# FIN 612E
## Investment Banking
**Fall (2nd) 2011**

Professor: Inmoo Lee

email: inmool@business.kaist.ac.kr
Office: S324
Office Hours: 2:30 – 3:30 p.m. on Wednesdays
WWW site for FIN 663: http://www.business.kaist.ac.kr/faculty/inmoo/teaching.htm

Hours: 10:00 – 11:20 on Mondays and Wednesdays
Lecture Room: 103
Teaching assistant: Sungwon Seo (email: seosung84@business.kaist.ac.kr)

**COURSE OBJECTIVES**

This 8-week course is designed to help students better understand various investment banking businesses. The issues covered include various issues regarding venture capital and private equity, initial public offerings (IPOs), seasoned equity offerings (SEOs), M&As, and structured products. Students are expected to obtain a better understanding of the activities of investment banks, and acquire skills to analyze selected financial instruments used for external financing.

**Required Materials**

1) Various materials available on the course web page

**Strongly Recommended Materials**

1) Liaw, K. Thomas, 2006, The Business of Investment Banking; A Comprehensive Overview, Second Edition, Wiley.
2) Grinblatt, Mark, and Sheridan Titman, 2002, Financial Markets and Corporate Strategy, 2nd Edition
3) Any corporate finance textbook for graduate courses.

**Reading**

Students are expected to read assigned materials **before** coming to each class. In addition, students are strongly encouraged to read a Korean financial newspaper, the Wall Street Journal or Financial Times, and other financial magazines to follow up on the current developments in the financial market.

**Contact Information**

Anyone is welcome to stop by my office during my office hours to discuss any class related issues. I strongly encourage students to contact me even outside my regular office hours whenever a more clear explanation for a covered topic is necessary. The best way to communicate is through email but an alternative arrangement can be made once an email is received with a clear indication regarding an alternative arrangement.

**Grading Policy:** Grade will be based on the following;

| | Date of examination | Contribution to the final grade |
|---|---|---|
| Final Exam | Dec. 19 | 40 % |
| Attendance & Participation | | 10 % |
| 2 Cases | | 20% |
| Final Group Project | | 30 % |

**Final Exam**

Final exam is a closed-book exam but students are allowed to bring an A4 size paper with any relevant **hand-written** notes on **one side** of the paper. Copies of lecture notes or typed notes are **NOT** allowed. Students who violate this rule will receive only **50%** of final exam scores.

**Participation & Attendance**

Most students with regular participation and attendance will get 8 points out of 10. Students with very active participation and perfect attendance will get 10 points. Students with no participation or many absences will get 1 point.

**Case Assignments**

Everyone will be asked to join a group of 5 (or less depending on the size of the class) students on the first day of the class. Each group is responsible for submissions of two case analyses and presentations of those analyses during class hours. Case analyses will require students to answer questions on Harvard Business School cases. Each group is responsible for the submission of case analyses **before the end of the due date** through an email. The report should be no longer than **10** pages (double spacing with at least 10 pts) including all exhibits (Excel add-ins). **Late** assignments will **not be graded** even though they are submitted. Each group should also prepare for presentation materials and is required to present when asked to do so during class hours. Each group will be asked to **present at least once** during the semester. For each case, most groups with adequate work and good presentations will get 8 points out of 10. Groups with exceptionally well done case analyses and good presentations will receive 10 points and groups with poorly done assignments will receive 4 point. Exceptionally poorly prepared assignments and late assignments will receive 0 points. Groups with poor presentation will receive at least 2 point less than the above mentioned points.

**Final Group Project & Presentation**

Each group is responsible for choosing a topic on investment banking businesses. It can be either a summary of academic/practitioner articles on the topic or a detailed case analysis based on a prospectus and other relevant materials. Each group is responsible for the submission of a final group report summarizing the analysis. The report should be no longer than 10 pages (double spacing with at least 10 pts) including all exhibits. In addition, each group should prepare a 15-minute presentation at the end of the semester. Most groups with adequate preparation and good presentations will get 25 points. Groups with very thorough analyses and creative ideas with good presentations will get 30 points. Groups with poor preparation but good presentations will get 15 points. Groups with poor presentations will get 5 points off from the above mentioned points. Each group should notify me of the topic of the report through an email by **November 9**. The due date for the submission of the report together with presentation materials is **December 11**.

**Group Management**

Each member of a group is expected to motivate others to participate equally. If any member of a group is shirking his or her duties, please bring that to my attention as early as possible.

I will try to work with the group to solve the problem. In the event that problems persist and a group member is uncooperative or unduly difficult, the group may divorce that member, provided that the problem was brought to my attention early and that real efforts were made to solve the problem. This will cause the divorced group member to receive zero scores on all group assignments. In addition, to discourage someone from shirking, a peer evaluation will be done at the end of the semester to identify those who are obviously free-riding. Those who receive the worst evaluation (1 out of 5) from all other members will get zero scores for all group assignments. Those who receive the worst evaluation from the majority of group members will receive 70% of the scores of all group assignments.

**Course Schedule**

The following summarizes topics and articles to be covered in each class during the semester. Both topics and articles to be covered are subject to change. Any changes made will be posted on the class web site. Class discussion will focus on key hypotheses/theories, methodologies and results in tables and figures from each article.

**(Subject to Change, As of May 2011)**

| Week | Topic | Due Date |
|---|---|---|
| 1 W | **Introduction, Venture Capital and Private Equity**<br>1. Smith (1986, JFE)<br>2. Aspects of financial contracting in venture capital by Sahlman (Summer 1988, JACF)<br>3. Gompers and Lerner (Feb. 2000, JFE)<br>4. Bradford and Smith (Spring 1997, JACF) | |
| 2 W | **IPOs and IPO Valuation**<br>1. Ritter (2003, North-Holland Chapter 5)<br>2. Ritter and Welch (August 2002, JF)<br>3. Kim and Ritter (September 1999, JFE) | Final Group Project Topic (11/9) |
| 3 W | **Case Studies: *Netscape's Initial Public Offering***<br><br>**IPO Aftermarket Activities and SEOs**<br>1. Ellis, Michaely and O'hara (June 2000, JF)<br>2. Loughran and Ritter (March 1995, JF)<br>3. Lee (September 1997, JF) | Case 1 Due (11/15) |
| 4 W | **M&A**<br>1. Loughran and Vijh (Dec. 1997, JF)<br>2. Bruner (Fall 2004, JACF)<br>3. Hazelkorn, Zenner and Shivdasani (Spring/Summer 2004, JACF) | |
| 5 W | **Case Studies: *RJR Nabisco***<br><br>**Debt Placement and Convertible Bonds**<br>1. Emerick and White (Fall 1992, JACF)<br>2. Champlinsky and Ramchand (2004, JB)<br>3. Michael Brennan and Eduardo Schwartz (Summer 1988, JACF)<br>4. Mayers (Spring 2000, JACF) | Case 2 Due (11/29) |

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|---|---|---|
| 6 W | **Contingent Capital**<br>1. GM 1991 Equity Financing (PERCS): Darden School Case<br>2. Arzac (Spring 1997, JACF)<br>3. Chacko, Tufano and Verter (Spring 2002, JACF)<br>4. Lee and Repetto (DFA White Paper, 2010) | |
| 7 W | **Wrap-up and Final Projects Presentations** | Final Group Project Due (12/11) |
| 8 W | **Final Exam** | 12/19 |