

# CORPORATE FINANCE

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## OVERVIEW

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Corporate Finance covers two key aspects of the financial decisions of companies: (1) financial policy, i.e., companies finance their business, and (2) valuation, i.e., companies estimate the value of an investment project or another company. Building on previous material (accounting, CAPM, etc.), we develop tools to address both sets of issues. Our main focus is on practical applications, with lectures alternating with in-class discussions of business cases set in different industries and countries.

## LEARNING OUTCOMES

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### Financial policy

- How to forecast a company's funding needs?
- What are a company's different sources of funds and what are their pros and cons?
- What financial policy and capital structure are suitable for a company?
- How much cash should a company hold and what is a suitable payout policy?

### Project and company valuation

- How to value projects with net present value (NPV), internal rate of return (IRR), etc.?
- How to estimate a company's cost of capital?
- How to value a company using multiples and discounted cash flow (DCF) analysis?
- How to value a company in the context of an acquisition (M&As), of a leveraged buyout (LBO) or of an initial public offering (IPO)?

## KEY TOPICS

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### Financial policy

- Financial forecasting, sustainable growth rate
- Sources of funds, financing policy, capital structure, cash and payout policy

### Project and company valuation

- Project valuation, capital budgeting, net present value, internal rate of return, payback
- Company valuation, comparables and multiples, discounted cash flow analysis
- Mergers and acquisitions, private equity, initial public offerings

## COURSE MATERIALS

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### Textbook

We do not follow a book but you can use this one as support: Robert Higgins, *Analysis for Financial Management*, McGraw-Hill/Irwin.

- Chapters 1 and 2 are useful reviews of accounting ratios
- Chapters 3, 4, 5 and 6 correspond to financial policy
- Chapters 7, 8 and 9 correspond to valuation

Read the book at your pace (i.e., before class is helpful but not vital). It is short and clear. Get any recent edition (say 9<sup>th</sup> or later). A second-hand edition should be no more than €50.

### BlackBoard

All the other course materials are posted on the course BlackBoard page

## TEACHING METHODS

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We combine lectures, team-work on cases, and in-class case discussions

## PREREQUISITES

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For this class, you need to have a good understanding of the basic concepts of Accounting and Financial Markets.

Use of a spreadsheet package such as Excel will be vital for the exercises, saving time and aiding in understanding the material.

## GRADING

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Grades are based on team assignments and a final exam with the following weights for each component:

- Team Assignments: 40%
- Final exam: 60%

The team assignments should be submitted (in Word or PDF format) on BlackBoard before the scheduled date. The assignments may be discussed only with the members of your group. Only one solution per group should be handed in. No late submissions are accepted.

The final exam is closed-book and closed-notes, with a calculator allowed but no other electronic device (e.g., calculator software on a smart phone is not permitted).

**Exam Re-grading Policy:** You may request a re-grade on the exam. The re-grade request must be accompanied by a concise written explanation of the request (e-mail is preferable). The request should be submitted to me within one week after the exams are distributed. The whole exam may be re-graded, so your score can either increase or decrease as a result. For the re-grade request, you should do the following: 1. Choose at most 3 questions from the exam (e.g., 1b, 2a, 4c) for which you think that you deserve more points than were given by the grader; 2. Scan the part of the graded exam in which you answered those questions, and attach the images to the email (or to the written request); 3. Explain briefly why you think the questions were graded unfairly, and why you deserve to get more points; 4. Send the request by e-mail or by HEC mail to my office address (see above).

Class participation is very important. Many of you have useful professional experience that can undoubtedly benefit our class discussions. Do not hesitate to share your experience with the rest of the class!

## BIOGRAPHY

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**Ioanid Rosu** is Associate Professor of Finance at HEC Paris since 2010. Previously, he earned two PhDs from MIT, one in mathematics in 1999 and one in financial economics in 2004. Between 2004 and 2010, he was Assistant Professor of Finance at the University of Chicago, Booth School of Business, where he taught the introductory finance course in the MBA and Executive MBA programs. His research focuses on the liquidity of financial markets and its effect on asset prices and investor decisions. He is also interested in mergers and acquisitions, option pricing, and high frequency trading. He enjoys fine dining (including sushi), and plays soccer, chess and bridge.

## SCHEDULE

### Part 1: Financial Policy

<u>Class</u>	<u>Topics</u>	<u>Assignments</u>
Session 1	<b>Case: The Brick House</b> (Construction materials/New Zealand/Financial forecasting)	Memo: The Brick House
Session 2	<b>Lecture: Sources of Funds + Financial policy 1</b>	
Session 3	<b>Case: UST</b> (Smokeless tobacco/US/Capital structure)	Memo: UST + Loewen
Session 4	<b>Case: Loewen</b> (Deathcare/Canada/Financial distress)	
Session 5	<b>Lecture: Financial policy 2</b>	Memo: Infineon
Session 6	<b>Case: Infineon</b> (Semiconductors/Germany/Cash and payout policy)	
Session 7	<b>Case: MCI</b> (Telephony/US/Convertible bonds) <b>Lecture: Financial policy 3</b>	Memo: MCI

### Part 2: Valuation

Session 8	<b>Lecture: Project valuation</b>	
Session 9	<b>Case: Pacific</b> (Paper/US/Project valuation)	Memo: Pacific
Session 10	<b>Lecture: Company valuation</b> <b>Lecture: M&amp;A</b>	
Session 11	<b>Case: Penrose</b> (Machine tools/UK/Company valuation)	Memo: Penrose
Session 12	<b>Lecture: Cost of capital (WACC)</b>	

### Part 3: Applications/Transactions

Session 13	<b>Lecture: Cost of capital in special cases</b> <b>Case: Bouygues</b> (Conglomerate/France/Divisional WACC)	Memo: Antin
Session 14	<b>Case: Antin's TowerCo Deal</b> (Telecoms/France/Private equity and infrastructure)	
Session 15	<b>Case: China Fire</b> (Manufacturing/China/M&A)	Memo: China Fire + Prada
Session 16	<b>Case: Prada</b> (Luxury and fashion/Italy/Initial Public Offering (IPO))	