Department of Finance  
BUSFIN 6212 Finance II  
**COURSE SYLABUS**  
Section # 4196  
Tuesday & Thursday, 10:15 AM to 11:45 AM  
Gerlach Hall Room 305  

**Instructor:**  
Lecturer: Kennia Papadakis  
Email: Papadakis.8@osu.edu  
Office phone: 614-247-7306  
Office: 460 Fisher Hall  
Office Hours: after class or by appointment.  
Extended office hours will be posted on Carmen every Monday.  

**TA:** Sreekanth Krishnakumar (Sree)  
Email: krishnakumar.12@osu.edu  
TA’s office hours: Tuesdays 1-4 PM. Gerlach 250  

**Textbook:**  
*Corporate Finance, by Jonathan Berk and Peter DeMarzo, 3rd edition, Pearson Series in Finance, 2013*  

**Cases:**  

<table>
<thead>
<tr>
<th>Case or Article</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Structuring Corporate Financial Policy: Diagnosis of problems and evaluation of strategies</td>
<td>UV0102</td>
</tr>
<tr>
<td>2. Polaroid Corporation 1996</td>
<td>UV0007</td>
</tr>
<tr>
<td>3. JetBlue Airways IPO Valuation</td>
<td>UV2512</td>
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<tr>
<td>4. Infineon Technologies: Time to Cash-in Your Chips?</td>
<td>INS791</td>
</tr>
<tr>
<td>5. Valuation of Air Thread Connections</td>
<td>4263</td>
</tr>
<tr>
<td>6. Mercury Athletics: Valuing the Opportunity</td>
<td>4050</td>
</tr>
</tbody>
</table>

You can purchase the package via Harvard Business Publishing using the link below.  
The cost of the business case package is $23.70  

[https://cb.hbsp.harvard.edu/cbmp/access/42271750](https://cb.hbsp.harvard.edu/cbmp/access/42271750)  

**Other class materials:**  
This syllabus, lecture notes, assignments, sample problems and other supplemental reading will be posted in the course web site through CARMEN ([http://carmen.osu.edu](http://carmen.osu.edu))  

I recommend that you check the CARMEN page regularly. Most important items will be posted in the NEWS section.
Course Description:

BUSFIN 6212 is the continuation of BUSFIN 6211 which deals primarily with the investment decision and capital budgeting. BUSFIN 6212 builds upon these principles and is focused on the other two key elements of corporate finance, which are:

1. **Capital Structure (financing)** – selecting an optimal financing mix to fund the projects that the firm will pursue
2. **Payout (dividend)** – deciding how much of the free cash flow will be returned to its shareholders, as well as the form of this payout

We begin the class by discussing capital structure, examining the firm’s decisions on financing amount and mix required to support investment projects. We do this by studying the fundamentals of corporate financing options and the capital structure decision.

We then move to discuss payout policy, which examines the firm’s payout decision or when and how much of the free cash flow of the firm will return to owners.

The third portion of the class is dedicated to corporate finance topics as IPO’s, how credit risks affect valuation, acquisitions and divestitures, ethics and corporate governance.

Class structure:

BUSFIN 6212 is a combination of lectures, in class problems and business cases. During the first two weeks the class is focused on lectures, readings from the required textbook and practice problems all related to capital structure. The following two thirds of the semester are more focused on case studies that follow a lecture related to a special topic. Refer to the calendar in page 5 of this document for more detail regarding class structure.

Grading:

The course grade will be based on the following items:

1. Three group assignments (15% each) 45%
2. One quiz 15%
3. One final examination 30%
4. Class participation 10%

100%

- Quiz and final exam are individual. A formula sheet is provided but students are allowed to use calculators. **When using financial calculators students are required to show process** / work that is needed to derive the appropriate formula.
- All assignments will be distributed one week prior due date and are due at the beginning of the class on their due date (printed copy). **No late assignments will be accepted for any reason**.
- Class participation will be accounted for in the signup sheet after every class. Students must be proactive and approach me after class has concluded to make sure that his/her participation has been market in the sheet. Students who participate will earn one point for every class when they contribute.

Case Discussions:

To enhance your understanding of course material, we will discuss several cases in class. Cases present real-world, complex problems faced by financial managers that require analysis and use of judgement to reach important business decisions. Cases are used extensively in most graduate business courses.

The use of case studies is a very effective learning method because it emphasizes student self learning rather than a passive absorption of knowledge. Students learn to develop their critical thinking and use their judgement to make decisions. Case studies do not always lead to a right or one course of action for the decision maker. Rather, decisions are justified based on sound financial assumptions and through analysis of the situation at hand. Therefore, the analysis and discussion of cases is very useful because it teaches the students how to use the principles of finance to define and analyze problems, work as a member of a team, and make recommendations for the best course of action.

This semester I will be grading class participation. This is a great opportunity for students to practice speaking up their ideas in a large group setting.

