CORPORATE FINANCE 1 (FIN 7210)  
VALUATION, SECURITIES ISSUANCE, AND CORPORATE GOVERNANCE

SYLLABUS
Masters of Business Administration Program  
Max M. Fisher College of Business  
The Ohio State University

Professor Karen H. Wruck  
Autumn 2015, Term 1—Draft: August 2015

Course Objective and Content:

This course is intended for students who are interested in careers in corporate finance, investment banking, consulting, or who aspire to lead an organization at some point in their careers and therefore will require a command of corporate finance from both a strategic and operating point of view.

The approach taken to analyzing and solving problems in this course is one of applied financial economics. Throughout the course we will study tools of financial analysis and apply them to important problems. However, when traditional financial economics does not adequately address a topic that is important to our understanding, we will move beyond its boundaries. The course material stresses the importance of theory in solving problems, and combines theory development with both examples and case analyses that illuminate and challenge the theory.

The course material is cumulative, making it important to keep up with the readings and case analyses, to pay close attention to class discussions, and to keep good notes. Failure to do this often leaves students lost and confused. I strongly recommend that you review the course materials and your course notes regularly.

Readings, cases, articles, discussion questions and study questions will form the basis of class discussions. Typically, students comprehend much of the textbook/book chapter material without substantial lecturing by the instructor. Thus, while there will be some lectures on the more important and/or difficult material, most of our class time will be spent applying the theory and concepts to problems through open, interactive classroom discussion.

Each session’s assignment is contained in a pdf file in the content area of the Carmen web site. Each file contains the reading assignment and a set of discussion and sometimes study questions. You should read the assignment sheet both before and after reading the assigned materials. Past students have found this to be a useful way to focus their thoughts and prepare for class.

Generally, there is an individual homework assignment due prior to the start of each class session. Session homeworks can be found on the Carmen web site and are typically either a link to a homework form that can be filled out online and submitted prior to the beginning of class or a file that can be downloaded and filled out and turned in by the student at the beginning of class.

This course is divided into two modules as follows:

Module 1: Valuation and Securities Issuance (4 of 7 sessions)  
Module 2: Corporate Governance and Active Investors (3 or 7 sessions)

Details of the topics and readings for each session within a module can be found in the Reading List document (also on Carmen). It is difficult to predict exactly how long it will take to cover each of the topics so we may reschedule some sessions as the course progresses. Also, I may be handing out additional material such as problems, notes, topical articles and examples when appropriate.
Course Materials:

1. Course packages (cases and readings), available in digital form (links provided in news section of Carmen course site).
2. Corporate Finance, Berk and DeMarzo, Second or Third Edition, Prentice Hall (this is the textbook for your core finance class, it will be an important review and background reference text for this course).
3. Supplemental readings to be posted on Carmen and/or handed out in class.
4. The Wall Street Journal or Financial Times. You should read the WSJ or FT regularly to reinforce the applicability of the issues we study.

Course Approach:

This course is intended to be discussion-oriented and interactive. To gain the knowledge base offered by this course you must come to class fully prepared each day. Full preparation means that you have read the materials carefully and conducted the relevant financial analysis in detail. Further, you should be prepared to make a recommendation for the decision at hand and be able to support your recommendation with data and analysis. If you are unwilling to make a commitment to preparation at a high level and consistently follow through on it throughout the entire term, then DO NOT TAKE THIS CLASS. Without a commitment to full preparation your enrollment in this class will constitute a waste of everyone's time.

Standards of Integrity and Conduct: Each student in this course is expected to be familiar with and abide by the principles and standards set forth in The Ohio State University's code of student conduct and code of academic conduct. You can view these documents or download pdf versions at:


It is also expected that each student will behave in a manner that is consistent with the Fisher Honor Statement, which reads as follows:

As a member of the Fisher College of Business Community, I am personally committed to the highest standards of behavior. Honesty and integrity are the foundations from which I will measure my actions. I will hold myself accountable to adhere to those standards. As a future leader in the community and business environment, I pledge to live by these principles and celebrate those who share these ideals.

While most students have high standards and behave honorably, like every academic institutions we sometimes encounter cases of academic misconduct. It is the obligation of students and faculty to report suspected cases of academic and student misconduct. Students can report suspected violations of academic integrity or student misconduct to faculty or to a program's leadership. All reported cases of academic misconduct are actively pursued and confidentiality is maintained.

Appropriate standards of professional behavior are expected at all times. This includes arriving in class at least a few minutes prior to the official start time and staying throughout the entire session, barring emergency. This also includes turning off all electronic devices and using laptops only for class-related work during class time. Should you have to be absent for a class or arrive late or leave early for a good reason, please provide as much prior notice to the faculty you can.

