

ELFI M404

Advanced Corporate Finance Syllabus

Administrative information

Instructor(s): Oscar Bernal and Pierre Giot

Quadrimester: 2nd

Number of credits and teaching hours: 5 credits / 30 hours

Language: English

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Learning outcomes

With this course, students will obtain an in depth view of the financing of corporates as well as the maximization of their value.

Content

This course deals with issues related to the financing of corporates as well as the maximization of their value. In this respect, particular emphasis will be given to the venture capital dynamics and the financing of innovation. Investments aimed at increasing the firm value (e.g. M&A or IPOs) will also be discussed thoroughly.

The topics covered are:

Part 1: Venture Capital Economics

Chapter 1 and 2: The Venture Capital Industry

- What is a VC
- The VC cycle

- VC Investment by industry and region, types of investment
- Organizational Structure of Venture Capital Investment
- Limited partners
- VC partnership agreement
- Examples

Chapter 3: Venture Capital Returns

- Fund-level returns
- Industry returns
- Return definition
- Examples

Chapter 4: The Cost of Capital for Venture Capital

- Model, estimation & adjustments
- Firm age
- Capital inflow and performance
- Examples

Chapter 5: The Best Venture Capitals

- VE Benchmarks
- The Best VCs
- Returns and Investment
- Examples

Chapter 6: The Analysis of Venture Capital Investments

- Portfolio company status over time
- Value multiples for 1st-round investments
- Values multiples for second-round investments
- Values multiples for third-round investments
- The investment process
- Examples

Chapter 7: Preferred Stock

- Convertible preferred
- Examples

Chapter 8: DCF Analysis of Growth Companies

- Phases of growth
- DCF mechanisms
- NPV
- Reality-Check DCF
- Examples

Chapter 9: Comparables Analysis

Part 2: Initial Public Offering

Chapter 10: The definition of the Initial Public Offering

- Define what an Initial Public Offering is
- Explain what are the rules guiding an IPO
- Explain why the bookbuilding method has replaced the auction methods
- Present the valuation methods used in IPO process

Chapter 11: The underpricing issue

- Explain what is the rationale behind such kind of operation
- Explain what are the theoretical explanations of the underpricing
- Show how the Rock's winner curse justifies the underpricing

Chapter 12: Practical cases:

- Analyze a real world case of an IPO

Teaching methods

Lectures, readings and case reports.

Course Material

Course pack (slides + reading list) available on Webcampus.

Evaluations

- A written exam (representing 80% of the final grade) will be organized in June and in August.
- A case report is due and will represent 20% of the final grade.

The students will have a group assignment where they present and analyze a real world example of an IPO (Euronext). They need to use the official IPO prospectus, understand its structure and the relevant information. They will also use the press release related to the IPO. The case must be at least one year old (but not too old) so they can put what was released in the prospectus into perspective. What happened next? The students need to write a report and prepare an oral presentation. More details are available on the course platform on Webcampus.

Recommended readings

- Arikawa, Yasuhiro and Imad'Eddine, Gael, Venture Capital Affiliation with Underwriters and the Underpricing of Initial Public Offerings in Japan (April 13, 2010). Journal of Economics and Business, Forthcoming. Available at SSRN: <http://ssrn.com/abstract=1589122> or <http://dx.doi.org/10.2139/ssrn.1589122>
- Copeland, T., Weston, J.F. and Shastri. K., Financial Theory and Corporate Policy: Pearson New International Edition, 4th Edition.
- Eckbo, B. Espen and Masulis, Ronald W. and Norli, Oyvind, Security Offerings. HANDBOOK OF CORPORATE FINANCE: EMPIRICAL CORPORATE FINANCE, Vol. 1, B. E. Eckbo, ed., Chapter 6, pp. 233-373, Elsevier/North-Holland Handbook of Finance Series, 2007; Tuck School of Business Working Paper No. 2005-28. Available at SSRN: <http://ssrn.com/abstract=863664>
- Ljungqvist, Alexander, IPO Underpricing: A Survey. HANDBOOK IN CORPORATE FINANCE: EMPIRICAL CORPORATE FINANCE, B. Espen Eckbo, ed., Forthcoming. Available at SSRN: <http://ssrn.com/abstract=609422>
- Metrick, A. and Yasuda, A., Venture Capital & the Finance of Innovation, Wiley.
- Welch, Ivo and Ritter, Jay R., A Review of IPO Activity, Pricing and Allocations (February 2002). Yale ICF Working Paper No. 02-01. Available at SSRN: <http://ssrn.com/abstract=296393>