th edition, Pearson. Available at the campus library – *La Ruche*.
2. Vernimmen, P., Quiry, P., Dallochio, M., Le Fur, Y., & Salvi, A. (2018). *Corporate finance: theory and practice*, 5th edition. John Wiley & Sons. Available at the campus library – *La Ruche*.

Websites

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Corporate Finance by Berk and DeMarzo (the first textbook indicated above) is available with **MyFinanceLab**, a fully integrated homework and tutorial system. **MyFinanceLab** provides Online Assessment Using End-of-Chapter Problems.

The values in the problems are algorithmically generated, giving students many opportunities for practice and mastery.

►To learn more about **MyFinanceLab**, visit www.myfinancelab.com

SUPPLEMENTARY READINGS

References

1. Further Reading on *Investment decision rules and Capital budgeting*:

- J. Graham and C. Harvey (2002), "How CFOs Make Capital Budgeting and Capital Structure Decisions". *Journal of Applied Corporate Finance*, 15(1), p. 8-23.
- S.H. Kim and T. Crick (1986), "Do Executives Practice What Academics Preach?". *Management Accounting*, 68, p. 49-52.
- P. Ryan and G. Ryan (2002), "Capital Budgeting Practices of the Fortune 1000: How Have Things Changed?". *Journal of Business and Management*, 8(4), p. 355-364.

2. Further Reading on *IPOs*:

- L. Benveniste and W. Wilhelm (1997), "Initial Public Offerings: Going by the Book", *Journal of Applied Corporate Finance*, 10(1), p. 98-108.
- A. Ljungqvist (2007), "IPO Underpricing", in B.E. Eckbo (ed.), *Handbook of Corporate Finance, Vol 1: Empirical Corporate Finance*, Elsevier/North Holland.

3. Further Reading on *SEOs*:

- B.E. Eckbo and R. Masulis (1995), "Seasoned Equity Offerings: A Survey", in R. Jarrow et al. (eds.), *Handbooks in operation Research and Management Science*, 9th ed., p. 1017-1059.

4. Further Reading on *Share buybacks*:

- G. Grullon and D. Ikenberry (2000), "What do we know about stock repurchases?", *Journal of Applied Corporate Finance*, 13(1), p. 31-51.
- A. Dittmar (2000), "Why do Firms Repurchase Stocks?", *Journal of Business*, 73(3), p. 331-355.

5. Further Reading on *valuation and financial modelling of companies*:

- T. Koller, M. Goedhart, and D. Wessels (2010), *Valuation: Measuring and Managing the Value of Companies*, John Wiley & Sons.

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6. Further Reading on *the work of F. Modigliani and M. Miller* and its importance in corporate finance:

See the collection of articles in Volume 2, Issue 4 of the *Journal of Economic Perspectives* (1988), which includes:

- M. Miller, "The Modigliani-Miller Propositions After Thirty Years", p. 99-120.
- S. Ross, "Comment on the Modigliani-Miller Propositions", p. 127-133.
- S. Bhattacharya, "Corporate Finance and the Legacy of Modigliani and Miller, p. 135-147.
- F. Modigliani, "MM – Past, Present, Future", p. 149-158.

COURSE CONTENTS AND TIMETABLE

SESSIONS	TOPIC	PRELIMINARY READING(S) AND ASSIGNMENTS	ADDITIONAL READING(S) AND ASSIGNMENTS
Session 1 (3h)	<p>Choice of Capital Structure Seasoned Equity Offering – SEO (Part I):</p> <ul style="list-style-type: none"> Focuses on the process of returning to the equity markets and offering new shares for sale. <p>Throughout this case study, we look at the mechanics of an SEO.</p>	<p>Read:</p> <ul style="list-style-type: none"> The case study dedicated to the Seasoned Equity Offering. Slides linked to this topic. 	N/A
Session 2 (3h)	<p>Choice of Capital Structure Seasoned Equity Offering – SEO (Part II):</p> <ul style="list-style-type: none"> Analysis and discussion of some SEO related issues such as (i) price reaction, (ii) impact on Earnings per share, and (iii) valuation of subscription rights. 	N/A	N/A
Session 3 (3h)	<p>Valuation of equity The Initial Public Offering – IPO (Part I):</p> <ul style="list-style-type: none"> Focuses on the process of selling stock to the public for the first time. Throughout this case study, 	<p>Read:</p> <ul style="list-style-type: none"> The case study dedicated to the Initial Public Offering. Slides linked to this topic. <p>❖ Download the Excel spreadsheets linked to the case</p>	N/A

