



# Rotman Commerce UNIVERSITY OF TORONTO

## Course Outline

### RSM433H1

Advanced Corporate Finance

Winter 2019

Course Meets:

Section	Time	Room
L0101	Monday 2-4	WO 30
L0201	Monday 4-6	WO 30
L0301	Tuesday 4-6	WO 30
L0401	Tuesday 1-3	LA 341

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Teaching Assistants:

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### Course Scope and Mission

This course has one goal: to provide you with a strong foundation in the principles of corporate finance and an opportunity to apply these principles to practical and managerial decisions.

The financial landscape is rapidly evolving, in the wake of the global financial crisis. Many of the themes of *Advanced Corporate Finance* have special relevance today: the pros and cons of debt financing; the bankruptcy process; the costs of financial distress as firms restructure; the role of private equity; firm financing constraints and business cycles. Examining these issues will provide you with a holistic view of finance, capital markets, and the role of financial intermediaries.

We will use case studies to bridge the gap between rigorous finance theory and its applications to practical questions in corporate finance.

A deep understanding of the concepts of this course is useful beyond corporate finance, in general management, corporate strategy, management consulting, entrepreneurship, as well as investment banking and investment management.

## Course Prerequisites

Prerequisite: Rotman Commerce: [RSM333H1](#); Actuarial Science: [ACT349H1](#)

## Required Readings

The course material includes lectures notes, cases and short videos.

- Lecture notes will be posted on Quercus. You should read slides in advance.
- Cases are available in the following course package on Harvard Business publishing website (CAD\$ 60): <https://hbsp.harvard.edu/import/585280>
- Short videos will introduce the next session and Excel modeling exercises

## Electronic Course Materials

This course will be using the following electronic course materials:

<https://hbsp.harvard.edu/import/585280>

These materials will cost a total of \$61.00. The use of these materials complies with all University of Toronto policies which govern fees for course materials.

## Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

<u>Work</u>		<u>Due Date</u>
Class Participation/Attendance	20%	Ongoing
Case Write Ups (10)	20%	01/14/2019 01/21/2019 01/28/2019 02/04/2019 02/11/2019 03/04/2019 03/11/2019 03/18/2019 03/25/2019 04/01/2019
Quizzes (11)	20%	01/14/2019 01/21/2019 01/28/2019 02/04/2019 02/11/2019 02/25/2019 03/04/2019 03/11/2019 03/18/2019 03/25/2019 04/01/2019
Final Exam	40%	During Faculty of Arts & Science Final Examination period

## **COURSE FORMAT AND EXPECTATIONS**

### **Course Structure**

*Advanced Corporate Finance* focuses on three important managerial decisions, with a module devoted to each.

#### **Module 1. Capital Structure: How should a firm finance its activities?**

Throughout the course, we will study firms wrestling with decisions about how to finance their activities.

Financing involves choosing the right capital structure – the mixture of equity, debt and other securities. We will consider how firms choose to finance ongoing operations, new projects and mergers and acquisitions. You will understand how market imperfections impact financing decisions.

#### **Module 2. Valuation: How can we value firms?**

In *Introduction to Corporate Finance* you learned to use the net present value rule to determine whether an investment was likely to increase shareholder value. In *Advanced Corporate Finance*, you will 1) investigate further how firms create value, 2) value firms with debt.

#### **Module 3. How firms raise external funds?**

In this module, we will investigate how firms raise debt and equity, extending our analysis to small firms. We will see how financing constraints vary with and amplify business cycles.

### **Expectations: Feedback for You**

#### **Participation**

You will be expected to participate. You will collect points based on attendance and participation. When the quality of your participation is high or very active participation you will get extra bonus points. Note that you can exceptionally be penalized in case of non-professional behavior (arriving late, not following the no lap-top rules etc.). The final grade depends on the number of points you have. TAs will track your participation in class.

#### **Quizzes**

You will be expected to complete on-line exercises that are due at the beginning of each session. The exercises will be open for approximately one week to accommodate your busy schedules. Each consists of a set of multiple-choice questions. The primary purpose of these exercises is to give you a stream of regular feedback on your progress. The secondary purpose of these exercises is to prepare you to the next session and the case studies. Questions will therefore concern the previous session and the case you have to prepare for the next session. There will be 11 quizzes; I will take the 10 best ones to compute the final grade.

#### **Case write-ups**

We will study 10 cases. For each case, you have to deliver a case write up. You will get the maximum number of points (2% of the final grade) if you justify in details your answers and your reasoning is correct. You can form groups of up to three students for the case write-ups. If you decide to work in teams, it helps to follow a set of core expectations to best succeed at your team projects.

1. Read the document entitled, “Working in Teams: Guidelines for Rotman Commerce Students” which is available on the RC portal under the Academic Services tab.

2. When working in a team, Rotman Commerce students are expected to:

- Treat other members with courtesy and respect;
- Honour the ground rules established by the team;
- Contribute substantially and proportionally to the final project;
- Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
- Meet the project timeline as established by the team.

### 3. Resolving conflicts:

Conflicts are part of the team's process of learning how to work together. When handled well, it can generate creativity and bring-multiple perspectives to the solution.