Grading Policies and Practices:

With the objective of establishing as dynamic and effective a learning environment as possible, the course requires a commitment on your part to attend all classes, and to prepare fully and to participate. We will work together to create an environment in which open, rigorous discourse is the standard. Thus, each of you must be willing not only to share your ideas and analysis with your colleagues, but also be open to challenges of those ideas.
The following are the fundamental principles for grading in this course:

• The requirements of the course are identical for everyone. This means it is not possible to “make up” for poor performance through “extra credit” work.

• Assignments and related deadlines cannot be rescheduled except under circumstances of extreme hardship as defined by program leadership.

• As required by school policy, grading will be based on relative rather than absolute standards. The average grade in this course will be a 3.6 or lower.

• It is possible to earn any of the official OSU grades, from A to E, in this course.

• Sometimes alleged cases of academic misconduct arise due to apparent confusion over the degree of collaboration allowed on assignments. University policy clearly states that it is each student’s responsibility to resolve issues that appear ambiguous directly with the faculty member. However, to help create clarity and avoid potential misunderstanding, we use the following letters to indicate the degree of collaboration allowed on each assignment: N=No Collaboration of Any Kind Allowed, T=Collaboration with Teammates Only Allowed.

Assignments and corresponding weights for grading in this class are as follows:

**A written team case analysis/project** with interim deliverables throughout the term (T—to be done in groups of 3 to 4 students) 25%

**Performance on daily homework**
(Individual, you may discuss case analysis and issues with your colleagues and work together on cases for class, BUT your homework answers should reflect your individual analysis. In other words, if asked, you should be able to immediately produce documentation that you have conducted the relevant analysis yourself (e.g. have your own spreadsheet in which you have entered formulas, have notes and computations, etc. The point is for you to learn to do the analyses yourself.)

**Final Exam** (N—during exam period, time limit, individual no collaboration allowed) 25%

**Class participation** (Individual contributions to class discussion) 25%

More detail on grading is provided below.

**Written case analysis/project:**

Your performance on written case analyses will constitute 25% of your grade. You will be asked to form 3 to 4 person teams for a case analysis/project by end of the first week of class. If necessary, I will assign students to groups already formed, starting with the smallest groups. I expect that the receiving group will welcome the additional student(s) unconditionally.

An assignment sheet will be distributed at a reasonable time in advance of the first due date. Associated written reports should contain the items and analyses required and follow the formatting parameters exactly as explained in the assignment sheet. Each violation of the rules, e.g., each page over the limit, the use of a cover page when it is explicitly stated not to use a cover page, less than 1.5 line spacing when 1.5 line spacing is required, font size smaller than permitted, and so forth, will cost your group 10% of the total points allocated to that assignment (limited liability does not apply).

To help address any free-rider issues that might arise in the context of teamwork, each team member will be asked to assess the contribution of his or her peers to the project. Should a substantive free-riding problem be identified, the free-rider’s score will be accordingly discounted to reflect his or her lack of effort and contribution.
Deliverables associated with written case analyses/projects are due at the beginning of class on the due date. You will be required to turn in a hardcopy at the beginning of class and, assuming the instructor can provide you with access, to upload an electronic copy to Turn-It-In prior to the start of class. Be sure to bring an extra hard copy to refer to in class discussion. **No late papers will be accepted, nor will e-mailed or faxed papers.** Finally, written reports will be graded for presentation, writing and grammar as well as content. They must meet the standards that would be required in a professional work context.

**Homework:**

Your performance on homework will constitute 25% of your grade. For the vast majority of sessions, there will be a required homework. Typically, it will involve reporting the findings of your analysis in an online form on the Carmen course website. **You must enter your answers prior to the start of class.** Your answer to each homework will be scored between 1 and 5 as follows: 5 for a strong answer, 4 for a good answer, 3 for an average answer, 2 for an okay answer, 1 for a poor answer and 0 for no answer or a completely off-base answer.

**Final Exam:**

The final exam will be a take home case analysis and will be held during the final exam period for the term. Your final exam will constitute 25% of your grade. No collaboration of any kind is allowed on the final exam. Detailed instructions will be provided at the time of the exam and it is expected that you follow these instruction in detail.

**Class Participation:**

The final 25% of the course grade is awarded for class participation. This grade will reflect both my assessment of the quantity and quality of your contribution to the classroom discussion and your peers’ assessment. To facilitate grading for class participation you should choose a seat for the entire term early in the term. You should also use your nameplate in every class. You should be prepared for cold calling in all class meetings.

Regular attendance and class participation are necessary, but not sufficient, for a student to receive one of the higher letter grades in this class. You should realize that the points awarded for class participation are sufficient to cost you a letter grade or more should you choose not to participate fully and regularly.

**Disability Policy:**

Students with disabilities or requiring special accommodations 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 accommodations. ODS is located in 150 Pomerene Hall, and their phone number is 614-292-3307.

