

**New York University
Leonard N. Stern School of Business**

**Corporate Finance
B40.2302**

**Professor Edward I. Altman
Winter-Spring 2003
W 6:00-8:50 pm
Room: KMC 1-70**

Description

This course combines what is traditionally covered in the introductory corporate finance offering plus advanced material in financial management, particularly in the financing of the firm's operations and its integration with the investment banking and commercial banking communities. The major policy areas of the firm covering cash flows, liquidity management, investment analysis, capital structure theory and practice and dividend policy are combined with the overall concepts of business and financial risk, valuation of assets and corporate objectives to form the basis of discussion. An important objective of this course is to evaluate and utilize financial theories and models in a decision-making and applied context.

The reading materials for the course, text and articles will be supplemented by cases. Cases include short exercise-type analysis and more complex, longer, integrated cases. Cases should be worked on in groups of 2-3 or 4-6 persons (as indicated). In addition, each student is responsible for one industrial firm that will be followed and analyzed throughout the term. Your firm should have had publicly traded and rated debt and/or rated loans outstanding.

Cases

Each case should be worked and handed in neatly on the date that we will be discussing that case. In a few instances, cases will involve **group presentations** and no written materials will be required (although exhibits for the presentations are encouraged). **There should be one case report per group.**

Required and Recommended Materials

There is one textbook for the course. There will also be a packet of materials, which includes Readings and Powerpoint Presentations that you are responsible for. Check the materials keyed to each session. There will be several cases in the packet and a few (3) additional cases should be purchased separately. In addition, students may wish to purchase a Solutions Manual and/or Student Problem Manual. The latter has self-correcting problems and exercises.

There will be a few guest lectures to complement the course materials and a few (2) cases will involve class debates and role playing.

In addition, each student is responsible for one industrial firm which will be analyzed throughout the course with respect to a number of the topics covered. Short hand-ins are required.

Required Materials:

1. S. Ross, R. Westerfield & J. Jaffe, **Corporate Finance, 6th Edition, Irwin McGraw-Hill, 2001.**
2. Packet of Readings, Exhibits (Ex.), Powerpoint Presentations
3. The following cases should be purchased separately:
 - a. Hampton Machine Tool (do it immediately)
 - b. Communications Satellite Corporation
 - c. Interco Corporation

Some cases will be in the course packet.

Suggested Manuals:

1. R. Hanson, "Student Problem Manual," for use with RWJ.
2. S. P. Ku, "Solutions Manual," for RWJ.

Grading

Grading for the course will be based on:

Classroom contribution	10%
Cases and projects	20%
Midterm quiz	40%
Final exam	<u>30%</u>
Total	100%

An approximate grade distribution of 15-20% (A and A-), 65-70% (B's) and 10-15% (below B-) will be targeted. This is the standard grade distribution for all corporate finance sections.

Office Hours and T.A.

Office location: 44 West 4th Street
KMC bldg., Room 9-61
Monday: 4:30 – 6:00 pm
Wednesday 4:30 – 6:00 pm
Tel: (212) 998-0709
Fax: (212) 995-4220
Email: ealtman@stern.nyu.edu
Website: <http://www.stern.nyu.edu/~ealtman>
Class T.A: Deepak (dir202) or Amit (aa693)

Session	Subject for discussion and assignment	Chapter or Source
Jan. 29	Financial concepts and objectives * Firm objectives and the finance function * The role of senior finance officers * Concept of present value and valuation	RWJ-Ch. 1,3,4, Exhibit 1 (We will revisit this material)
Feb. 5	Cash management and financial forecasting * Flows, budgeting and analysis * Cash flows: multi-measures * Cash Management	RWJ-Ch. 2, App. 2B RWJ-Ch. 27 RWJ-Ch. 28 (Browse)

Case #1: Hampton Machine Tool (2/3 students) Cash budget, pro-forma balance sheet and income statement – see **Instructions**

