1. Course description / Introduction to the course

The Corporate Finance course complements your Corporate Valuation course, and forms the second part of a two-course sequence covering topics in Corporate Finance. The aim of the course is to provide a broad conceptual and practical platform for analysing issues in Corporate Finance.

The focus of the Corporate Valuation course is on investment policy and project valuation ("How much is a project worth and which projects should I pick"). Here we focus on capital structure theories ("How to finance a selected investment?") and payout policy ("Should I finance projects with debt or equity, should I pay investors through dividends or share repurchases?").

The aim is to develop a framework to think about financial decisions firms regularly undertake. We will go back and forth between developing theories and confronting them with specific real life examples. We start by analyzing the firm’s financing decision in perfect markets. We outline the role of taxes in financing and project valuation. Incorporating the notion of financial distress and bankruptcy we draw on the Static Trade-off Theory of Capital Structure. We analyze the role of information in shaping the financing of corporations and discuss the resulting pecking order of financing. We then focus on the potential conflicts of interest between shareholders and debt holders and between shareholders and management, and their implications for the firm’s capital structure decision. We conclude this part by discussing dynamic considerations the firm might have to make when setting its capital structure.

Secondly, we will focus on the firm’s payout policy, i.e., we will look at the question of when and how the firm is able to distribute excess cash to shareholders. We show, that, as with capital structure, a firm can create value by its payout policy only in the presence of market imperfections such as taxes, agency costs, transaction costs or asymmetric information between management and investors. We also discuss cash-management by corporations and the usefulness of credit lines for them.

The third topic of the course discusses the possible motives for mergers, costs and benefits of mergers and takeover tactics.

The second part of the course (Corporate Finance II) enables students to deepen their knowledge in the topics introduced in the first part of the course. We will cover seminal papers in the field and class participation will take the form of paper presentations. In addition, we cover selected topics in corporate restructuring, including restructuring of financially distressed firms or IPOs.
2. Learning objectives and competencies

Upon completing this course students should be able to:

- Discuss the financing decisions of corporations.
- Understand the importance of asymmetric information and signalling in capital markets and financial decisions.
- Critically discuss the question of the dividend policy a firm should follow.
- Understand the feasibility and trade-offs employed in the different forms of restructuring for financially distressed firms.
- Explore different methods of issuing securities and understand the stock price reaction to issuing securities.
- Appreciate the various channels of corporate governance and its impact on firm value and performance.

3. Course format and methodological approach

The course “Corporate Finance” I involves 7 three hour sessions. Sessions consist of lectures, exercise-solving and at least one case study, and will involve class discussion. The course “Corporate Finance 2” is a mixture of lectures, case studies and student presentations. It also consists of 7 3 hours sessions.

Case Studies. The case method is one of the most effective pedagogical tools to sharpen your analytical and decision-making skills, as it requires you to be an active participant in financial decisions. The discussion constitutes an opportunity to defend your position and to learn from others, by listening to their comments and criticisms. Classrooms are our training environments to prepare you for business challenges.

There will be 3 case preparations (1 for CF I and 2 for CF II) . Cases must be handed in on time. No credit will be given for late cases. You are encouraged to meet in groups to discuss and analyze the cases. In the past, students have found that these groups complement the class discussion well.

Regarding the cases, each group will submit a three-page memorandum of analysis and recommendations covering the case study questions plus any accompanying tables you
wish to include. Tables should be well organized and labeled. Be sure to indicate how you arrived at your conclusions. In addition, groups are required to prepare a power point presentation, including the main points of the analysis.

**What do I expect from you in class**

This is an interactive course, where your active participation is required. Attendance is compulsory.

**Laptop/tablets policy.** You are not supposed to use your laptop/tablets during case discussions. You have to be 100% focused in the discussions. You may use your laptops/tablets on the lectures/discussion sessions ONLY for academic use emailing, facebooking, tweeting, chatting, skyping, internet surfing, etc. should NOT be done during classes. Doing these would penalize strongly your grade on class participation.