Also, teams are encouraged to discuss the cases with their team mates even if they are not part of a group assignment. I find this practice very helpful to bound ideas and clear doubts before class.

Please note that according to standard case discussion practice the instructor is not allowed to discuss the case with students prior the scheduled class discussion.

Cases for this class are listed on page one of this document.

Fairness in Grading
We will do everything we can to grade fairly according to the quality of work produced in student assignments. If you carefully review your assignment and become convinced that a particular grade should be reviewed, you may submit a written justification for the reevaluation of the assignment with two copies of all supporting materials. Your appeal will not be successful unless you provide an extensive and well-crafted argument detailing the request. If your request is justified, and if we determine that the points at stake are large enough that it could lead to a letter grade change we will review your assignment at the end of the semester. No re-grading will occur before the end of the semester (besides obvious administrative errors).

Disability Policy
Students with disabilities or requiring special accommodations must notify me and your discussion section leader of such needs at the beginning of the quarter. You should work directly with The Ohio State University Office of Disability Services (ODS). ODS is expert at working with individual students to provide the appropriate assistance. Should you require special instruction for the course, please provide a written request from the ODS.
**Academic Integrity**

**Fisher Student Standards of Conduct**

According to the Standards of Conduct of the Fisher College of Business, students are expected to:

- Represent themselves truthfully in all situations;
- Conduct themselves in a manner that does not seek to gain an unfair advantage over other members of the Fisher community;
- Demonstrate respect for all property that does not belong to them; Be personally accountable for one’s own actions.

Students are expected to be acquainted with the Standards, to adhere to the letter and spirit of the Standards, and to take action when witnessing a breach of the Standards. In this course, a violation of these standards includes but is not necessarily limited to (it is your responsibility to seek clarification of any “gray” areas):

- Discussing, reviewing, or receiving notes/papers on any assignment or quiz with students who have taken the class previously (either in another section or in a prior year).
- Submitting papers that do not exclusively include individual or group work, respectively.
- Using any assignment in this course in fulfillment of an assignment in another course without prior written consent of both professors.
<table>
<thead>
<tr>
<th>Week</th>
<th>Session</th>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
<th>Homework and exams</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>1 TU</td>
<td>10/20</td>
<td>Class introduction and team formation.</td>
<td></td>
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<tr>
<td>2</td>
<td>2 TH</td>
<td>10/22</td>
<td>Overview of Corporate Financing Options.</td>
<td>Chapter 24.</td>
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<td>2</td>
<td>3 TU</td>
<td>10/27</td>
<td>Capital Structure Decision – Part I</td>
<td>Chapters 14 &amp; 15</td>
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<td>4</td>
<td>4 TH</td>
<td>10/29</td>
<td>Capital Structure Decision – Part II</td>
<td>Chapter 16</td>
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<td>3</td>
<td>5 TU</td>
<td>11/03</td>
<td>Case: Polaroid Corporation 1996</td>
<td>Case and assigned questions</td>
<td>Group Assignment 1</td>
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<td>6 TH</td>
<td>11/05</td>
<td>The Firm’s Payout Decision</td>
<td>Chapter 17</td>
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<td>4</td>
<td>7 TU</td>
<td>11/10</td>
<td>Case: Infineon Technologies: Time to cash – in your chips?</td>
<td>Case and assigned questions</td>
<td>Quiz 1</td>
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<tr>
<td>8</td>
<td>8 TH</td>
<td>11/12</td>
<td>IPO’s and SEO’s</td>
<td>Chapter 23</td>
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<tr>
<td>5</td>
<td>9 TU</td>
<td>11/17</td>
<td>Case: JetBlue Airways IPO</td>
<td>Case and assigned questions</td>
<td>Group Assignment 2</td>
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<tr>
<td>10</td>
<td>10 TH</td>
<td>11/19</td>
<td>Estimating Beta. Valuation with leverage.</td>
<td>Chapter 12, 18</td>
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<td>6</td>
<td>11 TU</td>
<td>11/24</td>
<td>Thanksgiving – no class</td>
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<td>12</td>
<td>12 TH</td>
<td>11/26</td>
<td>Thanksgiving – no class</td>
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<td>7</td>
<td>13 TU</td>
<td>12/1</td>
<td>Mergers &amp; Acquisitions</td>
<td>Chapter 28</td>
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<td>14</td>
<td>14 TH</td>
<td>12/3</td>
<td>Case: Valuation of Air thread Connections (an acquisitions case)</td>
<td>Case and assigned questions</td>
<td>Group Assignment 3</td>
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<tr>
<td>8</td>
<td>15 TU</td>
<td>12/8</td>
<td>Corporate Governance, Case: Mercury Athletic – Valuing the Opportunity (an acquisitions case)</td>
<td>Chapter 29, Case and assigned questions</td>
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<tr>
<td>16</td>
<td>16 TH</td>
<td>12/10</td>
<td>Study day</td>
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<tr>
<td>9</td>
<td>17 TU</td>
<td>12/15</td>
<td>Final Exam</td>
<td>10:15 AM Gerlach 305</td>
<td>Final Exam</td>
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Final Exam
PRACTICE PROBLEMS BY CHAPTER

