

ROTMAN SCHOOL OF MANAGEMENT
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2300: CORPORATE FINANCING

Fall 2007

Office hours

Monday any time when I am not teaching (2:00-4:00). I am in most days so feel free to drop by on other days, 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. It often helps to write down the problem as they often then solve themselves.

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 loosely based on the text used in the first year finance course. I will also be using chunks from my recent textbook with Sean Cleary, Introduction to Corporate Finance John Wiley Canada, 2007, and some readings that I will put 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 will be distributed on the portal and by doing a "live" case, Shoppers Drug Mart. The live case will be an analysis of the financing problems, WACC and a forecast for 2008 for Shoppers.

Case Material and Preparation.

The class will be allocated into six groups in the third week. The major Shoppers Drug Mart live case and two case analyses will be completed in these groups. Each group will

then be allocated to one of the three streams. For example, if an individual is in a group assigned to stream A, their responsibility will consist of the following:

- (1) Hand in a formal group case analysis, not to exceed six standard double spaced (12 point font) pages, for each of the two cases in stream A and present a solution to one of them in class. The case presentation should last around twenty minutes, depending on the case chosen.
- (2) Hand in the live assignment due in Week #10. Each group will develop slides that answer the questions in the live case writeup that follows . The instructor will then randomly pick one of the groups to present each part. Further information on this will be given as the course develops. ***Note that the forecast should be for 2008.***
- (3) Sometime *after* the Mill Creek case there will be a short quiz on selected cases done at the start of class 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 this is experimental. If the technology does not work then this portion of your grade will be scrapped and the balance added to the final exam. However, you should bring your laptops to class.

- (4) participate fully in class discussion
- (5) do well on the final exam!

The case streams are:

A	B	C
CTC	Crown	Marriott
Everyman	Fox's IPO	Avon

The introductory finance course (1330) covers 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	10%
Final exam	40%
Major Assignment	20%
Case writeups (2)	20%

There will be a teaching assistant (TA) available for the course who will also be available for consultation.

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). Chapters 1 & 2 Booth-Cleary
<u>Week 2</u>	<u>Financial Analysis & Forecasting</u>
	Chapters 3 & 4 Booth-Cleary
Case:	<i>Mill Creek</i>
<u>Week 3</u>	<u>Financial Leverage</u>
	Chapter 21 Booth Cleary
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. Chapter 7 & 20 Booth Cleary
Case:	<i>Chem Cal</i>
<u>Week 5</u>	<u>Securities Regulation & Markets</u>
Readings	TSX listing document BC Gas Short form prospectus

Chapter 17 of Booth-Cleary textbook

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

Note further information can be obtained from Revenue Canada's
web site <http://www.rc.gc.ca/E/pub/tp/i67r3et/i67r3et.txt.html>.

Case: *Fair Weather Boat Co*

Week 7 Debt Capacity

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

Case: *Crown*

Week 8 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 9 Credit Ratings & Hybrids

Readings: Chapter 17 of Booth-Cleary

Case: *Everyman Jewellers.*

Week 10 Live case: Shoppers Drug market

Week 11 Swap Financing.

Chapters 11 & 12 of Booth Cleary

Case: *CanAm*

Week 12 IPOs

Conference Board of Canada, Initial Public offerings

Case: *Fox's IPO*

Week 13 Payout Policy.

Chapter 22 Booth Cleary

Case: *Avon*

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.