

(#) and Title: **(FINA 535) Strategic Finance and Value Creation**

By Professor Michael Lemmon

Brief description: Corporate Financial Strategy is designed to integrate a student's understanding of key corporate finance concepts and tools. The material in the course covers some of the fundamental topics in corporate finance in some detail, and is designed to give you a "hands-on" experience with the data using both materials from established business cases and publicly available financial data.

The course is divided into four broad content categories including: The cost of capital, financing and payout strategies, valuation, and corporate governance and corporate control. In the "real" world none of these areas exist in isolation for the corporate manager or outside analysts. Changes in policy on one dimension, invariably affect choices in another. In fact, it can be quite difficult to categorize activities cleanly into just one of these subsets.

The goal of the course is to provide students with a framework that will enhance their ability to analyze complex financial problems faced by real-world managers, CFOs, and analysts.

For some cases, the course will require significant work outside of class. This work is to provide students with experiences similar to those faced by a corporate manager/analyst in that information is often imperfect and data is often vague or ambiguous. Much of the course also involves open discussion of the issues in class. You can expect to be challenged to defend your point of view and to articulate your position. Your attendance at every class meeting is expected and your input is required.

Pre-requisite(s): FINA 512 Corporate Finance / FINA 521 Investment Analysis

Course Outline:

Class 1: *Risk, Return, and the Cost of Capital*

Reading:

- Damodaran, Aswath, Estimating Equity Risk Premiums, New York University (Stern), 2008.

Case: The Cost of Capital at Ameritrade (HBS 201046)

Financial Forecasting and Cash Management

Case: Padgett Paper Products (analysis of growth and bank financing decisions)

Case: Toyworld (Harvard Case)

Class 2

Capital Structure and Debt Policy

Reading:

- Opler, Tim C., Saron, Michael, and Sheridan Titman, Designing Capital Structure to Create Shareholder Value, *Journal of Applied Corporate Finance* (Spring 1997) pp. 21 – 32.
- Barclay, Michael J., Smith, Clifford W., and Ross L. Watts, The Determinants of Corporate Leverage and Dividend Policies, *Journal of Applied Corporate Finance* (Winter 1995) pp 4-19.

Case: Stone Container Corporation (A) (HBS 297047)

Case: Debt Policy at UST (HBS 200069)

Class 3

Using Structured Finance to Reduce Capital Costs

Reading:

- Coval, Joshua D., Jakub Jurek, and Erik Stafford, The Economics of Structured Finance, Working paper 09-060, Harvard University, 2008.

Case: Formula One: Intangible-Asset-Backed Securitization (UVA case, but HBS listed as 9-UV0-271)

Class 4

Valuation using Multiples

Case: Humana (Harvard Case)

Case: Health Development Corporation (Harvard case)

Class 5

Valuation: (Wacc versus APV)

Case: Sampa Video (Harvard Case)

Case: Ducati and Texas Pacific Group: A “Wild Ride” Leveraged Buyout (Harvard case)

Class 6

Corporate Risk Management and Options

Readings:

- Smith, Clifford W., Charles W. Smithson, and D. Sykes Wilford, Managing Financial Risk, *Journal of Applied Corporate Finance*, January 1, 1989
- Culp, Christopher L., The Revolution in Corporate Risk Management: A Decade of Innovations in Process and Products, *Journal of Applied Corporate Finance* (Winter 2002), pp. 8–26.
- Morgan Stanley Roundtable on Enterprise Risk Management and

Corporate Strategy,
Journal of Applied Corporate Finance (Summer 2005), pp. 32 - 61.

Case: United Grain Growers Limited (A)

Case: Walt Disney Company's Yen Financing (managing risk)

Case: Apr. 7 Sally Jameson: Valuing Stock Options in a Compensation Package (HBS 202117)

Class 7

In-Class Case Presentations

Rec. Texts:

No text is required, but several option texts will be recommended