A learning area will be available in the Intranet (Moodle). There, you would find instructions for the sessions, communications, bibliography, etc. Please look at it a couple of times a week. Slides of the sessions will also be posted here, always BEFORE the class.

**Language**
The course is held in English.

### 4. Course Contents

**Part I: Capital Structure**

*Session 1*: Irrelevance of capital structure in perfect capital markets  
Impact of taxes on capital structure  
Capital structure and financial distress  
Case Study: Debt Policy at UST, Inc.

*Session 2*: Capital structure and asymmetric Information (Signaling)

*Session 3*: Conflicts of Interest between shareholders and debt holders  
Conflicts of Interest between shareholders and managers

**Part II: Payout Policy**

*Session 4*: Payout policy in perfect capital markets
Impact of taxes on payout policy
Dividends and transaction costs
Dividends and asymmetric information
Case Study: Infineon Technologies

Part III: Mergers and Acquisition

Session 5: The economics of M&A

Reasons to acquire.
Market reaction to M&A
Who gets the value added from takeovers
Takeover defenses

Selected Topics (relevant for Corporate Finance II)

- Part IV: Financial Distress and Restructurings
  Case Study: The Loewen Group, Inc.
  Session 6-7: Private Restructurings, Bankruptcy

- Part V: Initial Public Offerings (IPOs)
  Session 8: Benefits and Costs of IPOs
  Short-term Underpricing, IPO Cycles, Long-run Underperformance

- Part VI: The Role of Cash-Management
  Session 9: Benefits and Costs of Holding Cash
  The Role of Credit Lines

- Part VII: Corporate Governance
  Session 9: Corporate Governance in Firms
  (Boards, Shareholders Voting Power)
  Law and Finance

CASES:

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<thead>
<tr>
<th>(1) Thunderbird</th>
<th>Schneider S. A. and Square D Company (CF I)</th>
<th>A-09-97-0017</th>
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<tr>
<td>(2) Harvard Business School</td>
<td>The Loewen Group, Inc. (CFII)</td>
<td>N. 9-201-082</td>
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5. Assessment

Corporate Finance I:

40% Mid-term Exam

15% Case Study

45% Final Exam

Minimum requirement for a positive grade: at least 50% for each part.

Corporate Finance II:

25% Mid-term Exam

25% Case Study

50% Final Exam

Minimum requirement for a positive grade: at least 50% for each part.

A few papers will be distributed for presentations in CF II. Presentations carry a bonus of 10%. Notice that you do not need this to score 100% on the course.

Exam Material: All lecture materials and paper presentations.

6. Materials

Packet of cases and readings (available through Moodle).

The main reading material for the course is contained in:

### Supplementary Readings by Topic:

#### I: Capital Structure Theories and Payout (Parts I-II)

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<th>Author(s)</th>
<th>Title</th>
<th>Publication Details</th>
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#### II: Selected Topics

**Financial Distress and Restructuring**


Initial Public Offerings and Other Equity Issues

Chew, Chapter 18.

Corporate Governance


7. Faculty leading the course

**Győngyi Loranth** Győngyi Loranth is a Professor of Finance at the University of Vienna. She joined the university in 2009 after her employment at the Judge Business School, University of Cambridge. She previously held a postdoctoral position at the London Business School, and was a lecturer at Birkbeck College, University of London. She received her PhD in Economics from Universitat Autònoma de Barcelona (1999) and from Université Libre de Bruxelles (2003). Loranth’s research interests focus on financial intermediation, corporate finance and corporate governance. Her reasech has been published in leading academic journals such as the Review of Financial Studies, Review of Finance, Journal of Financial Intermedation and the Jounal of Money, Credit and Banking among others.

**Office hours:** by appointment, just email me: gyoengyi.loranth@univie.ac.at