**Grade Appeal Policy:**

Grades are intended to reflect the overall quality of performance of the student(s). If you think your grade on an exam or assignment does not reflect the quality of your performance, submit a clear written explanation of your reasoning **within one week after the return of your assignment or test.** The written document need not be long, but must clearly identify the problem or issue of concern. I will carefully consider all such appeals. **There will be no grading appeals after the one-week deadline has passed.**

**Office Appointments:**

I am available to discuss issues of concern to you on an individual basis either after class or in my office (Fisher 844). Please e-mail to make an appointment for an office visit. So that I can be better prepared for your visit, please give me a general idea of the topic you’d like to discuss. I typically schedule 15 minute appointments; if you believe you will require more time, please request a longer appointment.
To: FIN students
From: Professor Karen H. Wruck
Re: Rules for written case analyses
Date: Today’s

The purpose of this page is to illustrate acceptable font, spacing, and margin usage for written work for my FIN classes. Font size must be at least 10 point, the size illustrated here. A minimum of 1.5 line spacing is required. Acceptable side, top, and bottom margins are shown here, which are to provide 1” all around. Memo format is required, using single spacing for the information in the header and a minimum of 1.5 spacing thereafter. Tabs are to be indented at least as far as they are on this page. Each violation of the rules will be penalized by the deduction of 10% of the point total.

Exhibit fonts can be smaller than 10 point, but must be easily readable (in my judgment). Violations here will also be penalized by the deduction of 10% of the point total.

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READING LIST
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MODULE 1: VALUATION AND SECURITIES ISSUANCE

Review Materials

Materials for Review, Reference and Pre-Course Preparation

- Chapter 18, “Capital Budgeting and Valuation with Leverage,”
  Corporate Finance, Berk and DeMarzo, Second or Third Edition,
  Prentice Hall, (review, you should have this book from core
  finance).

- Chapter 19, “Valuation and Financial Modeling: A Case Study,”
  Corporate Finance, Berk and DeMarzo, Second or Third Edition,
  Prentice Hall, (review).

- Equity Valuation, Linda DeAngelo, Marshall School, University
  of Southern California, Unpublished White Paper (on Carmen).

- Alternative Assumptions Underlying Various Approaches to
  Unlevering/Levering Betas, Memo to Fin Students,
  Karen Hopper Wruck (on Carmen).

- Alternative Discounted Cash Flow Enterprise Valuation Methods
  Summary Sheet, Memo to Fin Students,
  Karen Hopper Wruck (on Carmen).

Evening Session 1
Basics of Valuation: Theory and Practice

- Sampa Video, Inc., Gregor Andrade, HBS 201-094

- Chapter 18, “Capital Budgeting and Valuation with Leverage,”
  Corporate Finance, Berk and DeMarzo, Second or Third Edition,
  Prentice Hall, especially 18.1, 18.2, 18.3, 18.5, 18.6
### Evening Session 2
**Discounted Cash Flow and Multiples Valuation**
- Spyder Active Sports—2004, Belen Villalonga, Dwight Crane and James Quinn, HBS 206-027

**Global Valuation: Understanding the Cost of Capital**
- Globalizing the Cost of Capital and Capital Budgeting at AES, Mihir Desai and Doug Schillinger, HBS 204-109.

### Evening Session 3
**Finish up from Last Session if Required:**
**Global Valuation: Understanding the Cost of Capital (see readings above)**

**Valuing Opportunities in Emerging Markets**
- Dow Chemical's Bid for the Privatization of PBB in Argentina, Mihir Desai and Alexandra de Royere, HBS 204-021.

### Evening Session 4
**Valuation and the Decision to Go Public**
- “Facebook, Inc.: The Initial Public Offering (A), Ken Mark, Ivey Case W12453.
- “Creating the First Public Law Firm: The IPO of Slater & Gordon Limited,” Ben Esty and E. Scott Mayfield, HBS 213-019
## Module 2: Corporate Governance and Shareholder Activism

### Evening Session 5

**Corporate Governance and the Role of the Market for Corporate Control**

- “Buffet’s Bid for Media General’s Newspapers,” Benjamin C. Esty and Aldo Sesia, HBS 213-142.


- American Cyanamid (A) & (B) Combined, Karen H. Wruck and Sherry P. Roper, HBS 898120.


### Evening Session 6

**Managing Governance Risk and Minority Shareholder Rights**

- The Hostile Bid for Red October, Alan Bigman and Ben Esty, HBS 296-084.


- Roche’s Acquisition of Genentech, Carliss Baldwin, Bo Becker and Vincent Dessain, HBS 210-040.

### Evening Session 7

#### Shareholder Activism and Managerial Performance


- “Hedge fund activists 2.0: They are Back!,” Marc Zenner, Henry Gosebruch, Tomer Berkovitz, J.P. Morgan, April 2010.

