

Financing of Firms

PGP II Elective, Finance and Accounting Area, 20 Sessions

Instructor: Sidharth Sinha

The objective of this course is to understand the variety of financing instruments and institutions as solutions to the agency problems arising from information asymmetry between firm insiders and outsiders. As pointed out by Stewart Myers¹, “Further progress in understanding corporate financing decisions will require a deeper understanding of agency issues when value-maximizing operating and investment decisions cannot be observed or verified.”

The course examines

1. the role of institutions such as private equity, venture capital and hedge funds.
2. instruments such as hybrid securities and securitization;
3. financing strategies for private public partnerships, R&D and motion pictures
4. financing of small industries and microfinance.

Evaluation:

Class participation (including attendance)	25%
Presentation (including submissions)	25%
Report(Individual)	50%

Presentation

Readings for presentation will be assigned to each group at the beginning of the course. The group is required to make a written submission on the presentation.

Report

Suggestions for Reports

- 1) Detailed analysis and review of one of the topics discussed in class. You should choose a topic other than your presentation.
- 2) Case study (detailed) of a financing transaction.

The following timeline should be adhered to.

Deliverable	Time
Detailed proposal	Mid term
Draft Report	
Final Report	End term

¹ Myers, Stewart C., 2003. "Financing of corporations," in: G.M. Constantinides & M. Harris & R. M. Stulz (ed.), Handbook of the Economics of Finance, edition 1, volume 1, chapter 4, pages 215-253, Elsevier

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	Topics
1-2	Agency Problems
	The Theory of Corporate Finance by Jean Tirole (Princeton University Press, 2006), Chapters 3, 4, 9, 10 “Corporate Governance”, Jean Tirole, Econometrica, vol. 69, No.1 (January 2001), 1-35
3-4	Information asymmetry
	Tirole Chapter 6. Corporate Financing under Asymmetric Information
5	Equity issue and IPOs
	François Degeorge, François Derrien, Kent L. Womack, Auctioned IPOs: The US evidence, Journal of Financial Economics, Volume 98, Issue 2, November 2010, Pages 177-194 Another Look at Bookbuilding, Auctions, and the Future of the IPO Process, Zhaohui Chen, Alan Morrison and William J. Wilhelm Jr, Journal of Applied Corporate Finance, Volume 26, Issue 2, pages 19–29, Spring 2014
Case	The Privatization of Royal Mail, NAO, UK, 2014 Privatisation of Royal Mail plc, Note
6	Debt Financing
	Bondholder-Shareholder conflicts in financial distress (Notes)
Case	Petrolera Zuata, Petrozuata (HBS) S&P Project Finance Analysis: Petrozuata
7	Hybrid Securities
	Hedge Fund Involvement in Convertible Securities, Stephen J. Brown et al, Journal of Applied Corporate Finance, Volume 25, Issue 4, pages 60–73, Fall 2013
Case	Corning: Convertible Preferred Stock (HBS) Contingent Capital for Banks, Analysts Reports (Deutsche Bank, Goldman Sachs, Morgan Stanley)
8	Dividends and financing
	Buffett on Dividends and Share Repurchases
Case	Financial Policy at Apple 2013 (A) and (B) (HBS) Apple and Greenlight Hedge Fund
9	Mergers/Acquisition with exchange of shares
	The ABCs of CVRs: A Guide for M&A Dealmakers, Igor Kirma, Victor Goldfeld and Octavian Timaru, Wachtell, Lipton, Rosen & Katz, The M&A Lawyer March 2011, Volume 15, Issue 3 Sanofi-Aventis and Genzyme CVRs The Arithmetic of Mergers through Exchange of Shares
Case	Vodafone Air Touch’s Bid for Mannesmann (HBS)

