

D R A F T v2.28.2022
Subject to Update and Revision

MANAGEMENT 490BV: Capital Investments and Budgeting

“Asset-Backed Alternative Investments - Aircraft Finance Case Study”

Spring Term 2022: Two (2) Units

Graduate School of Management, University of California at Davis

Gary Lew, Adjunct Lecturer

Schedule: Spring Term 2022

March 30	5:30pm to 9:00pm	ZOOM (invitation pending)
April 13	5:30pm to 9:00pm	ZOOM (invitation pending)
April 27	5:30pm to 9:00pm	ZOOM (invitation pending)
May 11	5:30pm to 9:00pm	ZOOM (invitation pending)
May 25	5:30pm to 9:00pm	ZOOM (invitation pending)
June 1	Final Exam due	

Instructor Contact Information and Office Hours:

Email: gglew@ucdavis.edu

Phone: (925) 209-0538

Office Hours: By Appointment, Telephone or Email

Course Overview:

Capital Investments and Budgeting incorporates concepts from Corporate Finance, Investment Analysis, Accounting and Economics to analyze and study how firms capitalize and finance themselves and how to value alternative investments and real-asset portfolio allocations. 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 that can be readily transferable and applicable to other alternative asset classes and investments. We will focus on not only the “how” but the “why” these concepts are functional, relevant, practical and purposeful.

Aircraft finance has evolved and expanded from a niche, tax-oriented, capital budgeting strategy into an attractive alternative asset class for equity and debt investors driven by boutique private investment managers, public leasing companies and global banks. With over 40,000 aircraft in the worldwide fleet

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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 hard asset classes such as real estate, shipping, railcars, automobiles and technology equipment, commercial aviation 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.

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. You should review and reference the textbook from your core Corporate Finance course, Corporate Finance, 4th or 5th edition by Berk/DeMarzo where we will have homework exercises to reinforce concepts from the prerequisite course. Our lectures will also be augmented by excerpts from industry articles and newspapers which you should also work to source and share for discussion.

The Harvard Business Review case on WNG Capital illustrates how a lease is an alternative to borrowing and therefore 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.

Required Reading:

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

Reference Reading and Exercises from the GSM core Corporate Finance course:

Corporate Finance, 4th or 5th edition

Berk, DeMarzo, Pearson

(Note: If you do not have this text from the core course do not purchase – either source a copy from the school or library or rent)

Grading - 2 Units:

Participation & Discussion	20%
Homework Exercises	20%
Project/Presentations	30%
Final Exam	30%

**Late work will be docked a 10% point penalty per week*

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Course Outline:

1. Overview of the Aviation Industry
 - a. Manufacturers
 - b. Airlines
 - c. Leasing Companies
 - d. Investors
2. Capital Allocation and Budgeting
 - a. Equity
 - b. Debt
 - c. Accounting and Tax
 - d. 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 Capital Markets
 - 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. Current Events and Discussion Projects
6. Case Study and Transaction Analysis
7. Final Exam

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

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Instructor Background and Experience:

Gary Lew

Founder and Principal, Capitola Partners

Managing Director and Senior Advisor, Pivotal Corporate

Adjunct Lecturer: UC Davis GSM, St. Mary's College, Holy Names University

Gary Lew founded Capitola Partners in 2020 to provide advisory and consulting services to the aircraft finance industry. From the perspective of an investor, lessor, operator or professional service provider, commercial aircraft as an asset class is a specialized, relationship-based and constantly evolving sector. With over twenty years of experience, Capitola advises and consults in areas of strategy, capital raising, debt financing, investor relations, origination, underwriting and asset management. Engagements include advising a global lessor on a major portfolio acquisition and a senior advisory role with Pivotal Corporate, an Irish-based corporate services provider.

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, has over twenty years of experience in asset finance and investment management and was a permanent member of the investment committee. Gary led corporate finance, capital markets, investor relations, treasury, financial reporting 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 \$1.5 billion in aviation-focused assets and Gary led Vx efforts to raise its first institutional equity fund and executed the Kroll-rated CARGO 2018-1 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.

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General Course Policies and Expectations

Preparation and Assignments

Prior to the first day of class, obtain the HBR case study, review your core Corporate Finance textbook, update your CANVAS profile and contact information, introduce yourself on CANVAS via the discussion tab and preview the syllabus and readings.

Please complete readings prior to associated class sessions. Homework will consist of posted readings and exercises and will include additional impromptu discussions and activities posted week to week by the Instructor via CANVAS. There will be weekly exercises, two case study projects and a final exam taken online on a timed basis. It is your responsibility to turn in all assignments and take the exam by the due date. Please review the Academic Honesty Statement for policies regarding academic honesty and integrity as it applies to individual homework, presentations and exam requirements.

Encouraged

As current business students and future business leaders, understanding current events and the intersection of business and economics, government and politics is vital to your success. I would encourage daily reading of a national newspaper or business publication (Wall Street Journal, New York Times, Washington Post, Forbes) as a broader and more complete source of information, perspective and opinion than typical social media platforms.

Participation, Etiquette and Presentation Standards

I will send a standing ZOOM invitation to all students for our weekly sessions. Please test your connection, sign on a few minutes early and keep your camera on to help increase engagement and collaboration. Participation in this course will be measured by active and well-presented contributions to live discussion topics and exercise review, active engagement, communication and interaction with other students and the instructor. Ask questions and contribute to the conversation with relevant input and constructive feedback that shows that you have listened, read and seriously considered the material and the ideas of others. This not only encourages increased participation across the group but will demonstrate commitment to the intellectual and educational process.

In our written work and presentations, business and academic protocol requires proper punctuation, grammar and formatting to show that you are well-organized, value your work, respect your audience and value professionalism in your communications and presentations. We will review homework and case studies in class and clear and well-presented work conveys seriousness and gravitas.

Attendance Policy and Special Accommodation:

Regular attendance is not only expected but considered essential for academic success. In an online format, attendance is measured by attendance in ZOOM sessions and/or direct and regular communication with the instructor and students assume full responsibility for content or work missed because of absence. That said, these are unique times and in particular during this COVID environment, if special

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circumstances, conditions or constraints occur that may preclude you from turning assignments in on time or requiring extra time or assistance, please contact me privately in advance and we can discuss arrangements and special accommodation as needed.

MGT/P/B 490BV Course Schedule Spring Term 2022

General timeline for readings and assignments. Instructor reserves the right to modify or amend.

Pending

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

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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

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- 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.