Instructor: Nat Gregory  
Semester: Spring 2017

Overview
This is a case-based course that provides a bridge between theory and practice. In the selection of cases and class discussion, I try to strike a balance between finance theory, technical content and spreadsheet calculations on the one hand, and high level financial strategy on the other, taking the perspectives of: investment bankers; boards of directors and corporate executives who are responsible for investments and financial strategy; and outside investors trying to evaluate a company’s plans, projections and share price. Most of the cases are transaction-oriented and there is limited focus on the daily issues of corporate treasury management or capital budgeting.

The first 2-3 classes of the course are a basic review of valuation, focused on DCF modeling and discount rates. That will allow us to get on the same page with a few formulas and tools that will be used from time to time in the course, and it will allow me to assess the corporate finance background of students in the class.

After the first 2-3 classes, the course is designed to give students some exposure at an advanced level to a very broad range of different topics in corporate finance, such as: corporate valuation using equity cash flow models, comparable multiples and LBO analysis, as well as the valuation of undeveloped assets; tools for raising capital, e.g. warrants, rights offerings, convertible debt, IPOs & private placements; the rationale and market reaction to excess cash balances, as well as tools for distributing capital, e.g. special dividends & the mechanics of tender offers; recapitalizations, risky debt, distress and how the process of chapter 11 bankruptcy works; the financial engineering involved in complicated corporate structures, e.g. special purpose vehicles; diversified conglomerates and tools for breaking up companies, including spin-offs, split-ups, carve-outs and tracking stocks; control devices such as dual class common stock; leveraged buyouts; contested mergers; etc. We will try to cover as many of these topics as we can over the course of the term. There is a class schedule below listing the cases I currently plan to use, although the schedule and list are subject to change.

The course is conceptually very difficult. A solid background in basic corporate finance is essential, with 15.401 and 15.402 or their equivalents as prerequisites. Although there is an overlap of topics with 15.434, the courses are different and hopefully 15.S04 is styled to be complementary to 15.434.
Readings
The primary assigned readings for this course are the case write-ups included in Study.Net and available in bound version or posted on Stellar. It is important for you to go through each case thoroughly to be prepared for class.

Since this is a case course, we will not follow a textbook. However, I am assuming all of you already own copies of Brealey, Myers & Allen, *Principles of Corporate Finance*, 11th or 12th edition (“BMA”). I will give you assigned readings & references from BMA throughout the course, so that you can go back and refresh your understanding of (or read for the first time about) fundamental concepts and tools that come up as we go along. If you own a different introductory textbook, let me know what it is, and I will try to help you cross-reference sections that are comparable to readings from BMA.

Other useful textbooks include: Holthausen & Zmijewski, *Corporate Valuation: Theory, Evidence & Practice* (“HZ”); Koller et. al., *Valuation* 6th ed. (“McKinsey”); and Castillo and McAniff, *The Practitioner’s Guide to Mergers & Acquisitions, Investment Banking and Corporate Finance* (“CM”). None of these books is required, although I have posted on Stellar at least one chapter from each as recommended course readings. I will also post on Stellar some academic articles, SEC filings, etc., as well as a few handouts on subjects we cover.¹

Homework & Preparation
There is a large amount of work required for this course. I assign written homework to turn in for almost all of our classes, with more than half of them being pass-fail and the others graded.² Assignments are posted on Stellar, usually a couple of weeks before they are due. I have posted an assignment for the first class, but it is not a written assignment that you have to turn in.

Students are expected to work in groups of 3 or 4 to prepare the homework assignments. Members of each group will all receive the same grade, so it is your responsibility to police the level of effort contributed by others in your group. Since there are so many assignments in the course, study groups will be tempted to rotate among individual students the responsibility for preparing and turning in homework. I urge you not to do that, but instead to spend time together as a group going over every case and homework assignment, in order to maximize what you get out of the course and get yourself prepared for class discussion, as well as earn the best grade.

¹ Most of this additional material is listed in the preliminary course schedule at the end of this syllabus under “supplemental readings”. Some of the supplemental readings are fairly academic, or they are quite lengthy and go well beyond anything we cover in class. I have nevertheless included the material for students who have enough time and long-term interest to read further. I am happy to provide additional references on most of these topics to interested students.

² Case solutions will not be distributed in written or electronic form, but will be discussed in class.
Preparing for class in a case course like this is difficult for most students. There is not much to go by in analyzing a case we haven’t talked about yet. And there is typically no one “solution”, i.e. right answer for a case question. So figuring out the best way to think about cases is not easy and students often discover, once class begins, that the discussion diverges from what they had anticipated. While that may be frustrating, it is the way corporate finance works in the real world.