	we look at the mechanics of IPOs.	study.	
Session 4 (3h)	<p>Valuation of equity The Initial Public Offering – IPO (Part II):</p> <ul style="list-style-type: none"> • Analysis and implementation of some related issues such as (i) valuing an IPO using the FCF – WACC and Comparables methods, and (ii) advantages and disadvantages of going public. 	N/A	N/A
Session 5 (3h)	<p>Internal Financing – Dividend Policy – Share Buybacks (Part D):</p> <ul style="list-style-type: none"> • Focuses on an alternative way to pay cash to investors through a share repurchase or buyback. 	<p>Read:</p> <ul style="list-style-type: none"> - The case study dedicated to the Share Buyback. - Slides linked to this topic. <p>❖ Download the Excel spreadsheets linked to this case study.</p>	N/A
Session 6 (3h)	<p>Share Buybacks – Case study 5 (Part II)</p> <ul style="list-style-type: none"> • Discusses some share buyback related issues such as (i) signaling and share repurchases, (ii) impact on Earnings per share, (iii) the dividend policy, and (iv) capital decrease and value creation. 	N/A	N/A

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Session 7 (3h)	Capital Budgeting Decisions (Part I): <ul style="list-style-type: none"> • Introduces the NPV rule as the "golden rule" against other investment decision rules: IRR and payback period. • Shows how to build a financial model to assess the NPV of an investment decision. 	Read: <ul style="list-style-type: none"> - The case study dedicated to Capital Budgeting Decisions. - Slides linked to this topic. 	<p style="text-align: center;">N/A</p>
Session 8 (3h)	Capital Budgeting Decisions (Part II): <ul style="list-style-type: none"> • Provides a clear distinction between earnings and free cash flow. • Considers cost of capital for a project and value creation issues. 	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>
Session 9 (3h)	Merger & Acquisition as a synthesis of the course: <ul style="list-style-type: none"> • Drivers of M&As • Types of M&As • Synergies, takeovers and strategic value 	Read: <ul style="list-style-type: none"> - The case study dedicated to Mergers & Acquisitions. ❖ Download the Excel spreadsheets linked to this case study. 	<p style="text-align: center;">N/A</p>
Session 10 (3 hours)	Final exam (Individual)	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>

TEACHING APPROACH/ INSTRUCTIONAL METHODS

A Word of Advice

Keep in mind that this module is not a Basic but an Advanced level course. As such, it is mainly dedicated to students who have a background in Corporate Finance. Of course, it is not required to be a senior financial analyst to attend this course. **However, in order to benefit from this course, students should know some basics about:**

- 1- Discounting.
- 2- Reviewing the financial statements of a company (the balance sheet, the income statement, and the statement of cash flows).
- 3- Assessing a company's financial health (profitability ratios, efficiency ratios, financial (leverage) ratios, liquidity ratios).
- 4- The leverage effect mechanism.
- 5- The cost-of-capital concept and measurement.
- 6- The Capital Asset Pricing Model (CAPM).
- 7- The key parameters used in analyzing stocks (the *Price to Book ratio*, the Price/Earnings (P/E) ratio, dividend yield per share, the payout ratio).
- 8- The Net Present Value (NPV) decision rule.
- 9- The perfect markets theory of capital structure (the Franco Modigliani and Merton Miller propositions).
- 10- The efficiency of financial markets.

To get the most out of cases, students must read and reflect on the case study, and should meet in working teams before class to discuss their findings with other classmates. This classroom interaction is enriched by classmates from diverse countries, backgrounds, and experiences. This requires students and the professor to work closely together.

As pointed out by Professor Benson P. Shapiro from Harvard Business School, it is necessary that each student be committed to the "4 Ps" of student involvement in case studies-based classes:

1. **Preparation.** If the student does not read and analyze the case, the discussion and solving of case studies will mean little.
2. **Presence.** If the student is not present, she or he cannot learn.
3. **Promptness.** Students who enter the classroom late disrupt the discussion and deprecate the decorum of the process.
4. **Participation.** Each student's learning is best facilitated by regular participation. More important, she or he has the responsibility to share her or his understanding and judgment with the class to advance the group's collective skills and knowledge.