10	Venture Capital
	<p>A Note on Private Equity Securities (HBS)</p> <p>Funding New ventures: Valuation, Financing and Capitalization Tables (HBS)</p> <p>Aspects of Financial Contracting in Venture Capital, William A. Sahlman, <i>Journal of Applied Corporate Finance</i> 1988 1:2 23</p> <p>Venture Capitalists as Principals: Contracting, Screening, and Monitoring, Steven N. Kaplan and Per Strömberg, <i>The American Economic Review</i>, Vol. 91, No. 2 (May, 2001) (pp. 426-430)</p>
Case	Term Sheet Negotiations for Trendsetter Inc (HBS)
11	Private Equity
	<p>Key Contractual Considerations in Private Equity Fund Placement, Sameer Jain, Citi Alternative Investments, 2008</p> <p>Private equity Fund Formation, Scott W. Naidech, Chadbourne & Parke LLP</p> <p>Note on the leveraged Loan Market (HBS)</p> <p>Note on LBO Capital Structure (HBS)</p> <p>Private Equity Strategies for exiting a Leveraged Buyout, Rashida K. La Lande, Gibson, Dunn & Crutcher LLP, Practical Law Company</p> <p>Private Equity Exits, (HBS (9-213-112))</p> <p>Leonce L. Barger, Frederik P. Schlingemann, Rene M. Stulz, Chad J. Zutter, “Why do private acquirers pay so little compared to public acquirers?”, <i>Journal of Financial Economics</i>, Volume 89, Issue 3, September 2008, Pages 375-390</p>
Case	Thoma Bravo-Citect Corporation Take-Private (HBS)
12	Investor activism and hedge funds
	<p>Robin Greenwood, Michael Schoar, Investor activism and takeovers, <i>Journal of Financial Economics</i>, Volume 92, Issue 3, June 2009, Pages 362-375</p> <p>The Activism of Carl Icahn and Bill Ackman, The Conference Board, May 2014</p>
Case	Mylan Laboratories’ Proposed Merger with King Pharmaceuticals (HBS)
13	Small firms financing
	<p>Rodrigo Canales, Ramana Nanda, “A darker side to decentralized banks: Market power and credit rationing in SME lending”, <i>Journal of Financial Economics</i>, Volume 105, Issue 2, August 2012, Pages 353-366</p> <p>Why Banks in Emerging Markets are Increasingly Providing Non-Financial Services to Small and Medium Enterprises, IFC</p>
Case	Bankinter: Growing through Small and Medium Enterprises (HBS)
14	Financing farmers
	<p>Innovative Agricultural SME Finance Models, International Finance Corporation, November 2012</p> <p>Agricultural Value Chain Finance: Tools and Lessons, Calvin Miller and Linda Jones, Published by Food and Agriculture Organization of the United Nations and Practical Action Publishing, 2010</p>

Case	<p>The Pepsico Frito-Lay Potato Outgrower Program, India, in Facilitating the Development of Outgrower Operations: A Manual, August 2009, Action for Enterprise.</p> <p>Contract farming for potato: An attempt to include poor farmers in the value chain, Braja S. Mishra, senior faculty member, The Livelihood School, Hyderabad., Development and Microfinance Vol. 19 No. 4 October 2008, Practical Action Publishing</p>
15	Structured Commodity Financing
	<p>Structured Financing Techniques in Oil & Gas Project Finance: Future Flow Securitizations, Prepaids, Volumetric Production Payments, and Project Finance Collateralized Debt Obligations, Christopher L. Culp and J. Paul Forrester, in Energy & Environmental Project Finance Law & Taxation: New Investment Techniques, A. S. Kramer and P. C. Fusaro, eds. (London: Oxford University Press, 2010)</p> <p>Goldman Sachs, Comment Letter on the Advance Notice of Proposed Rulemaking on Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies Related to Physical Commodities (Docket No. R-1479: RIN 7100 AE-10)</p>
Case	Enron Gas services (HBS)
16	PPP financing-1
	<p>“Capital Markets in PPP Financing”, European PPP Expertise Centre (EPEC), March 2010</p> <p>Private Participation in Power Distribution Reforms, Sidharth Sinha, Chapter 22, The Oxford Handbook of the Indian Economy in the 21st Century: Understanding the Inherent Dynamism, ed Ashima Goyal, Oxford University Press, 2014</p>
Case	Coastal Gujarat Power Limited
17	PPP financing-2
	Running Water in India’s Cities: A Review of Five Recent Public-Private Partnership Initiatives, Water and Sanitation Program (WSP), World bank, 2014
Case	Malviya Nagar Water Services Private Limited
18	R&D Financing
	<p>“A better prescription for drug-development financing”, Mark Kessel & Frederick Frank, <i>Nature Biotechnology</i> 25, 859 - 866 (2007)</p> <p>New Financing Methods in the Biopharma Industry: A Case Study of Royalty Pharma, Inc., Andrew W. Lo and Sourya V. Naraharisetti, Journal Of Investment Management, Vol. 12, No. 1, (2014), pp. 4–19</p> <p>Can Financial Engineering Cure Cancer?, David E. Fagnan, Jose Maria Fernandez, Andrew W. Lo, and Roger M. Stein, American Economic Review: Papers & Proceedings 2013, 103(3): 406–411</p>
Case	ALZA and Bio-Electro Systems (A): Technological and Financial Innovation, HBS (9-293-124)
19	Motion Picture Financing
	<p>The Strategy and Sources of Motion picture Finance (HBS)</p> <p>Rating Global Film Rights Securitization, DBRS, 2010</p>