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Corporate Finance I

Lecturer: Gyöngyi Lóranth, Ph.D.
Department of Finance, University of Vienna

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1. Course Description

The Corporate Finance I course is an introductory course that forms the first 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 objective 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 analysing 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 analyse 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.

Second, we will analyse corporate restructurings such as mergers and acquisitions (M&As).

The third topic of the course 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.

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.

3. Course Format and Methodological Approach

The course “Corporate Finance I” consists of 7 sessions. Lectures will be distributed in the form of video recordings, and we will hold online Q&A sessions regarding those lectures each week. Sessions consist of lectures, exercise-solving, as well as one guest lecture, and may involve discussion.

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 criticism. Classrooms are our training environments to prepare you for business challenges.

You are encouraged to meet in groups to discuss and analyse the cases. In the past, students have found that these groups complement the class discussion well.

The case study will be provided by KPMG. 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 labelled. 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 I expect from you in class

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 there, always BEFORE the class.

Laptop/tablets policy.

You are not supposed to use your laptop/tablets during case discussions. You have to be 100% focused on the discussions. You may use your laptops/tablets during the lectures/discussion sessions ONLY for academic purposes. Emailing, facebooking, tweeting, chatting, skypeing, internet surfing, etc. should NOT be done during classes. Engaging in such activities would strongly penalize your grade on class participation.

Language

The course is held in English.



4.Course Content

PART I: CAPITAL STRUCTURE

Session 1-2: Irrelevance of capital structure in perfect capital markets
Impact of taxes on capital structure
Capital structure and financial distress

Session 3: Capital structure and asymmetric Information (Signalling)

Session 4: Conflicts of interest between shareholders and debt holders
Conflicts of interest between shareholders and managers

Midterm Exam

PART II: CORPORATE RESTRUCTURING

Session 5: The economics of M&A
Reasons to acquire
Market reaction to M&A

Session 6: Guest Lecture and Case Study on Mergers and Acquisitions by representatives of KPMG:
Tomasz Kilarski (Manager, Deal Advisory) and Basem Amin (M&A Senior Associate).

PART III: PAYOUT POLICY

Session 7: Payout policy in perfect capital markets
Impact of taxes on payout policy
Dividends and transaction costs
Dividends and asymmetric information

Final Exam



5. Assessment

Attendance is compulsory. The evaluation will be as follows:

40%	Mid-term Exam (Encompassing the first 3 sessions)
50%	Final Exam
10%	Case Study

6. Course Dates

Tuesday	06.10.2020	15:00 - 16:30	Zoom	
Tuesday	13.10.2020	15:00 – 16:30	Zoom	
Tuesday	20.10.2020	15:00 – 16:30	Zoom	
Tuesday	27.10.2020	15:00 – 16:30	Zoom	
Friday	30.10.2020	15:00 – 16:00	Zoom	Midterm Exam
Tuesday	03.11.2020	15:00 – 16:30	Zoom	
Wednesday	04.11.2020	15:00 – 18:15	HS6	KPMG Guest Lecture
Tuesday	10.11.2020	15:00 – 16:30	Zoom	
Tuesday	17.11.2020	15:00 – 16:30	Zoom	Final Exam

7. Reading Materials

The main reading material for the course is contained in:

- “*Corporate Finance*”, 4th Edition by P.DeMarzo and J.Berk, Pearson Global Edition. (2013).
- “*The New Corporate Finance. Where Theory Meets Practice*”, 3rd Edition by D.Chew, McGraw-Hill Irwin (CHEW).

Supplementary Readings by Topic:

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

- Chew, D. (2001), ‘The Modigliani-Miller Propositions after Thirty Years’ *Journal of Applied Corporate Finance*, Vol. 6.Num.1

- Graham, J. & Harvey, C. (2002), “How do CFOs make capital budgeting and capital structure decisions?” *Journal of Applied Corporate Finance*, 15(1): pp.8-23
- Opler, T.C., Saron, M. & Titman, S. (1997), “Designing capital structure to create shareholder value.” *Journal of Applied Corporate Finance*, 10(1): pp.21-34
- Smith, C.W. (1986), “Raising capital: theory and evidence.” *Midland Corporate Finance Journal*, 4: pp.6-22
- Barclay, M.J. & Smith, C.W. (1996), “On financial architecture: leverage, maturity, and priority.” In: Chew, D.H. (eds.) (2001) *New corporate finance: where theory meets practice*. 3rd ed. Boston, Mass.: Irwin McGraw-Hill, pp.210-223
- Ghosh, C. & Woolridge, J.R. (1988), “An analysis of shareholder reaction to dividend cuts and omissions.” *Journal of Financial Research*, 11(4): pp.281-294

II. Selected Topics – Financial Distress and Restructuring

- Franks, Nyborg and Torous, “A Comparison of US, UK and German Insolvency Codes,” *Financial Management*, Volume 25, No 3.
- Stuart C. Gilson (1991), “Managing Default: Some Evidence on How Firms Choose Between Workouts and Chapter 11”, *Journal of Applied Corporate Finance* Volume 4, Issue 2.
- Lawrence A. Weiss (1991), “The Bankruptcy Code and Violations of Absolute Priority”, *Journal of Applied Corporate Finance*, Volume 4, Issue 2.

8. Faculty Leading the Course

Gyöngyi Loranth, Ph.D.

Gyöngyi 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. 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 research has been published in leading academic journals such as the *Review of Financial Studies*, *Review of Finance*, *Management Science* and *Journal of Financial Intermediation* among others. She has taught several courses in Corporate Finance at the Judge Business School, Manchester Business School, Central European University, Humboldt University as well as tailor-made executive courses for banks.

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