

University of California, Davis
Graduate School of Management
MGP260: Corporate Finance
Summer 2013

Instructor:	Dr. Gregory Perelman	Class Web site:	www.gperelman.com
Office Hours:	by appointment	Class Meetings:	see school schedule
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Course Objectives:

OBJECTIVE I: GAIN KNOWLEDGE OF CORE CONCEPTS OF FINANCIAL THEORIES AND THEIR APPLICATION IN CORPORATE VALUE MAXIMIZATION

The course is designed to impart the following analytical formats for decision making:

1. Application of theoretical concepts and models in valuation of assets.
2. Evaluation of project investment proposals and making optimal investment decisions
3. Analysis of sources of financing and making optimal capital structure decision
4. Dividend policy issues and formulation of optimal dividend policy

OBJECTIVE II: DEVELOP FINANCIAL DECISION MAKING SKILLS

The study of core concepts of financial theories and application is aimed to develop the following skills:

- A. **APPLICATION SKILLS:** Students will be equipped with skills necessary to determine the market value of financial and non-financial assets, and make decisions on investment proposals, capital structure, and dividend policy
- B. **INFORMATION SKILLS:** Students will be able to research and gather corporate and financial market data for the analysis of financial issues.
- C. **ANALYTICAL SKILLS:** Students will be able to use appropriate models and analyze alternatives for financing and investment in the context of value creation.
- D. **MANAGERIAL SKILLS:** Students will develop necessary skills to process and coordinate information on financial aspects, cost structure and market demand and supply, and competition.

OBJECTIVE III: REINFORCE IMPORTANT VALUES

- A. Upon completion of the course, students are expected to thoroughly understand the technicalities of achieving the basic objective of the firm – to maximize the value of the shareholders equity.
- B. Students will develop professional qualities and sense of responsibilities in managing finance related problems and other crucial corporate issues, and understand the role of financial manager in the corporate framework.

Teaching Style:

Lectures, class discussions, problems solving and case studies.

Required texts:

Principles of Corporate Finance by R.A. Brealey, S. Myers, and F. Allen, 11th edition, (c) 2014, ISBN-978-0-07-803476-0 (any prior edition is acceptable – the table of content for the above edition is posted on the class website, so you can find the relevant chapters in any corporate finance textbook)

HBS Cases (course textpack):

1. Hanson Private Label Inc.: Evaluating an Investment in Expansion
2. Dividend Policy and Linear Technology
3. SUN Brewing (B)
4. The Tip of the Iceberg.

HBS Notes (course textpack):

1. Assessing a Company's Future Financial Health
2. An Introduction to Cash flow Valuation Methods
3. Note on Alternative Methods for Estimating Terminal Value
4. Corporate Valuation and Market Multiples

5. Note on Adjusted Present Value

Other reading materials will be distributed in class or over the class web page.

Grading Policies:

Class participation	10%
HBS cases (group)	15%
Group project/presentation	25%
Quizzes	20%
Final exam	<u>30%</u>
Total	100%

Class participation:

This course is structured as a SEMINAR, which means you must come prepared for class discussions and actively participate in class to receive credit. This also means that unexcused absences will count against your final grade. If you expect to miss a class for any reason, send me an e-mail beforehand. In class discussions, entire groups may be asked to take stands and express their views on the case questions. At other times, individual students will be asked to do the same. Students can expect a mix of all approaches. Questions and discussions are encouraged throughout the class.

Team project and HBS cases:

In this class you will work with a team (3-4 students) on the course project and on the case studies. In the course project, which your team will present in class, you will apply the body of knowledge covered in the course. You will pick one U.S. and one foreign publicly traded company in the same industry and conduct analysis of their investment, financing and dividend policies. More details and specific instructions will be provided in class discussions and on the class website.

We will discuss four HBS cases in class, of which the first three will be graded. You still must read the last case (Tip of the Iceberg) and participate in the class discussion. For the graded cases, your team must submit a 3-4 pages write ups (excluding exhibits), which address the questions posted on the course website for each case. If you include exhibits, please refer to them in the text and make clear why they are included. You are encouraged to submit Excel spreadsheets with your work – some times, the only way for me to see how you arrived at your answers is to look at Excel spread sheet details.