Problems #

Chapter 12 12.10 – 12.22
Chapter 14 14.1 – 14.6, 14.8, 14.11 – 14.19
Chapter 15 15.1 – 15.19
Chapter 16 16.1-16.6, 16.8, 16.12-16.15
Chapter 17 17.4 – 17.12
Chapter 18 18.1-18.9, 18.12-18.18
Chapter 23 23.6 – 23.14
Chapter 28 28.1 – 28.5, 28.8 – 28.9, 28.11
Chapter 29 End of chapter practice questions 1 – 20

QUIZES AND FINAL EXAM SCOPE

Scope

Quiz 1 Lectures 2, 3, 4. Chapters 28, 14, 15, 16. Corresponding practice problems.

Final Exam Lectures 6, 8, 10, 13 and 15. A selection from Chapters 12 & 18. Chapters 17, 23, 28 and 29. Corresponding practice problems (end of chapter practice questions for #29).
CASE QUESTIONS

Polaroid Corporation, 1996

1. What are the main objectives of the debt policy that Ralph Norwood must recommend to Polaroid’s board of directors?
2. What financing requirements do you foresee for the firm in the coming years? What are the risks associated with Polaroid’s business and strategy? In your view, what firm’s are Polaroid’s peer firms?
3. Drawing on the financial ratios in case exhibit 9, how much debt could Polaroid borrow at each rating level? What EBIT coverage ratios would result from the borrowings implied by each rating category? Is Polaroid’s current maturity structure of debt appropriate? Why or why not?
4. What should Ralph Norwood recommend regarding:
   - the target bond rating
   - the level of flexibility or reserves
   - the mix of debt and equity
   - the maturity structure of debt
   - Any other issues you believe should be brought to the attention of the CEO and board?

JetBlue Airways IPO

1. What are the advantages and disadvantages of going public?
2. What different approaches can be used to value JetBlue shares?
3. Does the financial forecast in case Exhibit 13 seem reasonable? What are the key assumptions? Is the length of the forecast period reasonable?
4. What discount rate is appropriate for the cash-flow forecast?
5. At what price would you recommend that JetBlue offer its shares?

Infineon Technologies: Time to Cash in Your Chips?

Capital Structure Questions:

1. Describe Infineon’s financial policy and its capital structure in recent years. What have been Infineon’s main sources and uses of funds?
2. Estimate Infineon’s sustainable growth rate and explain its level. What explains Infineon’s current capital structure?
3. Discuss the pros and cons of holding substantial cash reserves in general and whether these apply to Infineon specifically. Propose an appropriate capital structure for Infineon.

Payout Policy Questions:

4. In general, why might a company choose to pay out cash to shareholders? In your view, what is Infineon’s primary objective in paying out cash?
5. Given Infineon’s primary objective, what are the pros and cons of these payout methods?
   a. Regular cash dividends
   b. One time special dividend
c. Open market repurchases
d. Fixed-priced self-tender offer
e. Dutch-auction self-tender offer

6. Consider Infineon’s less standard payout methods (put warrants issues and convertible bond repurchase). How do these methods work? Under what conditions these might be an appealing strategy?

Valuation of AirThread Connections

1. Please describe the methodological approach that should be used to value AirThread (should Ms/ Zhang use WACC, APV or some combination thereof). How should the cash flows be valued for 2008 through 2012? How should the terminal value or going concern be estimated? How should the non-operating investments in equity affiliates should be accounted for in the valuation? (Hint: it may be possible to use more than one technique simultaneously)

2. What discount rate should Mr. Zhang use for unlevered FCF for 2008 through 2012? Is this the same discount rate that should be used to value the terminal value? Why or why not?

3. Develop an estimate of the long term growth rate that should be used to estimate AirThread’s terminal value. Using your estimate of long term growth, what is the present value of AirThread’s terminal value?

4. Comment on the synergies documented on Tables 4 and 5 of the case.

Mercury Athletic Footwear: Valuing the Opportunity

1. What are the strategic drivers for an acquisition of Mercury by Active Gear (AGI)? Does the deal make sense? Why or why not? What are the sources of potential value? How can these be realized?

2. The base case projections prepared by AGI are presented in case Exhibits 6 and 7. In your opinion, do these reflect value creation?

3. What is Mercury WACC? Perform a sensitivity analysis based on different leverage ratios.

4. Develop an estimate of Mercury’s value using the Free Cash Flows of the Firm approach. Perform a sensitivity analysis for the enterprise value given combinations of terminal value growth rate and WACC.