

**HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY  
FINA 514 ADVANCED TOPICS IN FINANCIAL MANAGEMENT**

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Class Hours: Section L2: Saturday 1430-1750 HRS

Class Venue: 4115A

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**Course Description:**

As suggested in the title of the course, this is an advanced course. It presumes that the student is familiar with basic corporate finance (Brealey & Myers, or equivalent book). This course will focus on the strategic aspects corporate finance. In particular, we will cover two key modules in this course: (i) Real options (ii) Role of financing choices. The course evaluation will be based on case analysis, assignments, project write-ups and presentations as well as a final exam.

**Pre requisites:**

FINA 512

**Books and Materials:**

(Required) Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy*, (Irwin/McGraw-Hill, 1998).

(Required) *Course Packet*. The course package includes articles and cases.

### Grading:

Case write-ups:	2 cases	10 points
Assignments:	2 problem sets	20 points
Projects:	2 write-ups and 2 presentations	30 points
Quizzes	Best 2/3	20 points
Final exam		<u>30 points</u>
	TOTAL	100 points

Prior to the final exam, students can choose to convert their final exam to a 50 point exam instead of a 30 point exam. This would make sense for those who feel that their quiz scores are too low and they will be better off increasing the weightage of their final exam. In short, students can choose between two options: (1) Best 2/3 quizzes (20%) and final exam (30%) or (2) Final exam (50%). This decision has to be made prior to taking the final exam at the end of the last class session). *It cannot be changed after taking the final exam.*

### Other issues:

- Project write-up and presentation as well as case write-up have to be submitted on a group basis. Each group has to have approximately 4 members. Peer evaluation forms will be distributed to assess individual contribution to projects and cases and weightage will be given to this information in assigning scores to each student.
- Attendance and class participation requirements: You are expected to attend all classes. Should you be unable to attend a particular class, please inform me in advance. You are also expected to participate actively in the classroom.
- At the beginning of each class, pick up your name card and place it in front of you. At the end of the class, please return the name card for use in the next class.
- If a personal emergency forces you to miss an exam, please try to inform me in advance. Only in case of a personal emergency a make-up *may* be administered. In any other circumstance, missed exams will be assigned zero points.
- Each student should be part of a group of 4 members. Each group should submit a common case report of 2-3 pages (+ 1-2 exhibits, if required) for the cases. All students within a group will receive different grades depending on the peer evaluation scores.
- Quizzes will be approximately of half an hour duration. All material covered in class (since the prior quiz) is fair game.

## Tentative Outline

No.	Topic	Readings in Grinblatt and Titman
1a	Valuation Basics: Review	Ch 9, 10, 11.1-11.5, 13.1, 13.3
1b	Introduction to Derivative Pricing	Ch. 7.1-7.4
2a	Binomial model + <i>Quiz 1</i>	Ch 8.4, 8.6
2b	Allocating Capital and Corporate Strategy I	Ch 12.1 + Luehrman's HBR article
3a	Allocating Capital and Corporate Strategy II + <i>Quiz 2</i>	Ch 12.2
3b	<i>Case Analysis + Assignment # 1 (due)</i>	Case: Arundel Partners
4a	<i>Presentations</i>	Ch 8.6
4b	Capital Structure Basics: Review	Ch 14.1-14.4, 15.1-15.3, 15.5-15.6
5a	Capital Structure and Financial distress (16)	Ch 16.1-16.5
5b	Capital Structure and Corporate Strategy (17)	Ch 17.1-17.6
6a	Case Analysis + <i>Quiz 3</i>	Ch 18 + Jensen's HBR article + Case: Sealed Air Recap
6b	Information content of Financing Decisions (19)	Ch 19
7a	<i>Case Analysis + Assignment # 2 (due)</i>	Case: MCI
7b	<i>Presentations</i>	
8	FINAL EXAM	

### Project write-up & presentations:

There are two projects, one for each module (Real Options and Financing decisions of the firm) of the course. The first project write-up and presentation is due on the 4<sup>th</sup> session of the course. The second one is due on the 7<sup>th</sup> session of the course. Each student should be a member of a group of 4 students. Each group should submit one project report and make a presentation (10-12 minute) for each module of the course. Students are also required to fill out the peer evaluation form for each project.

I should also point out that there are no "correct" or "incorrect" answers. The suggested guidelines above may be difficult to address in each and every project. Do the best you can with the data that is available. Also think about incorporating whatever we are learning during the course into the project report. I will provide no explicit guidance for this project. It is an opportunity to showcase your creativity and enthusiasm for the topics in this course (an equivalent of class participation).

## Project 1: Real Options Project

Use the ASWJ (last year or two) to select a *recent* (and reasonably significant) cross-border investment made by an American or European firm in China. You have to prepare a 4-5 page report (plus any exhibits, if required) along the following lines:

1. Deal description: ½ page giving details of the transaction
2. What is the “story”? 1 page discussing the value proposition. What is the “story” that has been attributed by media/analysts as the reason behind the acquisition? What benefits seem to accrue to the acquirer/acquired firm?
3. Can you create a simple DCF (two stage growth model) of the projected free cash flows using reasonable assumptions? You can work at aggregate accounting levels e.g., gross margins, etc.
4. Identify real options embedded in the project/acquisition opportunity. Are there any option-like characteristics in the project? Does the project lead to follow-up opportunities? Does the project involve staged sequential investments? Can you get a ball-park estimate of the value of these real options?

## Project 2: Financing Decision of the firm

Use the ASWJ (last year or two) to select a *recent* (and reasonably significant) financing transaction announced by a Chinese (mainland/Hong Kong) company. You have to prepare a 4-5 page report (plus any exhibits, if required) along the following lines:

1. Deal description: ½ page giving details of the transaction
2. What is the “story”? 1 page discussing the value proposition. What is the “story” that has been attributed by media/analysts as the reason behind the design/structure of the financing arrangement?
3. Discuss the details of the means of financing? Can we get an estimate of the weighted average cost of capital? What are the strategic effects associated with the financing arrangement? Are there any subsidies involved in the financing arrangement? How do you value the subsidy, if any?
4. Can you create a simple DCF (two stage growth model) or an options framework to value the security being issued?
5. How does this financing arrangement affect the value of the company – what are the strategic issues related to control, earnings dilution, etc. Does the financing arrangement affect the incentives of firm’s managers?

Peer Evaluation Form FINA 514

Evaluate your peers with regard to project report and presentation and case-write-preparation

Your name					
Name of the person being evaluated					
Disagree		Agree			
1	2	3	4	5	
					Contributes his share of assigned work
					Listens to opinions of others in the group
					Provides innovative suggestions
					Attends all meetings (and informs in advance if absent)
					Treats all groups members as colleagues

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Date: \_\_\_\_\_