

ROTMAN SCHOOL OF MANAGEMENT
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2300: CORPORATE FINANCING Winter 2007

Office hours

Tuesday afternoon. I am in most of the time so feel free to drop by outside of office hours, I will let you know if it's inconvenient. If it's a technical question that needs some thought contact me by e-mail (booth@rotman.utoronto.ca) and I'll get back to you asap.

Course Objective

The aim of this course is to examine the theoretical underpinnings of corporate financing. The practise of corporate financing will be examined by referring to the empirical literature, by undertaking a series of case analyses and doing a live case. Understanding how to apply theory to practical situations, and to see the essence of financing problems, is the key contribution of the course.

Achieving the Objective.

The theoretical framework of the course will be covered in a conventional lecture format based on the text used in the first year finance course, the drafts of my forthcoming Wiley textbook and some readings on the portal. Overheads for the week will be made available prior to class, so please download beforehand.

The practise of corporate financing will be illustrated by analysing a series of cases; all of which are contained in the readings package and doing a "live" case. The live case will be an analysis of the financing problems, WACC and a forecast for 2007 for Inmet Mining.

Case Material and Preparation.

The live case analysis will be completed in six groups that will be organised by week 3. In addition *after* the Mill Creek case there will be a short quiz on each case that will be done the night before to make sure that everyone is up to speed on the case. The quiz will be done electronically by logging in to

<http://www.rotman.utoronto.ca/finance/lab/assignment/Default.asp>

Further instructions on this will be provided in the first class.

Note that the live assignment will be handed in on the last day of class and may be discussed during the exam week at the scheduled exam time. In this way it may be treated as a final exam. Each group will develop slides that answer each set of questions in the live case writeup. The instructor will then randomly pick one of the six groups to present each part. Further information on this will be given as the course develops. Note that the forecast should be for 2007.

Note that the introductory finance course (1330) will have covered some of the same material as this course. However, the material has been arranged to fill in gaps and build the knowledge base. Each case is designed to cover a specific aspect of corporate financing. Do not 'jump in' and solve a case using material covered later in the course. You will come to this material soon enough!

Nearly all finance cases are amenable to spreadsheet analysis. Competent use of Excel is a skill that this course can help to develop. However, mindless repetitive analysis and the preparation of neat graphical material is no substitute for clear thinking.

Evaluation.

Class Participation	10%
Random quizzes on case material	20%
Mid term exam	40%
Major Assignment	30%

Teaching Assistant (TA)

The TA for the course is Bin Chang

2300: CORPORATE FINANCING COURSE OUTLINE

<u>Week 1</u>	<u>Introduction and Market Value Rule</u>
Readings	G. Donaldson, "Financial Goals: Management versus Stockholders," <u>Harvard Business Review</u> , (Nov-Dec 1964) J. Percival, "Why Don't We Just Ask Them?" <u>Financial Practice & Education</u> , (Fall 1993). Chapter 2 Booth-Cleary draft textbook
<u>Week 2</u>	<u>Financial Analysis & Forecasting</u>
	Chapters 3 & 4 Booth-Cleary draft textbook
Case:	<i>Mill Creek</i>
<u>Week 3</u>	<u>Financial Leverage</u>
	Chapter 14 Booth Cleary Draft text
Case:	<i>Continental Carriers</i>
<u>Week 4</u>	<u>Equity Costs</u>
Readings:	L. Booth, "The Capital Asset Pricing Model: Equity Risk Premiums and the Privately Held Business," <u>Journal of Business Valuation</u> , 1999. US Stock Valuation Models, <u>Deutsche Bank</u> , October 2000.
Case:	<i>Chem Cal</i>
<u>Week 5</u>	<u>Securities Regulation & Markets</u>
Readings	Chapter 17 of Booth-Cleary draft textbook

TSX listing document
BC Gas Short form prospectus

Case: *Companie de Telefonos de Chile (CTC)*

Week 6 Capital Structure and Taxes

Readings: F. Modigliani & M. Miller "Reply to Heins and Sprenkle,"
American Economic Review, September 1969.

