

COURSE INFORMATION

Course title:	Corporate Finance	Credits:	1.5
Course code:	BAFI 502	Class location:	HA132
Session, term, period:	2021W, 2, 3	Class times:	Tu / Th 8:00am-10:00am
Section(s):	001	Pre-requisites:	BAFI 500 or BAFI 550
Course duration:	Jan 4 – Feb 4 2022	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 / Zoom link on Canvas
Email:	ortizmolina@sauder.ubc.ca	Office hours:	Wednesdays 7:00-8:00pm (Zoom)

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 specifically designed for students considering careers in corporate finance, investment banking, commercial banking, and consulting.*

COURSE FORMAT

In addition to regular class time, the course requires that you prepare for each class by watching pre-recorded instructional videos. The videos contain the conceptual discussion of many topics covered in class, so it is very important that you watch them carefully in advance of our classes. A large fraction of our class time will be devoted to applications of the material covered in the videos. We will also use our class time for discussion and problem solving. Learning is also supported by the relevant chapters in the textbook, assignments, and additional practice material on Canvas. *For each class, you will watch up to 30 minutes of pre-recorded video ahead of class and then attend class in person during 8:00-9:50am.* Last, should any health issues impede the instructor's ability to teach in person, the backup plan is to use Zoom as needed, so please make sure you have a Zoom account up and running just in case.

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>
Online quizzes	30%
Group project	20%
Group case write up	10%
Final exam	40%
Total	100%

Details of Assessments

Individual online quizzes:

You will work on three online quizzes that are individual (i.e., joint work on these quizzes is considered academic misconduct) and must be completed by the specified deadlines. Students who do not submit a quiz by the specified deadline will receive a grade of zero in that quiz unless the MBA office approves an academic concession, in which case the weight will be allocated to the remaining quizzes. You can take each quiz anytime during the specified 6-day period the quiz is open but must submit it before the deadline. Once you start a quiz, you have 3 hours to complete it and one attempt. Each quiz contains 5 choice questions and 5 problems that require calculations / numerical answers. All quizzes are open book and open notes; you can also use a calculator and Excel. It is highly recommended that you fully digest the class material and related practice before attempting these quizzes. The schedule is:

	Available	Due
Online quiz 1	January 6 (Thu) at noon	January 12 (Wed) at 11:59pm
Online quiz 2	January 13 (Thu) at noon	January 19 (Wed) at 11:59pm
Online quiz 3	January 20 (Thu) at noon	January 26 (Wed) at 11:59pm

Group project and case write-up:

The instructor will form groups of 4 or 5 students and publish the list on Canvas on **Monday January 10**. Each group will work on a project and a case write up, and must upload the work on Canvas by the respective deadlines. The group project is due **Wednesday January 26 at 11:59pm** and the group case write up is due **Wednesday February 2 at 11:59pm**. The group projects and case write up will not be accepted after these deadlines. Each group member will rate the contribution of others members confidentially (through iPeer) and this will be taken into account in the assignment’s grade.

Final exam:

The final exam can be any mixture of multiple-choice questions, essay-type questions, and problems requiring numerical solutions as well as economic interpretation. The best way to prepare for the exam is by (i) understanding the videos, lectures notes, and class discussion of cases, (ii) reading the appropriate sections of the textbook, and (iii) working on the ungraded problem sets. The exam will be

in person during **February 7 – 10 (time/day TBA)**. The exam is closed book and closed notes. You can use a calculator; a formula sheet will be provided.

LEARNING MATERIALS

Textbook: Berk, DeMarzo, Stangeland, *Corporate Finance*, 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 \$200 and there is also an e-version for about \$50. It should be available from the UBC bookstore and other sellers. The textbook comes with access to *MyFinanceLab*. Use of this resource for additional practice is useful but entirely optional and **is not** a substitute for working on the problem sets. Note there is also a version of the textbook titled *Fundamentals of Corporate Finance*, by Berk, DeMarzo, Stangeland, and Marosi. The topics are also covered in this undergraduate version of the book, so you can use it if you already have it. But if you will purchase, buy *Corporate Finance* (graduate version).

Case study: there is one case study to purchase online directly from Harvard Business School at the following link: <https://hbsp.harvard.edu/import/882770> (available January 1). You can pay using a credit card and then download an Adobe Acrobat .pdf file with each case. The estimated cost is USD 4.25.

