

Santa Clara University
Leavey School of Business
FNCE2453: Corporate Finance
Fall 2014

Instructor:	Gregory Perelman	Class Web site:	www.gperelman.com
Office Hours:	6:20 pm (before every class)	Class Meetings:	Wednesdays, 7:20 pm
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Course Description:

This course builds on a foundation you learned in an introductory financial management course (FNCE2452). We will go into much more details in covering both the financial theory and the practical applications. *Learning objectives* – by the end of the course students will acquire 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 market data for the analysis of corporate 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, market demand and supply, and competition.

Teaching Style:

Lectures, problems solving, case studies, and class discussions of current topics in corporate finance.

Required texts:

Textbook:

Principles of Corporate Finance, by Brealey, Myers, and Allen, 11th edition, 2014.
ISBN: 978-0-07-803476-0
Previous editions of the textbook are acceptable.

Link to HBS Coursepack: <https://cb.hbsp.harvard.edu/cbmp/access/30434265>

HBS Cases:

1. Hanson Private Label Inc.: Evaluating an Investment in Expansion
2. Dividend Policy and Linear Technology
3. SUN Brewing (B)
4. Kerr-McGee

HBS Notes:

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	15%
Final exam	<u>35%</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 course.

Team project and HBS cases:

In this class you will work with a team (4-5 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 during the course and a 3-4 pages write ups (excluding exhibits), must be submitted for each case where you address the questions posted on the course website. If you include exhibits, please refer to them in the text and make clear why they are included. Excel spreadsheets must be submitted with your work – in many cases the only way for me to see how you arrived at your answers is to look at the Excel spreadsheet details. However, all of the data and analysis should be included in Word document (do not say: “see Excel spreadsheet for details”). The lowest score on case studies will be dropped in calculating your course grade.

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 quizzes and a final examination. All tests are open book/notes. No make-up exams will be given except as required by the university policy.

Disability Accommodation Policy

To request academic accommodations for a disability, students must be registered with Disabilities Resources located in Benson, room 216. If you would like to register with Disabilities Resources, please visit their office in Benson 216 or call [\(408\) 554-4109](tel:4085544109). You will need to register and provide professional documentation of a disability prior to receiving academic accommodations.

Tentative Class Schedule (subject to change)

Meeting	Topics	Readings
1 Sep 24	Introduction to corporate finance <ul style="list-style-type: none"> ✓ objective function of corporate finance ✓ corporate governance 	Required: Ch. 1*
2 Oct 1	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 Oct 8	Financial forecasting and working capital management <ul style="list-style-type: none"> ✓ detailed cash flow forecast and key assumptions ✓ sensitivity and scenario analysis ✓ working capital management HBS case study write up due before class	Required: Ch.6, 30 HBS Case <i>Hansson Private Label Inc.: Evaluating an Investment in Expansion</i> HBS Note 2 and 3
4 Oct 15	Estimating cost of equity for public and private companies <ul style="list-style-type: none"> ✓ mean/variance framework (CAPM) ✓ top down (regression) and bottom up (sample) betas ✓ levered/unlevered betas In-class mini case: firm vs. equity valuation	Required: Ch. 7-8 Country risk premiums Mini-case
5 Oct 22	Cost of capital in capital budgeting <ul style="list-style-type: none"> ✓ estimating cost of debt and synthetic ratings ✓ estimating hurdle rates ✓ evaluating investment performance In-class mini case: valuation of early stage companies	Required: Ch. 9 Optional: Ch. 10-11,13 Mini-case
6 Oct 29	Capital structure decisions <ul style="list-style-type: none"> ✓ debt vs. equity trade off ✓ Miller-Modigliani, agency and bankruptcy costs In-class mini case: capital structure	Required: Ch. 17-18 Review: 14-15 Optional: Ch. 23-24 Mini-case
7 Nov 5	Corporate payout policy <ul style="list-style-type: none"> ✓ returning cash to shareholders with dividends and stock repurchases HBS case study write up due before class	Required: Ch. 16 and HBS Case: <i>Dividend Policy and Linear Technology</i>
8 Nov 12	International corporate finance <ul style="list-style-type: none"> ✓ company valuation in emerging markets ✓ intrinsic (DCF) valuation, relative valuation ✓ dual stock structure - valuing voting and non-voting shares ✓ adjusted present value (APV) 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 Nov 19	Corporate restructuring and financial distress management <ul style="list-style-type: none"> ✓ poor financial performance, investor activism and corporate governance ✓ unit economics - NPV of one barrel of oil HBS case study write up due before class Q&A session (addressing any questions you might have about corporate finance)	HBS case: Kerr-McGee
10 Due date Dec 3	Course project due Submit your paper, power point presentation and Excel file by e-mail;	All students must participate in the presentation

	presentation format will be discussed in class	
11 Dec 10	Final exam	All topics covered

*Chapters are given for the textbook by Brealey, Myers, and Allen (11th ed.) – to find similar chapters in any other textbook, see the table of content on the class website (section 1).

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.