APPLICATIONS OF CORPORATE FINANCE THEORY IN THE REAL WORLD

COURSE DESCRIPTION:

This 6-week course is designed to show students that corporate finance theory can be taken out of the ivory tower and be used to make practical real-world corporate financial strategy decisions. The approach will be to couple the theory with some handy analytical tools and incorporate practical considerations and constraints that many companies face (or impose on themselves). We will study a specific set of important financial decisions that corporate treasurers or chief financial officers are often asked to make.

SYLLABUS

The following is the planned set of issues that we will cover:

1) What really drives corporate bond ratings? What measurable factors are closely linked to the observed credit ratings in various industries?
2) How can a company’s debt portfolio be structured to best manage its interest rate risk? How much fixed vs. floating rate debt is appropriate? What maturity profile is appropriate?
3) Why should a company spend time managing corporate risk on behalf of investors? Do shareholders really attribute value to a company that focuses on managing risk within its enterprise?
4) What are the appropriate criteria for a company to use in allocating capital to its international investments?
5) How should companies think about alternative ways of distributing excess cash to shareholders under the new US tax law? What are the implications for dividends and stock buybacks?
6) Why is equity-linked employee compensation such a hot topic today? What are the pros and cons of alternative structures such as options or restricted stock? What are the corporate strategy issues?
7) (Tentative) What are the important drivers of shareholder value? What is the theory and what is the empirical evidence? A case study of a consumer products company will serve as the backdrop for this discussion.

COURSE MATERIALS:

Presentation slide material will be distributed in advance of each discussion topic along with copies of selected relevant readings.
GRADES:

Class participation will be encouraged (weighted at approximately 20%) in order to have our discussions benefit from students’ experiences, insights and intuition. Students will also be required to submit a short critique of the approaches presented to addressing each of two issues discussed in the 6-session class (students’ choice). These critiques should include practical suggestions on how to improve upon the methods presented in class (weighted approximately 80%). As an option, students may present a third critique, with only the best two counted in the final grade.

INSTRUCTOR: PROFESSOR ERIC LINDENBERG

Eric Lindenberg is currently Managing Director and a senior member of the Global Financial Strategy Group in Citigroup Global Markets Inc. (formerly Salomon Smith Barney). This group is the analytical corporate finance advisory arm of Citigroup’s Investment Banking and Corporate Banking businesses. He has been with this group for 17 years.

Prior to Citigroup, Eric worked at Bell Laboratories where he was involved in economic and financial research and then at AT&T where he was responsible for corporate financial planning and regulatory matters related to cost of capital and capital structure.

Eric holds a B.S. in Mathematics from Brooklyn College, a M.S. in Operations Research from Cornell University and a PhD in Economics from New York University.