
BAFI 502 (301): ADVANCED CORPORATE FINANCE

*PMBA 2020 Course Outline **

COURSE INFORMATION

Division: Finance

Instructor: Hernan Ortiz-Molina

Website: <https://sites.google.com/site/hortizmolinaubc/>

Email: ortiz-molina@sauder.ubc.ca

Phone: 604-822-6095

Office: Henry Angus 876

Office hours: by appointment

Section number: 301

Term/period: Term 2 / Period 4

Pre-requisites: BAFI 500

Class meeting times: 8:30am – 4:00pm

Class meeting days: March 31, April 14, May 5

Classroom location: HA 132

Course website: on Canvas

COURSE DESCRIPTION

This course covers four topics: (1) capital budgeting, (2) capital structure, (3) payout policy, and (4) valuation with leverage. The first deals with forecasting a project's earnings, identifying its free cash flow, calculating its cost of capital, computing its NPV, and analyzing it. The second deals with a firm's financing decisions, including the role taxes, bankruptcy/distress costs, information asymmetries, and agency problems. The third deals with a firm's decision to whether to pay out its excess cash to investors or to retain it in the firm, and whether to do it using dividends or repurchases. The last deals with the impact of debt financing on capital budgeting decisions, focusing on the weighted average cost of capital, flow-to-equity, and adjusted present value valuation methods. This course will be useful to students considering careers in corporate finance, investment banking, commercial banking, and consulting.

COURSE MATERIALS & REQUIREMENTS

Textbook: Berk, DeMarzo, Stangeland, *Corporate Finance*, 3rd Canadian Edition (BDMS).

Case studies (purchase): <https://hbsp.harvard.edu/import/608747> (available March 15) **On**

Canvas: Lecture notes, problem sets, guiding questions for cases, etc.

Name Tags: please place your name tag on your desk during lectures

Important:

Understanding the content of the lecture notes (conceptual discussion of all topics we cover) is essential to do well in the course. The lecture notes might contain blanks that we will fill in during class.

****Preliminary and Subject to Change***

BAFI 502 (301): ADVANCED CORPORATE FINANCE

*PMBA 2020 Course Outline **

COURSE GOALS

The course aims to familiarize students with working knowledge of key corporate finance decisions that are important in the life of a corporation and, more generally, to help students acquire an understanding of broad economic issues that are of wide applicability in many areas of corporate finance. In particular:

- To provide a solid conceptual understanding of valuation methods and key financial decisions.
 - To develop expertise in using valuation methods and in analyzing the impact of financial decisions.
 - To gain understanding of basic institutional details that are relevant for corporate finance practice.
 - To stimulate further thinking on how financial issues interact with other corporate decisions.
-

LEARNING OBJECTIVES

While the main goal of the course is to familiarize students with some key ideas in corporate finance, we will also emphasize these concepts' practical applications. This will be done through case studies, problem sets, and real-world examples. At the end of the course, students will be able to:

- Estimate a project's cash flows and cost of capital, and ultimately value / analyze the project.
 - Identify the benefits and costs associated with different capital structure and payout policies.
 - Understand the mechanics of implementation and value implications of these financial policies.
 - Make recommendations on the desirability of these financial policies for specific companies.
-

ASSESSMENT SUMMARY

<i>Case Write-Ups</i>	<i>20% (two @ 10% each)</i>
<i>Take-Home Assignment (individual):</i>	<i>20%</i>
<i>Class Participation:</i>	<i>10%</i>
<i>Final Exam:</i>	<i>50%</i>

****Preliminary and Subject to Change***

BAFI 502 (301): ADVANCED CORPORATE FINANCE

*PMBA 2020 Course Outline **

The problem sets do not need to be turned in as they are not graded. However, they are a key part of the learning process in this course. Work on them carefully either alone or in teams and master the material.

The textbook comes with access to *MyFinanceLab*, which is a good online source of practice. Use of this resource for additional practice is entirely optional **is not** a substitute for working on the problem sets.

ASSESSMENT

1. Case Write-ups (group assignments) – 20%:

The instructor will form groups of **3 or 4** students and make the list available on the first day of classes (**March 31**) through Canvas. Each group will work on **two case studies** and submit their work as a group. Each group must submit a **two-page memorandum (font 12 points) for each case at the beginning of the last class on May 5** (write-ups will not be accepted afterwards). In addition to the two pages of text, you can add tables or charts provided that you refer to them in the text. Broad questions to guide your analysis of the cases are available on Canvas.

2. Take-Home Assignment (individual) – 20%:

The assignment will contain questions related to those in the practice material and you will have a week to work on it. It is due on **Sunday May 12 at 11:59pm** (one week after our last class) on Canvas. Students who miss the deadline will have the weight of this assignment transferred to the final exam. The assignment is **individual** (i.e., joint work on this assignment would be considered academic misconduct). Solutions will be released the next day.

3. Class Participation – 10%:

Class attendance and professional participation in discussion both count. Participation is critical to the learning process, especially in the discussion of the assigned case write-ups. Questions are always welcome in class.