On Canvas: Videos, lecture notes, problem sets & solutions, guiding questions for cases, additional readings, etc. Understanding the content of the videos and lecture notes is essential to do well in the course. 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, so work on them carefully either alone or in teams and master the material.

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 projects and case write ups must be uploaded on Canvas by the deadline; late submissions will not be accepted and will receive a grade of zero; (2) the individual quizzes must be completed on Canvas by the deadline; students who miss the deadline and are granted academic concessions will have the weight allocated to the remaining quizzes; (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.

COVID-19 Policies for Attendance & Academic Concessions:

If a student feels unwell, they should stay home and send a courtesy email to each impacted instructor and cc their program manager. The student should also submit an [Academic Concession Request & Declaration Form](#).

If a student suspects possible COVID-19 infection, they should use the BC Ministry of Health’s [self-assessment tool](#), to help determine whether further assessment or testing for COVID-19 is recommended.

If a student is required to self-isolate (e.g., while waiting for test results), they should follow the steps above (stay home, email instructor(s) and program manager, submit an [Academic Concession Request & Declaration Form](#), and follow BC Health Guidance.

Students who are required to quarantine, should get in touch with their Program Manager to discuss the possibility of academic concessions for each impacted course. The Program Manager will work closely with your instructors to explore options for you to make up the missed learning.

COVID-19 Safety in the Classroom:

Masks: Masks are **required** for all indoor classes, as per the BC Public Health Officer orders. For our in-person meetings in this class, it is important that all of us feel as comfortable as possible engaging in class activities while sharing an indoor space. For the purposes of this order, the term “masks” refers to medical and non-medical masks that cover our noses and mouths. Masks are a primary tool to make it harder for COVID-19 to find a new host. You will need to wear a medical or non-medical mask for the duration of our class meetings, for your own protection, and the safety and comfort of everyone else in the class. You may be asked to remove your mask briefly for an ID check for an exam, but otherwise, your mask should cover your nose and mouth. Please do not eat in class. If you need to drink water/coffee/tea/etc, please keep your mask on between sips. Students who need special accommodation are asked to discuss this with the program office.

Seating in class: To reduce the risk of COVID-19 transmission, please sit in a consistent area of the classroom each day. This will minimize your contacts and will still allow for the pedagogical methods planned for this class to help your learning.

Visit the following website for the most recent updates regarding COVID-19 protocol on campus:
<https://students.ubc.ca/campus-life/returning-to-campus>

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>.

Respect for Equity, Diversity, and Inclusion

The UBC Sauder School of Business strives to promote an intellectual community that is enhanced by diversity along various dimensions including status as a First Nation, Metis, Inuit, or Indigenous person, race, ethnicity, gender identity, sexual orientation, religion, political beliefs, social class, and/or disability. It is critical that students from diverse backgrounds and perspectives be valued in and well-served by their courses. Furthermore, the diversity that students bring to the classroom should be viewed as a resource, benefit, and source of strength for your learning experience. It is expected that all students and members of our community conduct themselves with empathy and respect for others.

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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All materials of this course (course handouts, lecture slides, assessments, course readings, etc.) are the intellectual property of the instructor or licensed to be used in this course by the copyright owner. Redistribution of these materials by any means without permission of the copyright holder(s) constitutes a breach of copyright and may lead to academic discipline and could be subject to legal action. Any lecture recordings are for the sole use of the instructor and students enrolled in the class. In no case may the lecture recording or part of the recording be used by students for any other purpose, either personal or commercial. Further, audio or video recording of classes are not permitted without the prior consent of the instructor. Students may not share class Zoom links or invite others who are not registered to view sessions.

ACKNOWLEDGEMENT

UBC's Point Grey Campus is located on the traditional, ancestral, and unceded territory of the x^wməθk^wəyəm (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 try to follow the schedule below in each of the 10 classes we meet, but please be aware that we might need to deviate slightly from this plan if circumstances require it. **Note it is essential that you carefully watch all required videos before attending our virtual class (listed under "asynchronous").** It is also recommended that you look at the slides and spreadsheets associated with the material we will discuss in each virtual class, even if briefly. The BDMS textbook provides a good coverage of most of the topics and reading the relevant chapters / sections will help you digest the material. The exact references are listed next to each topic, using the following abbreviations for the readings:

BDMS: Berk, DeMarzo, and Stangeland "Corporate Finance"

GH: J. Graham and Harvey, C., 2002, "How do CFOs make capital budgeting and capital structure decisions?", Journal of Applied Corporate Finance 15 (1)

CFOM: D Gifford Jr, CFO Magazine, 1998, "After the revolution"

MJ: M. C. Jensen, 1986, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers", American Economic Review 76 (2), 323-329.

