

Preliminary, subject to change.



---

**MANAGEMENT 490: Corporate Finance and Capital Budgeting (2 Units)**

**“Asset-Based Alternative Investments - Aircraft Finance Case Study”**

***Winter Term 2021: San Ramon (and/or Sacramento TBD)***

Graduate School of Management, University of California at Davis

Gary Lew, Adjunct Lecturer

---

***Course Overview:***

Corporate Finance, Investment Analysis and Capital Budgeting analyze and study how firms capitalize and finance themselves and how to value investments and projects utilizing concepts of expected cash flows, revenues, expenses, cost of capital, leasing, capital markets and more. Aircraft Finance has evolved and expanded from a niche, tax-oriented, capital budgeting strategy into an attractive asset class for equity and debt investors driven by boutique private investment managers, public leasing companies and global banks. With nearly 30,000 aircraft in the worldwide fleet and an estimated 3.6% share of the global economic economy, the aviation industry is affected by and directly impacts the overall business cycle and economic forces, particularly in times like today.

Similar to other asset classes such as shipping, railcars, automobiles, technology equipment or even real estate, commercial aircraft is one of the most interesting and concept-rich sectors in which to see complex capital budgeting concepts in action. Commercial aviation provides more than just transportation, as passengers and cargo travel around the world for business and pleasure driving the larger economy while utilizing expensive, technologically-advanced and long-lived but depreciating assets. The course objective is to introduce practical concepts, strategies and tools used by aircraft finance investors and managers in an academic framework of investment analysis, financial modeling, discounted cash flow analysis, capital allocation, residual valuation and risk analysis.

Preliminary, subject to change.



**Learning Objective:**

The primary learning objective of this course is to use an aircraft finance case study as a framework to provide students with a comprehensive and practical exercise in capital budgeting and investment analysis. We will use a Harvard Business Review Case Study augmented by excerpts from the GSM core Corporate Finance textbook and supplemental readings from industry articles and newspapers. The HBR case illustrates how a lease is an alternative to borrowing and therefore is valued based on prevailing interest rates. It also provides the opportunity for students to recognize that cash flows must be valued according to their respective risks (i.e. the residual value at the end of a lease carries substantially more risk than a monthly lease payment) and illustrates how the distribution of value between lessor and lessee is largely determined by the respective bargaining positions of the two parties and their respective alternatives. A secondary objective of the case is to underscore important insights into capital markets, financial innovation and financial contracting. To answer why leases exist, students will understand how leases exploit capital-market imperfections, thus making leasing attractive for the lessor and lessee (*WNG Capital LLC: HBR Case Study*).

**Class Schedule:**

San Ramon (or Sacramento TBD)

January 2021 – March 2021

Days/Times: TBD

1. Overview of the Aviation Industry
  - a. Manufacturers
  - b. Airlines
  - c. Leasing Companies
  - d. Investors
2. Financing and Investment
  - a. Equity
  - b. Debt
  - c. Capital Markets
  - d. Accounting and Tax
  - e. Operations and Management
3. Economics and Assessing the Investment Opportunity
  - a. Capital Investment (NPV, TVM, cost of capital)
  - b. Investment Metrics (IRR, ROI, multiple)
  - c. Financing, Liquidity and Leverage
  - d. Cash Flow Modeling and Forecasting



- e. Credit Risk and Risk Management
- f. Economic Cycles, Supply and Demand, Macroeconomics
- g. Asset Management, Residual and Disposition Strategies
4. Homework Exercises
5. Discussion and Group Projects: Topical Issues in Aircraft Finance: e.g. 737-800 MAX, development of aviation as an alternative asset class (public leasing cos, aircraft ABS), COVID impact on airlines, passenger traffic and investors.
6. Case Study and Transaction Analysis: WNG Capital
7. Final Exam

*\*Suggested list of topics and timing is provided for reference but may be modified and refined.*

**Required Reading:**

*WNG Capital LLC: Harvard Business Review Case Study, March 3, 2017*  
Kenneth Eades, Dorothy C. Kelly and Michael Gangemi

**Background Core Text:**

*Corporate Finance, The Core*  
Berk, DeMarzo & Harford, The Corporate Finance Series

**Grading (Pass/Fail/Graded) 2 Units:**

Discussion and Participation	20%
Homework Exercises	20%
Project/Presentation	30%
Final Exam	30%

***Instructor Background and Experience:***

Gary Lew is currently lecturing in finance, management and accounting at the University of California Davis Graduate School of Management and Holy Names University and advises and consults in the aviation finance industry.

