

# Course Outline

## **RSM 433 H1 S**

Advanced Corporate Finance

Summer 2020

Course Meets: L0101: Monday & Thursday 10am -12pm

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## Course Scope and Mission

This course has one goal: to provide you with a strong foundation in the principles of corporate finance and an opportunity to apply these principles to practical and managerial decisions. The financial landscape is rapidly evolving, as we are facing an unprecedented health and economic crisis. Many of the themes of Advanced Corporate Finance have special relevance today: the pros and cons of liquidity management and debt financing; the bankruptcy process; the costs of financial distress as firms restructure; the role of private equity; firm financing constraints and business cycles. Examining these issues will provide you with a holistic view of finance, capital markets, and the role of financial intermediaries.

We will use case studies to bridge the gap between rigorous finance theory and its applications to practical questions in corporate finance.

A deep understanding of the concepts of this course is useful beyond corporate finance, in general management, corporate strategy, management consulting, entrepreneurship, as well as investment banking and investment management.

## Course Prerequisites

Prerequisite: Rotman Commerce: [RSM333H1](#); Actuarial Science: [ACT349H1](#)

## Required Technology

For Summer 2020, this course will be conducted entirely online. To participate fully and to complete the course successfully, you must ensure you have

- a computer with a working webcam
- microphone
- reliable access to an internet connection

If you don't have this technology, or cannot be assured that you will have it for the duration of the course and all its tests/presentations/deliverables, please do not remain in the course. There will be other opportunities in other terms to take this course without the necessity to rely on technology.

## Required Readings

The course material includes:

- Lecture notes
- Cases
- Videos to introduce and discuss concepts

Cases are available in the following course package on Harvard Business publishing website (CAD\$ 63.5): <https://hbsp.harvard.edu/import/731740>. The use of these materials complies with all University of Toronto policies which govern fees for course materials.

## Evaluation and Grades

<b>Assignment</b>	<b>Deadline</b>	<b>Weight</b>
Class Participation/Attendance	Ongoing	20%
Case Write Up		30%
Case 1	July 9, 2020	
Case 2	July 13, 2020	
Case 3	July 16, 2020	
Case 4	July 20, 2020	
Case 5	July 23, 2020	
Case 6	July 27, 2020	
Case 7	July 30, 2020	
Case 8	August 6, 2020	
Case 9	August 10, 2020	
Case 10	August 13, 2020	
Case 11	August 17, 2020	
Quizzes	July 9, 2020	20%
	July 13, 2020	
	July 16, 2020	
	July 20, 2020	
	July 23, 2020	
	July 27, 2020	
	July 30, 2020	
	August 6, 2020	
	August 10, 2020	
	August 13, 2020	
	August 17, 2020	
Final Assessment	During Faculty of Art and Science Final Assessment Period	30%

\*Quizzes and Cases are due at 10 am on the indicated dates.

## Course Format

Advanced Corporate Finance focuses on three important managerial decisions, with a module devoted to each.

- Module 1. Capital Structure: How should a firm finance its activities?

Throughout the course, we will study firms wrestling with decisions about how to finance their activities. Financing involves choosing the right capital structure – the mixture of equity, debt and other securities. We will consider how firms choose to finance ongoing operations, new projects and mergers and acquisitions. You will understand how market imperfections impact financing decisions.

- Module 2. Valuation: How can we value firms?

In Introduction to Corporate Finance you learned to use the net present value rule to determine whether an investment was likely to increase shareholder value. In Advanced Corporate Finance, you will 1) investigate further how firms create value, 2) value firms with debt.

- Module 3. How firms raise external funds?

In this module, we will investigate how firms raise debt and equity, extending our analysis to small firms. We will see how financing constraints vary with and amplify business cycles.

## Expectations

- Participation

You will be expected to participate. You will collect points based on attendance and participation. When the quality of your participation is high or very active participation you will get extra bonus points. Note that you can exceptionally be penalized in case of non-professional behavior. The final grade depends on the number of points you have. TAs will track your participation in class.

