

COURSE INFORMATION

Course title:	Corporate Finance	Credits:	1.5
Course code:	BAFI 502	Class location:	HA132
Session, term, period:	2019W2, Period 3	Class times:	Mon/Wed 4-6pm
Section(s):	001	Pre-requisites:	BAFI 500 or BAFI 580A
Course duration:	Jan 6 to Feb 14, 2020	Co-requisites:	--
Division:	Finance		
Program:	MBA		

INSTRUCTOR INFORMATION

Instructor:	Hernan Ortiz-Molina, Associate Professor of Finance		
Website:	https://sites.google.com/site/hortizmolinaubc/		
Phone:	604-822-6095	Office location:	HA 876
Email:	ortiz-molina@sauder.ubc.ca	Office hours:	By appointment

COURSE DESCRIPTION

This course provides students with a rigorous conceptual understanding and working knowledge of fundamental issues in corporate finance, including capital budgeting, capital structure, payout policy, and valuation with leverage. More generally, the course aims to help students acquire an understanding of broad economic issues that are of wide applicability in many areas of corporate finance. It balances both corporate finance theory and practical applications. During the course students will work on problem sets and analyze / discuss cases. The course is useful to students considering careers in corporate finance, investment banking, commercial banking, and consulting.

COURSE FORMAT

The course follows a standard lecture format with lectures as the main delivery method, but also includes in-class discussion of various real-world examples and applications as well as two cases.

LEARNING OBJECTIVES

By the end of this course, students will be able to:

1. Forecast a project's free cash flow, estimate its cost of capital, compute its net present value, describe sources of project value, and assess the limitations of their analyses.
2. Value firms or projects using multiples and describe pros and cons of this valuation approach.
3. Apply alternative valuation methods and identify their practicality in specific situations.
4. Describe the connection between a firm's financing decisions, cost of capital, and value in a broad conceptual framework; also the mechanics and effects of changes in capital structure.
5. Evaluate a firm's financing decisions and describe the roles of taxes, bankruptcy/distress costs, information asymmetries, agency problems, and interactions in product markets.
6. Evaluate a firm's decision to pay out its excess cash to investors or to retain it in the firm and whether to do it using dividends or repurchases; identify which firms should pay out excess funds.
7. Describe important institutional details that are relevant for corporate finance practice.

ASSESSMENTS

Summary

<u>Component</u>	<u>Weight</u>
Group case write-ups (two cases @ (10% each))	20%
Individual take-home assignment	20%
Final exam	50%
Class participation	10%
Total	<u>100%</u>

Details of Assessments

Group case write-ups:

The instructor will form groups of 3 or 4 students and make the list available on **Friday January 3rd** through Canvas. Each group will work on two case studies and must upload a two-page memorandum for each case (font 12 points) on Canvas by the respective deadlines. 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. The first case is due **Monday January 20 at 4:00pm** and the second is due **Monday January 27 at 4:00pm**; write-ups will not be accepted after these deadlines.

Individual take-home assignment:

The take-home assignment will contain questions related to those in the practice material and you will have about a week to work on it. It is due on **Friday February 7th at 11:59pm on Canvas**. Students who miss the deadline will have the weight of this assignment automatically transferred to the final exam. The assignment is individual (i.e., joint work on this assignment is considered academic misconduct).

Final exam:

The final exam can be any mixture of multiple-choice questions, longer essay-type questions, and problems requiring numerical solutions as well as economic interpretation of those 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. A formula sheet will be provided. The exams for period 3 will occur **during February 10-13; the exact date & time for this exam is TBA**.

Class Participation:

Class participation, especially in the discussion of the assigned case write-ups, is critical to the learning process and thus will receive some weight in your evaluation. Questions are always welcome in class. Please be mindful that it is important to maintain a professional attitude during class discussions, so that students and the instructor can interact in a productive collegial environment.

LEARNING MATERIALS

Textbook: Berk, DeMarzo, Stangeland, *Corporate Finance*, 3rd or 4th Canadian Edition (BDMS); the same book you used for BAFI 500 so likely you don't need to buy it. Note that we will not follow the textbook exactly, but this book still provides a great background reading for all topics we will cover in class. It is also a great reference to keep in your bookshelf as it might be useful in the course of your future career in finance. The cost new is about \$165. It should be available from the UBC bookstore and other sellers. 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.

Case studies: there are two case studies to purchase online directly from Harvard Business School at the following link: <https://hbsp.harvard.edu/import/682334> (available Dec 20). You can pay using a credit card and then download an Adobe Acrobat .pdf file with each case. The estimated cost is USD 8.50.

On Canvas: Lecture notes, problem sets & solutions, guiding questions for cases, additional readings, etc. 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. 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.