	Forecasting financial requirements * Days sales & percent of sales methods * Regression models	RWJ-Ch. 26, 27
Feb. 12	Financial statement analysis and credit risk * Analyzing a firm's strengths and weaknesses * Financial ratio analysis * Credit management * Assessing credit worthiness and distress prediction * The Z-Score models, KMV * Application to Enron/WorldCom	RWJ-Ch. 2, App.2A, 2B, 2C RWJ-Ch. 29 Power point #1 RWJ, App. 31A Altman, reading A

Case #2 – Forest Resources Case (2/3)

Feb. 19	Bond valuation and the analysis of operating and financial risk * Sources of financing and financial structure planning-firm life cycle * Impact of financial leverage and target capital structure * Determinants of risk premiums	RWJ-Ch. 13, 14, 19
---------	---	--------------------

Firm Exercise No. 1 – Calculate Your Firm's Z-Score (for manufacturers) or Z''-Score (for non-manufacturers) and determine its bond rating equivalent

Feb. 26	Corporate bonds and financial risk * The high yield (junk) bond and Leveraged loan markets * Bankruptcy & reorganization	RWJ-Ch. 20 Power point #2 RWJ-Ch. 31
Mar 5	Does debt policy matter? * Modigliani and Miller (M&M) theories Vs. traditional analysis * Debt policy puzzle * Financial distress costs and agency costs * Revisiting firm valuation	M&M, Reading B RWJ-Ch. 15, 16

Mar 12	Cost of capital	
	* Comparing valuation technologies	RWJ-Ch. 5
	* Firm valuation and shareholder wealth	
	* Cost of equity capital – Review CAPM from foundation course	Ch. 9, 10
	* Weighted average approach	RWJ-Ch. 12

Firm Exercise No. 2 - Describe you firm's capital structure and calculate its cost of capital - two pages maximum

Mini-case (case #3) due on March 12 (2/3) – Cost of capital case

March 26 - Mid-term exam - (90 minutes)

March 26 - Case #4 - Communications Satellite case (4/6). See instructions – discussion only - role playing

Apr. 2	Financial restructuring	
	* More on the cost of equity capital	RWJ-Ch.30, esp. pp. 816-818, 823-830, 838-845
	* Valuation and restructuring	Exhibits-Power Point
	* MBOs, LBOs and Leveraged restructurings	

April 9 - Case #5, Interco case - Leveraged Recapitalization - See instructions - role-playing

Apr. 9 Has your firm had a major restructuring in the last five (5) years? Please write a one-page summary of that (those) events (e.g., Bankruptcy Reorganization, Spinoff, Merger/Acquisitions, LBO, etc..)

April 9 - Guest lecturer: TMA (Turnaround Management Assn.) Representative “Managing a Successful Turnaround” – Deborah Midanek (Glass & Associates)

Apr. 16	Capital investment analysis – The Basics	
	* Basics of capital budgeting-investments rules	BWJ-Ch. 7, 8
	* Survey of capital budgeting practices	

Case #6 – Mayakovska Department Store – due on April 16 (2/3)

Apr. 23	Capital budgeting and uncertainty	RWJ-Ch. 7, 8
	* Capital budgeting strategy	
	* Dealing with uncertainty	
	* Survey of capital budgeting practices	Reading C

Case #7 - Capital budgeting mini-case, due on April 23 (2/3)

April 30 - Pfizer's products launch case: guest speakers: Richard Passov and Richard Hoddesson, Pfizer and Company (for discussion only. Case to be handed out and prepared. Also, the job of Senior Finance Officers

Leasing

RWJ-Ch. 21

- * Leverage leasing
- * Lease capitalization
- * International comparisons
- * Lease vs. buy analysis

Case #8 - Franklin-Foto Finishing (2/3)

May 7 - Final Exam (90 minutes)

I. Instructions for the Hampton Machine Tool Case

There are two primary parts to the Hampton Case. **First**, you are asked to complete a monthly cash budget for the period September-December (and possibly, if you think relevant, beyond). The material in your text (Chapter 27) will assist you in the format. Should the bank extend the loan to Hampton and even increase the amount? You might experiment by assuming different collection periods on outstanding receivables and whether or not the loan is repaid in December or January. **Second**, you are asked to prepare a pro-forma balance sheet and income statement for the entire year.

You should work in groups of (2/3) students.