Previously a Principal and Executive Vice President of Finance and Capital Markets at Vx Capital Partners from 2002 to 2020, Gary was part of the founding team at Vx Capital Partners as its first employee and has over 20 years of experience in asset finance and investment management. Gary led corporate finance, capital markets, business development and administration and was primarily responsible for sourcing and structuring equity and debt capital to support the VXF investment fund and portfolio transactions. Vx Capital invested over

Preliminary, subject to change.



\$1.5 billion in aviation-focused assets and Gary led Vx efforts to raise its first institutional equity fund and successful asset-backed securitization.

Gary's prior experience includes business development and investment analysis as a Director at GATX Capital, fixed income research at the California Public Employees Retirement System, investment management at Merrill Lynch and an appointee in both the Governor's Office and U.S. Senate. He holds a B.A. from UCLA and an M.B.A. from the University of California at Davis, served on the Alumni Board of Directors and currently serves on the Dean's Advisory Council.

***Instructor Contact Information and Office Hours:***

Email: [gglew@ucdavis.edu](mailto:gglew@ucdavis.edu)

Phone: (925) 209-0538

Office Hours: By Appointment, Telephone or Email

**UC Davis Code of Academic Conduct: Honesty, Fairness & Integrity**

This Code of Academic Conduct exists to support high standards of behavior and to ensure fair evaluation of student learning. Students who violate the Code of Academic Conduct are subject to disciplinary sanctions that include censure, probation, deferred separation, suspension or dismissal from the University of California. Unless specifically authorized by the instructor in writing, misconduct includes, but is not limited to the following:

**Academic misconduct on exams or other coursework**

- Copying or attempting to copy from another student, allowing another student to copy, or collaborating on an exam
- Displaying or using any unauthorized material such as notes, cheat-sheets, or electronic devices
- Looking at another student's exam
- Not following an instructor's directions
- Talking, texting or communicating during an exam
- Altering assignments or exams for re-grading purposes
- Bringing pre-written answers to an exam
- Having another person take an exam for you, or taking an exam for another student

Preliminary, subject to change.



- Theft of academic work
- Unexcused exit and re-entry during an exam period

#### **Plagiarism**

- Taking credit for any work created by another person; work includes, but is not limited to books, articles, experimental methodology or results, compositions, images, lectures, computer programs, internet postings
- Copying any work belonging to another person without indicating that the information is copied and properly citing the source of the work
- Using another person's presentation of ideas without putting such work in your own words or form and/or failing to provide proper citation
- Creating false citations that do not correspond to the information you have used
- Representing your previous work as if it is new work

#### **Unauthorized collaboration**

- Working together on evaluated coursework without permission of the instructor
- Working with another student beyond the limits set by the instructor
- Providing or obtaining unauthorized assistance on graded coursework

#### **Misuse of an instructor's course materials or the materials of others**

- Posting, purchasing, obtaining, sharing, or copying any course materials of an instructor without the explicit written permission of that instructor
- Unauthorized use of another student's work

#### **Lying or fraud**

- Giving false excuses to obtain exceptions for deadlines, to postpone an exam, or for other reasons
- Forging signatures or submitting documents containing false information
- Making false statements regarding attendance at class sessions, requests for late drops, incomplete grades, or other reasons



### **Intimidation or disruption**

- Pressuring an instructor or teaching assistant to regrade work, change a final grade, or obtain an exception such as changing the date of an exam, extending a deadline, or granting an incomplete grade
- Refusing to leave an office when directed to do so
- Physically or verbally intimidating or threatening an instructor, teaching assistant or staff person, including invading personal space, or engaging in any form of harassment
- Repeatedly contacting or following an instructor, teaching assistant or staff person when directed not to do so
- Misusing a classroom electronic forum by posting material unrelated to the course
- Interfering with an instructor's or teaching assistant's ability to teach a class, or interfering with other students' participation in a class

### **Misuse of University properties or resources**

- Purchasing or selling (or attempting to) one's registration in a class

### **Upholding the UC Davis Code of Academic Conduct**

Students, faculty, and University administration all have a role in maintaining an honest and secure learning environment at UC Davis. The success of our Code of Academic Conduct depends largely on the degree that it is willingly supported by students. Students:

- Are responsible to know what constitutes cheating. Ignorance is not an excuse.
- Are required to do their own work unless otherwise allowed by the instructor.
- Are encouraged to help prevent cheating by reminding others about this Code and holding each other accountable by reporting any form of suspected cheating to the University.
- Shall respect the copyright privileges of works produced by faculty, the University, and other copyright holders.
- Shall not threaten, intimidate or pressure instructors or teaching assistants, or interfere with grading any coursework.
- Shall not disrupt classes or interfere with the teaching or learning environment.