University of California, Davis
Graduate School of Management
MGB/P/T 260: Corporate Finance
Spring 2016

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:

Most of the in-class discussions will be based on case studies. Lectures, problems solving, and discussions of current events in corporate finance will also be employed to enhance learning experience.

Course texts:

No specific textbook is required; however, each student must have access to a corporate finance textbook for background readings/references; three of the commonly used textbooks at GSM (in MGB/P/T 205) are listed below (previous editions of any of the textbooks are acceptable):

- *Principles of Corporate Finance*, by Brealey, Myers, and Allen, 11th edition, 2014. (ISBN: 978-0-07-803476-0)
- *Corporate Finance*, 10th edition, by Ross, Westerfield, and Jaffe (ISBN: 0078034779)
- *Corporate Finance: The Core* , 3rd Edition, by Jonathan Berk and Peter DeMarzo (ISBN-10: 0133424138)

HBS Cases (course textpak):
1. Hanson Private Label Inc.: Evaluating an Investment in Expansion, Brief Cases, #4021, Rev. March 1, 2010
2. SUN Brewing (B), #9-207-039, Rev. June 28, 2010
3. Midland Energy Resources, Inc.: Cost of Capital, #4129, Rev. June 19, 2009
4. Diageo Plc., #9-201-033, Rev. August 6, 2003
5. Goodyear Tire & Rubber Company: Follow on Equity Issues, #UV2555, Rev. Dec 17, 2010
6. U.S. Bank of Washington, #9-292-057, Rev. November 22, 1993
7. Dividend Policy and Linear Technology, #9-204-066, Rev. February 11, 2004
8. Kerr-McGee, #9-207-020, Rev. July 25, 2012

HBS Notes (course textpak):
1. Assessing a Company's Future Financial Health, #9-911-412, Rev. May 28, 2012
2. Business Valuation: Standard Approaches and Applications, UV6586; rev. Nov. 21, 2013
3. Corporate Valuation and Market Multiples, #9-206-039, Rev. January 16, 2009
4. Note on Alternative Methods for Estimating Terminal Value, #9-298-166, June 8, 1998
5. The Cost of Capital: Principles and Practice, #UV6793, Rev. Nov. 13, 2015
6. Overview of Credit Ratings, #UV0400
7. The Issue Process for Public Securities, #UV0104
8. Note on Bank Loans, #9-291-026, Rev. October 29, 1993

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

Grading Policies:

Class participation	10%
Case studies (group)	40%
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.

Case studies:

In this class you will work with a team (4-5 students) on eight case studies. For each case, your team must submit a 3-4 pages write up (excluding exhibits), which address 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 were included. Submit Excel spreadsheets with your work, so I can check how you arrived at your solutions. Groups will be called randomly to present their work in class – you are encouraged to prepare a few Power Point slides for each case study.

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 (<u>do not</u> refer the reader to "see details in Excel file"), 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 decisions given the information and data 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 professionally formatted 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.

Quizzes and Final Exam:

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.

<p style="text-align:center">Tentative Class Schedule</p>

Meeting	Topics/readings/assignments
1	Introduction to corporate finance ✓ objective function ✓ corporate governance ✓ agency issues and corporate responsibility Required reading: Note (textpak): Assessing a Company's Future Financial Health Additional reading: Chapter 1 and 33; References to chapters are given for the following textbook: *Principles of Corporate Finance* by Brealey, Myers, and Allen (11th ed.). To find similar chapters in any other textbook, see the table of content on the class website (link in section 1).
2	Review of financial tools ✓ financial tools (NPV, IRR, DCF, etc.) ✓ stock and bond pricing ✓ review of financial statements Required reading: Note: Business Valuation: Standard Approaches and Applications Additional reading: Ch. 2-6
3	Mechanics of investment analysis ✓ detailed cash flow forecast and key assumptions ✓ sensitivity and scenario analysis ✓ strategic considerations Required reading: Case 1: *Hanson Private Label Inc.: Evaluating an Investment in Expansion* Additional reading: Ch. 10 **Assignment: Case 1 (Hansson) group case study write-up. All assigned cases are due before class. For each case, submit (by e-mail to gp36@yahoo.com) your group's write up in Word document, Excel spreadsheet with calculations, and Power Point presentation**
4	Company valuation issues ✓ intrinsic (DCF) valuation ✓ relative valuation ✓ dual stock structure - valuing voting and non-voting shares Required reading: Case 2 - *Sun Brewing (B)* Notes: • Corporate Valuation and Market Multiples • Note on Alternative Methods for Estimating Terminal Value Additional reading: Ch. 28 **Assignment: Case 2 (SUN Brewing B)**

5	Cost of capital for public and private companies
	   ✓ mean/variance framework (CAPM)
	   ✓ top down (regression) and bottom up (sample) betas
	   ✓ levered/unlevered betas
	   ✓ estimating cost of debt and synthetic ratings
	   ✓ estimating hurdle rates for private companies
	   ✓ country risk premiums
	
	Required reading:
	Case: *Midland Energy Resources, Inc.: Cost of Capital*
	Notes:
	   • The Cost of Capital: Principles
	   • Practice and Overview of Credit Ratings
	
	Additional reading: Ch. 7-9
	
	Assignment: Case 3 (Midland)

6	Capital structure decisions
	   ✓ debt vs. equity trade off
	   ✓ Miller-Modigliani, agency and bankruptcy costs
	
	Required reading:
	Case: *Diageo Plc*
	
	Additional reading: Ch. 17-19, Ch. 23-24
	
	Assignment: Case 4 (Diageo)

7	Raising capital - large companies
	   ✓ SEC regulations and issuing securities to the public
	   ✓ rating debt securities
	   ✓ SEO (seasoned equity offering)
	
	Required reading:
	Case: *Goodyear Tire & Rubber Company: Follow on Equity Issues*
	Note: The Issue Process for Public Securities
	
	Additional reading: Ch. 13-15
	
	Assignment: Case 5 (Goodyear)

8	Raising capital – medium size enterprises
	   ✓ Bank loans
	   ✓ JOBS Act of 2012 and crowdfunding
	
	Required reading:
	Case: *U.S. Bank of Washington*
	Note: Note on Bank Loans
	
	Assignment: Case 6 (U.S. Bank)

9	Corporate dividend policy ✓ returning cash to shareholders with dividends and stock repurchases Required reading: Case: *Dividend Policy and Linear Technology* Additional reading: Ch. 16 **Assignment: Case 7 (Linear)**

10	Corporate restructuring
	    ✓ managing agency issues by publicly traded companies
	    ✓ activist investors and corporate finance decisions
	    ✓ estimating NPV of production unit
	    ✓ valuing segments vs. whole companies
	
	Required reading:
	Case: *Kerr-McGee*
	
	Additional reading: Ch. 12, 32
	
	Assignment: Case 8 (Kerr-McGee)
	
	Q&A session (addressing any questions you might have about corporate finance)

11	Final exam