

University of California, Davis
Graduate School of Management
MGT/P 260: Corporate Finance
Spring 2014

Instructor:	Gregory Perelman	Class Web site:	www.gperelman.com
Office Hours:	by appointment	Class Meetings:	see GSM schedule
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Course Description:

This course builds on a foundation you learned in an introductory finance course at GSM - Financial Theory and Policy. We will go into much more details in covering both the financial theory and the practical applications. 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.

HBS Cases (course textpak):

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 (*optional*).

HBS Notes (course textpak):

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 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 three HBS cases in class - a 3-4 page write up (excluding exhibits) is due before the discussion. The write up must 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 – sometimes, the only way for me to see how you arrived at your answers is to look at the Excel spreadsheet 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 quizzes and a final examination. All tests are open book/notes. No make-up exams will be given except as required by university policy.

Tentative Class Schedule (subject to change)

Meeting	Topics	Readings
1 Mar 31	Introduction to corporate finance <ul style="list-style-type: none"> ✓ objective function ✓ corporate governance 	Required: Ch. 1*
2 Apr 7	Review of financial tools and applications <ul style="list-style-type: none"> ✓ 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 Apr 14	Mechanics of investment analysis <ul style="list-style-type: none"> ✓ detailed cash flow forecast and key assumptions ✓ sensitivity and scenario analysis ✓ incorporating strategic considerations 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 Apr 21	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 (posted on class website) Mini-case (posted on class website)
5 Apr 28	Cost of capital and cost of equity 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 (posted on class website)
6 May 5	Capital structure decisions <ul style="list-style-type: none"> ✓ debt vs. equity trade off ✓ Miller-Modigliani, agency and bankruptcy costs In-class mini case: Apple capital structure	Required: Ch. 17-18 Review: 14-15 Optional: Ch. 23-24 Mini-case (posted on class website)
7 May 12	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 May 19	Company valuation issues <ul style="list-style-type: none"> ✓ 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 June 2	Course project presentations Submit your paper and power point presentation before the meeting Q&A session (addressing any questions you might have about corporate finance)	All students must be present
10	Final exam – June 9	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.