A few more comments on the write ups: no detailed background of the case is needed in the write up – a few lines will be sufficient. At the same time, do not assume that the reader knows every number in the case. The write up is a stand-alone document, it should state major problems or opportunities facing the decision-maker, list alternative courses of actions and come up with a specific recommendations. It is important to make a decision given the available information provided within the case. You are welcome to use outside sources, but, as in real life, you will never have complete information and unlimited time to make your decisions. If you make any assumptions, clearly state them. The write-up should be professional and addressed to the CEO/CFO as an internal or consulting report. Write in complete and grammatically correct sentences. Avoid bulleted presentations.

All submitted files must follow naming conventions and include your name (for individual work) and team/case numbers for group submissions – see class website for details.

Exams:

We will have several (unannounced) quizzes and a final examination. Quizzes are open book. For the final exam you can use a calculator and one sheet of paper (both sides) with your OWN notes. No make up exams will be given except as required by university policy.

Tentative Class Schedule (subject to change)

Meeting	Topics	Readings
1	Introduction to corporate finance <ul style="list-style-type: none"> ✓ objective function ✓ corporate governance 	Required: Ch. 1
2	Tools of corporate finance <ul style="list-style-type: none"> ✓ review of financial tools (NPV, IRR, DCF, etc.) ✓ stock and bond pricing ✓ review of financial statements 	Required: Ch. 5 HBS Note 1 (listed in the required reading section) Review: Ch. 2-4
3	Mechanics of investment analysis <ul style="list-style-type: none"> ✓ review of NPV and IRR applications ✓ basics of valuations HBS case study write up due before class	Required: Ch.6 HBS Case <i>Hanson Private Label Inc.: Evaluating an Investment in Expansion</i> HBS Note 2 and 3
4	Risk and return analysis <ul style="list-style-type: none"> ✓ mean variance framework (CAPM) ✓ estimating company's beta (levered/unlevered) 	Required: Ch. 7-8
5	Cost of capital and capital budgeting <ul style="list-style-type: none"> ✓ top down and bottom up betas ✓ cost of debt and synthetic ratings ✓ estimating hurdle rates and investment performance 	Required: Ch. 9 Optional: Ch. 10-11,13
6	Capital structure decisions <ul style="list-style-type: none"> ✓ How much the company should borrow vs. issuing equity – the choices and the trade offs ✓ Miller-Modigliani, agency and bankruptcy costs 	Required: Ch. 17-18 Review: 14-15 Optional: Ch. 23-24
7	Corporate dividend policy <ul style="list-style-type: none"> ✓ Returning cash to shareholders with dividends and repurchases HBS case study write up due before class	Required: Ch. 16 and HBS Case: <i>Dividend Policy and Linear Technology</i>
8	Company valuation issues <ul style="list-style-type: none"> ✓ intrinsic (DCF) valuation ✓ relative valuation HBS case study write up due before class	Required: Ch. 19 and HBS Case: <i>Sun Brewing (B)</i> HBS Notes 4 and 5 Optional: Ch. 28
9	Course project presentations Submit your paper and power point presentation before the meeting	All students must be present – everybody is required to speak during your team's presentation and you will also be required to grade other teams' presentations
10	Mergers and Acquisitions: financial decisions during crisis HBS case study (no write up) Q&A session (addressing any questions you might have about corporate finance)	Required: Ch. 31 and HBS case: <i>The Tip of the Iceberg</i>
11	Final exam	All topics covered

Please note: Chapters indicated for “review,” cover material, which you studied in your previous financial courses. However, it is directly relevant to our in-class discussions and you should review the material if you feel that your knowledge might be rusty on those subjects. Chapters noted as “optional” cover the material which goes beyond our discussions, but might be useful for those who plan to concentrate on financial function in your future career.