**Grades**
30-40% of your grade will be based on homework assignments. Beyond that, to get the most out of this course, you need to be well prepared for each case and get engaged in class discussion, so up to 30-40% of your grade will be based on class participation. I do cold-call students from time to time, and missing class or coming late without an explanation may affect your participation grade. The final 20-30% of your grade will be based on a take-home final exam, which will cover a number of questions about a case which I will post on Stellar 2-3 weeks before the end of the course. After seeing how the course progresses, I may decide to tweak these percentages slightly.

**Contacts**
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Teaching Assistant – TBA

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3 I will ask the TA to keep track of both attendance and lateness. If you can’t come to class, which I understand may happen for one reason or another, simply send me or the TA an email to let me know. If you expect to miss several classes during the term, you might not want to register for the course, or you should at least expect your attendance to affect your grade.
Preliminary Course Schedule & Assignments

A preliminary class schedule of cases, topics, readings and assignments is outlined below. I make changes in the schedule & assignments continually during the course, so it is important for students to check Stellar regularly for updates.

Class 1 – Wednesday, February 1
Case: Kohler
Topics: Liquidity, control & ownership restructuring
       Intro to corporate valuation
Reading: Villalonga & Amit, “Kohler Co.”, HBS Case, 2005
Homework Assignment: Posted on Stellar (not required to be turned in)
Supplemental Readings:
Christy and Reifman, “The Importance of Being Private”, Forbes, Nov 29, 2004
HZ, “Introduction”, Corporate Valuation, Chapter 1

Class 2 – Monday, February 6

Class 3 – Wednesday, February 8
Case Continued: Kohler Appraisal
Topics: DCF Methodology Review
       Betas & market risk premium
       Horizon value & sustainable growth
       Capital structure & tax shield
Reading: Villalonga & Amit, “Kohler Co.”, HBS Case, 2005
Homework Assignment: Posted on Stellar
Supplemental Reading:
BMA, Corporate Finance, Chapters 17 & 19
McKinsey, “Frameworks for Valuation”, Valuation, Chapter 8

Recitation – Thursday, February 9
Topics: Investor returns and MM
Reading: BMA, Corporate Finance, 17 & 19
Problem Sets for Review: TBD
Class 4 – Tuesday, February 14
Case: Apple iPrefs
Topics: Excess cash balances
  Cash distribution tools
  iPref valuation
Reading: Baldwin et. al. “Apple, Einhorn, and iPrefs”, HBS Case, 2015
Homework Assignment: Posted on Stellar
Supplemental Readings:
Foley et. al., Journal of Financial Econ, 2007

Class 5 – Wednesday, February 15
Case: Colt Recap
Topics: Overcapitalization & agency issues
  Asymmetric information & signaling
  Leveraged recapitalizations
  Management incentives
Reading: Stein, “Colt Industries”, HBS Case, 1996
Homework Assignment: Posted on Stellar
Supplemental Readings:
Colt proxy posted on Stellar
Jensen, American Economic Review, 1986
Stewart & Glassman, Journal of Applied Corp Finance, 1988
Denis & Denis, Journal of Applied Corporate Finance, 1993

Class 6 – Monday, February 20
Case Continued: Colt Share Valuation
Topics: Dividend/cash flow to equity model
  Financial leverage and equity returns
Homework Assignment: Posted on Stellar

Class 7 – Wednesday, February 22
Case: Hertz LBO
Topics: Leveraged buyouts
  Structural leverage & returns
  IRR & LBO valuation tools
Reading: Luehrman & Scott, “The Hertz Corporation (A)”, HBS Case, 2009
Homework Assignment: Posted on Stellar
Supplemental Readings:
BMA, Corporate Finance, Chapter 32
Jensen, HBR, Sep-Oct 1989
Class 8 – Monday, February 27
Case: Seagate MBO
Topics: Management buyouts
       Fairness opinions
Readings: Andrade et al, “Seagate Technology Buyout”, HBS Case
          Lehman Brothers, Seagate Fairness Opinion, SEC filing excerpts
Homework Assignment: Posted on Stellar
Supplemental readings:
       Surowiecki, “Private Lies”, The New Yorker
       Allen, “Independent Directors in MBO Transactions”, Business Lawyer

Class 9 – Wednesday, March 1
Case: Enkophox®
Topics: Valuation trees
       Operating leverage & returns
Reading: Instructor, “OD Biotech” posted on Stellar
       BMA, Corporate Finance, Chapter 9 & Section 10.4
Homework Assignment: Posted on Stellar

Recitation – Thursday, March 2
Topic: Basic options review
Reading: BMA, Corporate Finance, Chapters 20-21