4. Final Exam (Sun, May 26, 2019) – 50%:

The final exam will be a mixture of multiple choice questions, longer essay type questions, and problems requiring numerical solutions. The best way to prepare for the exam is by understanding (i) the lectures notes, (ii) the class discussions of cases, and especially (iii) the problem sets. In addition, I recommend reading the relevant chapters of the textbook. Remember to bring a calculator on the day of the exam.

TEACHING & LEARNING ACTIVITIES

The plan is simple:

The instructor will guide the conceptual discussion of the topics based on the material contained in the lecture notes. Ideally, students should read the lecture notes and relevant book chapters before coming to class.

****Preliminary and Subject to Change***

BAFI 502 (301): ADVANCED CORPORATE FINANCE

*PMBA 2020 Course Outline **

After we discuss the material in class, you should carefully work on the problem sets on your own. Note that on Canvas you have two versions of each problem set, one with the solutions and one without.

You will read the cases and prepare a memo that you will submit for grades. We will then discuss the case in class. The instructor will not present the case; instead I will guide a discussion among students.

For the first class, print and bring notes, and bring name tags.

SCHEDULE

We will cover five specific topics and we will discuss two case studies. Below is the order of the topics, indicating the corresponding lecture notes / problem sets, associated textbook readings, and assignments due. We will typically spend a little more than a class for each of the topics and at most a class for each of the case studies. However, the exact class-by-class schedule is hard to predict as it really depends on how things are going.

LECTURE	CLASS TOPIC	BDMS Chapters	WHAT'S DUE
Lecture 1	Valuation (DCF & Multiples)	9, 12, 22	
Lecture 2	Modigliani-Miller Propositions	17, 18 (excl. 18.4)	
Lecture 3	Theories of Capital Structure	19	
Lecture 4	Payout Policy	20 (excl. 20.7)	
Lecture 5	Capital Budgeting with Debt: WACC & APV	21 (21.1-21.3, 21.5- 21.6)	<i>Tentative!</i>
Lecture 6	Case: Buffet's bid for Media General's Newspapers		write-up require)
Lecture 7	Case: Massey-Ferguson 1980		write-up require)

Note: the BDMS are background readings that cover the basics well, but we will not follow the textbook exactly.

CASE WRITE-UPS DUE DATES

Case 1: Sunday May 5 (beginning of class)

Case 2: Sunday May 5 (beginning of class)

Note: If you feel that you require some more background before working on the cases (in addition to what we cover in class), you can read the relevant chapters in the textbook.

****Preliminary and Subject to Change***

BAFI 502 (301): ADVANCED CORPORATE FINANCE

*PMBA 2020 Course Outline **

INDIVIDUAL TAKE HOME ASSIGNMENT DUE DATE

Sunday May 12 at 11:59pm on Canvas

FINAL EXAM DATE

Sunday, May 26, 2019 on Canvas

COURSE AND INSTITUTIONAL POLICIES

Attendance: As per RHL policy on Professionalism, Attendance and Behaviour, students are expected to attend 100% of their scheduled classes. Students missing more than 20% of scheduled classes for reasons other than illness will be withdrawn from the course. Withdrawals, depending on timing, could result in a “W” or an “F” standing on a student’s transcript. Students must notify their instructors at the earliest opportunity if they are expected to miss a class due to illness. A medical note from a licensed, local doctor is required if more than 20% of scheduled classes for a course are missed due to illness. Students are required to notify the Student Experience Manager if they are absent from two or more classes due to illness.

Tardiness: As per RHL policy on Professionalism, Attendance and Behaviour, students are expected to arrive for classes and activities on time and fully prepared. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving halfway through a scheduled class, or later, will be treated as absent for that class.

Electronic Devices: As per RHL policy on Professionalism, Attendance and Behaviour, laptops and other electronic devices (cellphones, tablets, personal technology, etc.) are not permitted in class unless required by the instructor for specific in-class activities or exercises. Cellphones and other personal electronic devices must be turned off during class and placed away from the desktop. Students who fail to abide by the RHL “lids down” policy will be asked to leave the room for the remainder of the class. Research has shown that multi-tasking on laptops in class has negative implications for the learning environment, including reducing student academic performance and the performance of those sitting around them.

ACADEMIC INTEGRITY

All UBC students are expected to behave as honest and responsible members of an academic community. Failure to follow appropriate policies, principles, rules and guidelines with respect to academic honesty at UBC may result in disciplinary action.

It is the student’s responsibility to review and uphold applicable standards of academic honesty. Instances of academic misconduct, such as cheating, plagiarism, resubmitting the same assignment, impersonating a candidate, or falsifying documents, will be strongly dealt with according to UBC’s procedures for Academic Misconduct. In addition to UBC’s Academic Misconduct procedures, students are responsible for reviewing and abiding by RHL’s policy on Academic Integrity.

LATE ASSIGNMENTS

Late submissions will not be accepted and will receive a zero.

****Preliminary and Subject to Change***