Student teams are expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). When teams are unable to arrive at a solution that works for all members, the team must meet with the Rotman Commerce Team Coach\*\* as soon as possible. The Coach will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, utilize their action plans.

\*\*For an appointment with a Rotman Commerce Team Coach, please contact Nouman Ashraf at [nouman.ashraf@rotman.utoronto.ca](mailto:nouman.ashraf@rotman.utoronto.ca). Nouman is highly skilled at facilitating team dynamics and collaboration. Note that the Team Coach's role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes.

Normally, students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the university's use of the Turnitin.com service are described on the Turnitin.com website.

Please note that clear, concise, and correct writing will be considered in the evaluation of the case write-ups. That is, you may lose points for writing that impedes communication: poor organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre (<http://www.studentlife.utoronto.ca/asc>) or one of the College Writing Centres ([www.writing.utoronto.ca/writing-centres](http://www.writing.utoronto.ca/writing-centres)). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

### Final examination:

The final exam will be comprehensive and will cover material from lectures and the cases. The exam will include multiple-choice questions, short questions and a case. You are allowed to bring a non-programmable calculator and a crib sheet (both sides). The crib sheet can include anything you like, including definitions or examples seen in class.

### **Feedback for Us**

We invite your comments and input. In particular, if you find errors, omissions or confusing statements in the assignment questions, case studies, readings, or any other course materials, please contact the professor. If you have comments and suggestions about the overall course design or other matters, they are welcome. You will have to fill a questionnaire just after the midterm exam, thank you for your feedback.

## Weekly Schedule

Session	Date	Topic
<b>Module 1: Capital Structure</b>		
1	January 7,8	<ul style="list-style-type: none"> <li>Lecture: Capital Structure in Perfect Capital Markets.</li> <li>Course overview</li> </ul>
2	January 14, 15	<ul style="list-style-type: none"> <li>Lecture: The cost of capital of a levered firm</li> <li>First Case: Apple, Einhorn, IPrefs</li> </ul>
3	January 21, 22	<ul style="list-style-type: none"> <li>Lecture: Debt and Taxes</li> <li>Second Case: Marriott, the Cost of Capital</li> </ul>
4	January 28, 29	<ul style="list-style-type: none"> <li>Lecture: Financial Distress</li> <li>Third Case: Swedish Match</li> </ul>
5	February 4, 5	<ul style="list-style-type: none"> <li>Lecture: Pecking Order Theory</li> <li>Fourth Case: Restructuring JAL</li> </ul>
<b>Module 2: Valuation</b>		
6	February 11, 12	<ul style="list-style-type: none"> <li>Lecture: What creates value?</li> <li>No case</li> </ul>
7	February 25, 26	<ul style="list-style-type: none"> <li>Lecture: Fundamentals of Valuation</li> <li>Fifth Case: Stone Container</li> </ul>
8	March 4, 5	<ul style="list-style-type: none"> <li>Lecture: Mergers and Acquisitions (1/2)</li> <li>Sixth Case: Nova Chemicals</li> </ul>
9	March 11, 12	<ul style="list-style-type: none"> <li>Lecture: Mergers and Acquisitions (2/2)</li> <li>Seventh Case: Radio One</li> </ul>
<b>Module 3: Corporate Financing. How do Firms raise External Funds?</b>		
10	March 18, 19	<ul style="list-style-type: none"> <li>Lecture: The Role of Debt</li> <li>Eighth Case: Loblow</li> </ul>
11	March 25, 26	<ul style="list-style-type: none"> <li>Lecture: Raising Equity</li> <li>Nineth Case: Williams</li> </ul>
12	April 1, 2	<ul style="list-style-type: none"> <li>Final Case: Facebook IPO</li> <li>Course Overview</li> </ul>
Final Exam	TBA by FAS	

## **POLICY AND PROCEDURE**

### **Missed Tests and Assignments (including midterm examinations)**

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. The Request for Special Consideration Form and supporting documentation must be submitted in a timely manner in order for the request to be reviewed.

In such cases, students must notify the Rotman Commerce Program Office on the date of the course deliverable such as a missed test, or assignment missed class (in the case of participation marks), or due date. They must then complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Office within **2 business days** of the originally scheduled course deliverable. Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed course deliverable.

Documentation submitted in support of petitions for missing tests and assignments must be original; no faxed or scanned copies will be accepted.

**Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a later report of illness made by the student to a physician.**

### **Late Assignments**

All case write-ups and quizzes are due at the due date at 2 pm. Late submissions will normally be penalized by 50% if the assignment is not received on the specified date, at the specified time. A further penalty of 50% will be applied to each subsequent day.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

### **Accessibility Needs**

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: [accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or <http://www.studentlife.utoronto.ca/as>.

### **Academic Integrity**

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

*The University of Toronto's Code of Behaviour on Academic Matters*

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

### **Email**

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

### **Quercus and the Course Page**

The online course page for this course is accessed through Quercus. To access the course page, go to [g.utoronto.ca](http://g.utoronto.ca) and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours.

### **Recording Lectures**

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.