Chapter 18 Booth Cleary draft text

Note further information can be obtained from Revenue Canada's
web site <http://www.rc.gc.ca/E/pub/tp/i67r3et/i67r3et.txt.html>.
RC has all of its interpretation Bulletins available for download.

Case: *Fair Weather Boat Co*

Week 7 Mid Term Exam

Week 8 Debt Capacity

Readings: G. Donaldson, "Strategy for Financial Emergencies," Harvard
Business Review, (November-December 1969).

Case: *Chinon SA.*

Week 9 Determining Debt Capacity

Readings: G. Donaldson, "New Framework for Corporate Debt Policy,"
Harvard Business Review, (March-April 1962).

J. Willis and D. Clark "An Introduction to Mezzanine Finance and
Private Equity," Continental Journal of Applied Corporate Finance,
(Summer 1989).

Case: *Marriott.*

Week 10 Credit Ratings & Hybrids

Readings: Chapter 17 of Booth-Cleary draft textbook

Case: *Everyman Jewellers.*

Week 11 Swap Financing.

Chapters 11 & 12 of Booth Cleary draft text

Case: *CanAm*

Week 12 New Equity Issues

James Brau et al "Evidence on what CFOs think about the IPO process, Journal of Applied Corporate finance, Summer 2006.

W. Megginson, R. Nash & M. Randenborgh, "The Record on Privatisation," Journal of Applied Corporate Finance 9-1, (Spring 1996)

Case: *Air Canada*

Week 13 Payout Policy.

Dividend Chapter in Booth Cleary text

Case: *Dividend Policy at FPL Group*

Live case Assignment

LIVE CASE ASSIGNMENT

The assignment is broken down into three sections:

- i) the preparation of a financial market outlook
- ii) the analysis of existing financing decisions
- iii) the preparation of a forecast of the firm's funds requirement together with a suggested financing plan.

A) The financial market outlook

All financial forecasting is undertaken against a general economic outlook of factors relevant to the firm. The financial market outlook therefore consists of two parts:

- i) an analysis of the business risk of the firm, i.e., basic industry analysis, business segments, main factors that affect the firm etc.
- ii) a general economic and financial appraisal of where key variables relevant to the firm are going. It is not expected that this contain an original economic forecast, it is expected that forecasts from various sources (cite them) be consulted to come up with a group consensus.

B) Financial analysis

- i) historic ratio analysis to analyse the financial health of the company relative to its past and its peers
- ii) sources and uses of funds statements to analyse the key ingredients of its financing decisions
- iii) analyse the firm's dividend/retention decision
- iv) analyse the firm's capital structure decision, which entails:
 - a) its debt/equity decision
 - b) its short/long debt decision
 - c) any other financing issues such as convertibles or other derivatives
 - d) estimate the firm's pre-tax and after tax cost of capital using its latest annual report, updated for any major financing changes that may have occurred, but using current costs. Note the objective here is to plan for the forecast year. You may have to deal with issues of minority interest, deferred taxes, etc.

C) Forecast and financial plan

This part of the assignment involves

- i) the forecast sources and uses of funds
- ii) the estimation of a net funds requirement
- iii) suggested financing.

The latter financing decisions will flow from your analysis above of the firm's cost of capital and whether the firm is currently at its optimal capital structure. Factors you should bear in mind are:

- i) industry standards
- ii) stock market value of equity; is it under/over-valued and how can you tell?
- iii) the maturity of the firm's debt
- iv) the nature of the future funds requirements.

The final analysis should be written as if presenting to the Board of Directors for use for calendar 2000. The report should include an executive summary and be written bearing in mind the attention span of the average director (i.e. faculty member). There is a 20-page limit for the final report (all three sections) plus appendices using 12-point font.

The instructor will randomly pick groups to present a short introduction of the above general issues for each section. All groups should prepare a presentation of their complete final report and attach a hard copy of the overheads.