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

COURSE-SPECIFIC POLICIES AND RESOURCES

Missed or late assignments, and regrading of assessments

The standard RHL policy is that late submissions will not be accepted and will receive a grade of zero. More specifically for BAFI 502: (1) group case write ups must be submitted (paper copy) at the beginning of the class on the due date; late submissions will not be accepted and will receive a grade of zero; (2) the individual take-home assignment must be submitted (paper copy) at the beginning of the last class on February 5; students who miss the deadline will automatically have the weight transferred to the final exam; (3) exams and assignments are carefully graded by the instructor; students can ask for a regrade and grades are final after such regrade.

Academic Concessions

If extenuating circumstances arise, please contact the RHL Graduate School program office as early as reasonably possible, and submit an [Academic Concession Request & Declaration Form](https://webforms.sauder.ubc.ca/academic-concession-rhlee) <https://webforms.sauder.ubc.ca/academic-concession-rhlee>. If an academic concession is granted during the course, the student will be provided options by RHL, or by the instructor in consultation with RHL, per [UBC's policy on Academic Concession](#).

Other Course Policies and Resources

Not applicable to BAFI 502

POLICIES APPLICABLE TO COURSES IN THE ROBERT H. LEE GRADUATE SCHOOL

Attendance

Excepting extenuating circumstances, students are expected to attend 100% of their scheduled class hours. Absent students limit their own academic potential, and that of their classmates, and cause unnecessary disruption to the learning environment. Students missing more than 20% of the total scheduled class hours for a course (including classes held during the add/drop period) without having received an academic concession will be withdrawn from that course. Withdrawals, depending on timing, could result in a "W" or an "F" standing on the transcript.

Punctuality

Students are expected to arrive for classes and activities on time and fully prepared to engage. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving later than halfway through a scheduled class will be treated as absent for that class.

Electronic Devices

Devices such as laptops, tablets, and cell phones are not permitted to be used in class unless directed by the instructor for in-class activities. Students who do not follow the School's policy in this regard may be required to leave the room for the remainder of the class, so that they do not distract others. Research shows that students' use of laptops in class has negative implications for the learning environment, including reducing their own grades and the grades of those sitting around them.

Citation Style

Please use the American Psychological Association (APA) reference style to cite your sources.

Details of the above policies and other RHL Policies are available at:

<http://www.calendar.ubc.ca/vancouver/index.cfm?tree=12,199,506,1625>

UNIVERSITY POLICIES AND RESOURCES

UBC provides resources to support student learning and to maintain healthy lifestyles but recognizes that sometimes crises arise and so there are additional resources to access including those for survivors of sexual violence. UBC values respect for the person and ideas of all members of the academic community. Harassment and discrimination are not tolerated nor is suppression of academic freedom. UBC provides appropriate accommodation for students with disabilities and for religious observances. UBC values academic honesty and students are expected to acknowledge the ideas generated by others and to uphold the highest academic standards in all of their actions. Details of the policies and how to access support are available on the UBC Senate website at <https://senate.ubc.ca/policies-resources-support-student-success>.

Academic Integrity

The academic enterprise is founded on honesty, civility, and integrity. As members of this enterprise, all students are expected to know, understand, and follow the codes of conduct regarding academic integrity. At the most basic level, this means submitting only original work done by you and acknowledging all sources of information or ideas and attributing them to others as required. This also means you should not cheat, copy, or mislead others about what is your work. Violations of academic integrity (i.e., misconduct) lead to the breakdown of the academic enterprise, and therefore serious consequences arise and harsh sanctions are imposed. For example, incidences of plagiarism or cheating may result in a mark of zero on the assignment or exam and more serious consequences may apply if the matter is referred to the President's Advisory Committee on Student Discipline. Careful records are kept in order to monitor and prevent recurrences.

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ACKNOWLEDGEMENT

UBC’s Point Grey Campus is located on the traditional, ancestral, and unceded territory of the xwməθkwəyəm (Musqueam) people, who for millennia have passed on their culture, history, and traditions from one generation to the next on this site.

COURSE SCHEDULE

We will cover five specific topics and we will discuss two case studies. Below is the order of the topics, indicating the associated lecture notes / problem sets, textbook readings, and assignments due. We will 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	Case 1: Financial Policy at Apple		(write-up required)
Lecture 3	Modigliani-Miller Propositions	17 ; 18 (excl. 18.4)	
Lecture 4	Theories of Capital Structure	19	
Lecture 5	Case 2: Sealed Air Corp’s Leveraged Recapitalization		(write-up required)
Lecture 6	Payout Policy	20 (excl. 20.7)	
Lecture 7	Capital Budgeting with Debt: WACC & APV	21 (21.1-21.3 , 21.5- 21.6)	

KEY DUE DATES:

Group case write-up - case 1: Monday January 20, upload by 4pm on Canvas

Group case write-up - case 2: Monday January 27, upload by 4pm on Canvas

Individual take-home assignment: Wednesday February 5 (last class), upload by 11:59pm on Canvas

Notes:

(1) given a tight schedule, these due dates cannot be changed. Make sure you plan accordingly.

(2) understanding the cases requires broad knowledge of the topic that likely you already have coming into the class. However, if you feel that you require some more background before working on the cases, you can read the relevant chapters in the textbook.