- Quizzes

You will be expected to complete on-line exercises that are due at the beginning of each session. The exercises will be open for approximately one week to accommodate your busy schedules. Each consists of a set of multiple-choice questions. The purpose of these

exercises is to give you a stream of regular feedback on your progress. There will be 11 quizzes. I will take the 10 best ones to compute the final grade.

- Case write-ups

We will study 11 cases. For each case, you have to deliver a case write up.

## Grading

You will get the maximum number of points if you justify your answers and your reasoning is correct. Please note that clear, concise, and correct writing will also be considered in the evaluation of cases. You may lose points for writing that impedes communication: poor organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre ([studentlife.utoronto.ca/asc](http://studentlife.utoronto.ca/asc)) or one of the College Writing Centres ([writing.utoronto.ca/writing-centres](http://writing.utoronto.ca/writing-centres)). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

## Group Work

You can work in groups of 1, 2 or 3 students for cases. Learning to work together in teams is an important aspect of your education and preparation for your future careers. That said, project-based teamwork is often new to students; to work well in teams, it helps to follow a set of core expectations to best succeed at your team projects.

1. Read the document entitled, “Working in Teams: Guidelines for Rotman Commerce Students” which is available on the RC portal under the Academic Services tab.
2. When working in a team, Rotman Commerce students are expected to:
  - Treat other members with courtesy and respect;
  - Honour the ground rules established by the team;
  - Contribute substantially and proportionally to the final project;
  - Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
  - Meet the project timeline as established by the team.
3. Resolving conflicts:

Conflicts are part of the team’s process of learning how to work together. When handled well, it can generate creativity and bring-multiple perspectives to the solution.

Student teams are expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). When teams are unable to arrive at a solution that works for all members, the team must meet with their instructor as soon as possible. The instructor will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, use their action plans.

## Submission

You will submit your cases to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, you will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the university's use of the Turnitin.com service are described on the Turnitin.com website.

You should submit one case per group. You need to write the names of all the students of the group in the group on the first page.

- Final assessment

The final assessment will be comprehensive and will cover material from lectures and the cases. The final assessment will include a case.

# Weekly Schedule

Session	Date	Topic
<b>MODULE 1: CAPITAL STRUCTURE</b>		
1	July 6	<ul style="list-style-type: none"> <li>Lecture: Capital Structure in Perfect Capital Market</li> <li>Course Overview</li> </ul>
2	July 9	<ul style="list-style-type: none"> <li>Lecture: The cost of capital of a levered firm</li> <li>First Case: <i>Apple, Einhorn, and iPrefs</i></li> </ul>
3	July 13	<ul style="list-style-type: none"> <li>Lecture: Debt and Taxes</li> <li>Second Case: <i>Marriott Corporation: The Cost of Capital</i></li> </ul>
4	July 16	<ul style="list-style-type: none"> <li>Lecture: Financial Distress</li> <li>Third Case: <i>California Pizza Kitchen</i></li> </ul>
5	July 20	<ul style="list-style-type: none"> <li>Lecture: Pecking Order Theory</li> <li>Fourth Case: <i>Restructuring JAL</i></li> </ul>
<b>MODULE 2: VALUATION</b>		
6	July 23	<ul style="list-style-type: none"> <li>Lecture: What creates value?</li> <li>Fifth Case: <i>Molycorp: Financing the Production of Rare Earth Minerals (A)</i></li> </ul>
7	July 27	<ul style="list-style-type: none"> <li>Lecture: Fundamentals of Valuation</li> <li>Sixth Case: <i>The Battle for Value, 2016: FedEx Corp. versus United Parcel Service, Inc.</i></li> </ul>
8	July 30	<ul style="list-style-type: none"> <li>Lecture: Mergers and Acquisitions (1/2)</li> <li>Seventh Case: <i>Loblaw Companies Limited – Acquiring Shoppers Drug Mart</i></li> </ul>
9	August 6	<ul style="list-style-type: none"> <li>Lecture: Mergers and Acquisitions (2/2)</li> <li>Eighth Case: <i>Berkshire Partners: Bidding for Carter's</i></li> </ul>
<b>MODULE 3: CORPORATE FINANCING. HOW DO FIRMS RAISE EXTERNAL FUNDS?</b>		
10	August 10	<ul style="list-style-type: none"> <li>Lecture: The Role of Debt</li> <li>Ninth Case: <i>Buffett's Bid for Media General's Newspaper</i></li> </ul>
11	August 13	<ul style="list-style-type: none"> <li>Lecture: Raising Equity</li> <li>Tenth Case: <i>Williams, 2002</i></li> </ul>