Class 10 – Monday, March 6
Case Continued: Enkophox®
Topics: Real options
       Contingent payment deal structure
Readings: Instructor, “OD Biotech” posted on Stellar
          BMA, Corporate Finance, Chapter 22
Homework: Posted on Stellar
Supplemental Readings:
          BMA, Corporate Finance, Chapters 20-21
          Berk & DeMarzo, Corporate Finance, Chapter 20
Class 11 – Wednesday, March 8
Case: Eskimo Pie
Topics: Initial public offerings
        Comparable multiples valuation tools
Reading: Ruback, “Eskimo Pie Corporation (Abridged)”, HBS Case, 2003
Homework Assignment: Posted on Stellar
Reference: http://bear.warrington.ufl.edu/ritter/ipolink.htm
Supplemental Readings:
BMA, Corporate Finance, Section 15-2
NYSE IPO guide posted on Stellar

Class 12 – Monday, March 27
Case: Jet Blue
Lecture Topics: Convertible debt
        Warrant dilution
        Arbitrage & financial intermediation
        Instructor, “Addendum to the JetBlue Case” posted on Stellar
        Instructor, “Convertible Debt” posted on Stellar
Homework: Posted on Stellar
Supplemental Readings:
Review BMA, Corporate Finance, Chapters 20-21 & Section 24-2

Class 13 – Wednesday, March 29
Case Continued: Jet Blue
Class Exercise: JetBlue Financing Alternatives
Topics: Financing strategy & planning
        Debt & equity tradeoffs
        Instructor, “Addendum to the JetBlue Case” posted on Stellar
Group Homework Assignments: Class exercise posted on Stellar
Supplemental Reading: BMA, Corporate Finance, Chapters 14, 15 & 18
Class 14 – Monday, April 3
Case: Corning Glass
Topics: Zero-coupon convertibles
        Financial distress & strategies
Homework Assignment: Posted on Stellar
Supplemental Readings:
BMA, Corporate Finance, Sections 3-6, 18-3
Corning Zero-coupon Convert Prospectus

Class 15 – Wednesday, April 5
Case Continued: Corning Glass
Topics: Mandatory convertible preferred stock
        Financial intermediation
        Market signaling
Homework Assignment: Posted on Stellar
Supplemental Reading:
General Motors 2010 MCPS prospectus on Stellar

Class 16 – Monday, April 10
Case: Marvel Entertainment
Topics: Risky debt & default probability
        Debt overhang
Homework: Posted on Stellar
Supplemental Reading: BMA, Corporate Finance, Sections 3-6, 18-3

Class 17 – Wednesday, April 12
Case: Toy Biz
Topics: Corporate control
        Dual class shares
Readings: Esty, “Bankruptcy and Restructuring at Marvel”, HBS Case
        Instructor, “Toys in Trouble” posted on Stellar
Homework Assignment: Posted on Stellar
Supplemental readings:
Evercore opinion on Mondavi Corp dated Nov 29, 2004
Google release on multiple classes of voting shares
Class 18 – Monday, April 19
Case Continued: Marvel Entertainment
Lecture: Chapter 11 bankruptcy
Review: Esty, “Bankruptcy and Restructuring at Marvel”, HBS Case
Luehrman & Teichner, “Note on Bankruptcy in the US”, HBS, 2009

Class 19 – Wednesday, April 24
Case: Beatrice
Topics: Diversified acquisitions & rollups
Reading: Collis & Stuart, “Beatrice Companies – 1985”, HBS Case
Homework Assignment: Posted on Stellar

Class 20 – Monday, April 26
Class Exercise: Breakup of USX – Icahn vs USX management
Reading: Stein, “USX: Targeted Stock Restructuring”, CaseNet
Topics: Subsidiary spinoffs, carve-outs, etc.
Tracking stock
Homework Assignment: Posted on Stellar
Supplemental Readings:
Castillo & McAniff, Practitioner’s Guide, Chapter 22

Class 21 – Monday, May 1
Lecture: Financial Engineering
Case: ALZA
Topics: R&D partnerships/SWORDs/synthetic royalties
Special purpose vehicles & project finance
Homework Assignment: Posted on Stellar

Class 22 – Wednesday, May 3
Case: Enron
Topics: Financial engineering (cont)
Reading: Chacko, Dharan and Strick, “The Enron Odyssey”, HBS Case, 2005
Homework Assignment: Posted on Stellar
Supplemental reading:
Enron 1999 10-K footnote to financial statements
Gladwell, The New Yorker, 2007
Class 23 – Monday, May 8
Case: Paramount Takeover
Topics: Merger combination benefits
        Market reaction to takeovers
        Tender offer structure
Reading: Kaplan, “Paramount Communications Inc. – 1993”, CaseNet
Synergy estimates due: Sunday, May 7 at 6:00PM
Supplemental reading:

Class 24 – Wednesday, May 8
Case: Paramount II
Topics: Deal structure & valuation
        Mergers financed with stock
        Information in market prices
Reading: Kaplan, “Paramount Communications Inc. – 1994”, CaseNet
Homework Assignment: Posted on Stellar

Take-home Exam – Due Monday, May 15 1:00PM
Case: Cablevision
Exam Questions: To be posted on Stellar