Organization of the sessions

Students place themselves in the role of the decision maker. In class – under the questioning and guidance of the professor – students perform the necessary analysis, probe underlying issues, and compare different alternatives.

Individual Assignments

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Final Exam (100% of the final grade). The final exam is scheduled for **three hours**. Typically, the format of the final exam includes multiple-choice quizzes (MCQ), and/or binary-choice quizzes (Right or Wrong), and/or numerical exercises to be solved, and/or questions based on a case study.

EVALUATION OF STUDENT PERFORMANCE

The final grade is equal to the individual final exam grade.

DELIVERABLE	%
Individual Final Exam (written)	100
TOTAL	100

Methods Used to Evaluate Student Performance

The overall objective is to test the students' understanding of corporate finance. To put it differently, the aim of the individual assignment (final exam: 100%) is to check whether students have improved their ability to "think finance".

Individual Assignments (final exam: 100%)*Assessment Criteria*

Rubric	<i>Below Requirements</i>	<i>Meets Requirements</i>	<i>Exceeds Requirements</i>
Reasoning (1/3)	Unable to put the financial reasoning and judgment into practice	Make the right financial decision in 70 to 80% of the time	Make always the right financial decision
Understanding of core concepts (1/3)	Misunderstanding of the core concepts – Wrong interpretation of results or statements	Interpret between 70% and 80% of the results and/or statements correctly	Interpret more than 80% of results and/or statements correctly
Calculation (1/3)	Unable to perform calculations – Misunderstanding of the calculation equations	Between 70% and 80% of calculations are exact	More than 80% of calculations are exact



BIOGRAPHY

Frantz MAURER, PhD, is a Professor of finance at KEDGE Business School. During the last 20 years, he has collaborated with different institutions such as the University of Bordeaux, ESCP Europe, and HEC Paris. Frantz has collaborated extensively with large financial institutions in the domain of risk management and the use of data and analytics to better predict crisis and abnormal situations. He is the author of several publications on risk management in the banking industry, which includes a Harvard Business School Industry and Background note.

ACADEMIC FRAUD

Definition

Academic fraud is a breach of ethics.

“Is achieved using unfair means or deception, to obtain material or undue moral advantage, or with the intent to avoid the enforcement of laws”. (Translated from the original source: Dictionnaire Juridique des Lois, 2010, available at: www.dictionnaire-juridique.com/definition/fraude/php)

Plagiarism consists of attributing authorship by (partial or total) copying, imitation or misappropriation.

The act of fraud is committed by one or more students/participants when they:

- appropriate written or oral work to themselves when they are not the author (in whole or in part) of the work, by omitting any references or quotations to the author or to the owner of the work;
- present any data that has been falsified or invented in any way;
- use the identity of the author, attributing the contents of and/or a resource to him/her, but without explicitly mentioning that they are not the author;
- appropriate the creative work of someone else and present it as their own;
- acquire excerpts of texts, images, results etc. from external sources by including them in their own work without mentioning the origins of the excerpts;
- summarise the original idea of an author by expressing it in their own words but omit quoting the source;
- cheat in an academic evaluation.

Plagiarism can occur in:

- an academic article or book;
- an exercise or a case study;
- a study or a report;
- a dissertation or a thesis;
- any document of which the student/participant is not, but purports to be the author.

Sanctions

Any student/participant having committed academic fraud, or having participated in it, will be sanctioned by the professor in charge of the course. The professor can apply 1st and 2nd level sanctions (detailed below). The professor will send a copy of the sanction to the student's/participant's programme. The student/participant will be informed/and or convoked by the programme director (or his/her representative) to a hearing prior to the possible convening of the Kedge Business School Disciplinary Council. In the case of a hearing of the Disciplinary Council, they can decide to apply 3rd and 4th level of sanctions.

Any student/participant guilty of academic fraud will receive one of the following sanctions:

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- Applied by the professor in charge of the course, Kedge Business School faculty member (1st and 2nd level):
 - A grade of zero for the work concerned and a formal warning;
 - A grade of zero for the course or module concerned and a formal warning.
- Applied by Kedge Business School's Disciplinary Council (3rd and 4th level):
 - Suspension from the programme for one or two semesters;
 - Exclusion from the programme.

N.B.: Plagiarism within a partner institution can result in these sanctions being applied by Kedge Business School, notwithstanding partner's decision.