12	August 17	<ul style="list-style-type: none"> <li>• Final Case: <i>Facebook, Inc: The Initial Public Offering (A)</i></li> <li>• Course Overview</li> </ul>
<b>FINAL ASSESSMENT</b>	TBA by FAS	

# Policy and Procedure

## Diversity, Inclusion and Equity

The University of Toronto is committed to equity, human rights and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect where all members of our community can express themselves, engage with each other, and respect one another’s differences. U of T does not condone discrimination or harassment against any persons or communities.

## Missed Tests and Assignments (including mid-term and final term examinations)

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may request special consideration.

In such cases, students must:

1. Notify the instructor AND the Rotman Commerce Program Office on the date of the missed course deliverable, e.g. missed test, assignment or class (in the case of participation marks).
2. Complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation this may include either your Self-Declaration of Absence on ACORN, or [Verification of Student Illness or Injury form](#) to the Rotman Commerce Office within **2 business days** of the originally scheduled course deliverable.

Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed course deliverable.

**Note that documentation must clearly establish that you were ill or had other circumstances that prevented you from attending on the date in question. Reports after-the-fact are not sufficient.**

**Final Assessment:** If you miss the final assessment, you will need to follow the instructions above as you would for term work.

## Late Assignments



All case write-ups and quizzes are due at the due date at 10 am. Late submissions will normally be penalized by 50% if the assignment is not received on the specified date, at the specified time. A further penalty of 50% will be applied to each subsequent day.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

## Accessibility Needs

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible at [accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or [studentlife.utoronto.ca/as](http://studentlife.utoronto.ca/as).

## Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the U of T degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

*The University of Toronto's Code of Behaviour on Academic Matters*

([governingcouncil.utoronto.ca/policies/behaveac.htm](http://governingcouncil.utoronto.ca/policies/behaveac.htm)) outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other U of T resources such as College Writing Centres or the Academic Success Centre.

## Credit / No-Credit Option in Rotman Commerce

You may request to Credit/No-Credit an RSM course in the following cases only:

- The course will not be used for any specialist or focus, including the 8.0 RSM FCE requirement.
- The course does not have a group work component.

If you wish to request credit/no-credit for an RSM course, you must contact a Rotman Commerce academic advisor by the drop deadline for the current term. The deadline for this term is TBA.

Final approval is on a case-by-case basis with the permission of the Director, Rotman Commerce.

## Email

At times, the course instructor may decide to communicate important course information by email. As such, all U of T students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up and properly entered on ACORN. For more information visit [help.ic.utoronto.ca/category/3/utmail.html](http://help.ic.utoronto.ca/category/3/utmail.html).

Forwarding your utoronto.ca email to a Gmail or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Gmail accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

## Quercus and the Course Page

The online course page for this course is accessed through Quercus. To access the course page, go to [q.utoronto.ca](http://q.utoronto.ca) and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the

courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ACORN, wait 48 hours.

## Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted. Students who have been previously granted permission to record lectures as an accommodation for a disability are excepted. This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in any way. It is forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

## Feedback for Us

We invite your comments and input. In particular, if you find errors, omissions or confusing statements in the assignment questions, case studies, readings, or any other course materials, please contact the professor. If you have comments and suggestions about the overall course design or other matters, they are welcome.