Class 1 – Jan 4

Videos to watch before class

- v1 - Overview of valuation
- v2 - The logic of DCF analysis

Class discussion

- v0 - Course introduction & overview
- v3 - Free cash flow
- v4 - FCF of the New SUV Project

Readings / Material

GH: pages 8-12
BDMS: 3.3 ; 5.5 ; 8.1

Readings / Material

Syllabus
BDMS: 9.1 - 9.3
Spreadsheet

Class 2 – Jan 6

Videos to watch before class

- v5 - Terminal values, uncertainty, and Canadian Depreciation
- v7 - Cost of capital for the unlevered firm

Class discussion

- v6 - Terminal values, uncertainty, and CCA in SUV Project
- v8 - Estimating the cost of capital for an unlevered firm
- v10 - Payback period

Readings / Material

BDMS: 9.4 - 9.5
BDMS: 10.6 - 10.8 ; 12.1 - 12.4 ; 12.8

Readings / Material

Spreadsheet
Spreadsheet
BDMS: 8.3

Class 3 – Jan 11

Videos to watch before class

- v11 - DCF valuation of a levered firm

Class discussion

- v12 - Estimating the cost of capital for a levered firm
- v13 - Project vs. firm cost of capital
- v14 - Project vs. firm cost of capital - Applications

Readings / Material

BDMS: 7.3 (just DCF); 12.5 ; 21.1 - 21.2

Readings / Material

Spreadsheet
BDMS: 12.6 - 12.7 ; 21.5

Class 4 – Jan 13

Videos to watch before class

- v16 - Valuation with multiples

Class discussion

- v17 - Valuation with multiples - Applications
- v15 - IRR & hurdle rates

Readings / Material

BDMS: 7.4 ; 22.1 ; 22.5

Readings / Material

Spreadsheet
BDMS: 8.2 (refresher)

Class 5 – Jan 18

Videos to watch before class

- v19 - Introduction to capital structure
- v20 - Capital structure with perfect capital markets - MM propositions

Readings / Material

GH: pages 13-22 ; CFOM
BDMS: 17.1 - 17.2

Class discussion

- v21 - Capital structure with perfect capital markets - Understanding details
- v22 - Capital structure with perfect capital markets - Practical implications
- v23 - Capital structure with perfect capital markets - Leveraged recapitalization

Readings / Material

BDMS: 17.2
BDMS: 17.3
BDMS: 17.2 ; 17.4

Class 6 – Jan 20

Videos to watch before class

- v25 - Capital structure with taxes - MM propositions with corporate taxes
- v27 - Capital structure with taxes - MM propositions with personal taxes

Readings / Material

BDMS: 18.1 - 18.2
BDMS: 18.4

Class discussion

- v26 - Capital structure with taxes - Leveraged recapitalization
- v28 - Capital structure with taxes - Limits to tax benefits
- v29 - Capital structure with taxes - Applications

Readings / Material

BDMS: 18.3
BDMS: 18.5

Class 7 – Jan 25

Videos to watch before class

- V30 Capital Structure Theories - The tradeoff theory
- V32 Financial restructuring of a bankrupt firm: Stylized example (**optional**)

Readings / Material

BDMS: 19.1 - 19.4

Class discussion

- v31 - Application: Levering up with corporate taxes and costly distress
- v34 - Capital Structure Theories - Debt and incentives

Readings / Material

BDMS: 19.5 - 19.7

Class 8 – Jan 27

Videos to watch before class

- v35 - Capital Structure Theories - Asymmetric info & other factors
- v37 - Payout policy - With perfect capital markets

Readings / Material

BDMS: 19.8 - 19.9
BDMS: 20.1 - 20.2

Class discussion

- v36 - Capital structure theories - Further discussion
- v38 - Payout policy - Taxes and other capital markets imperfections

Readings / Material

GH: pages 13-22 ; CFOM
BDMS: 20.3 - 20.6

Class 9 – Feb 1

Videos to watch before class

- v40 - A little more on valuation: WACC vs. APV
- v41 - A little more on valuation: LBOs & APV (**optional**)

Readings / Material

BDMS: 21.1 - 21-3 ; 21.6

Class discussion

- v39 - Payout policy - Applications and discussion
- v42 - A Little More on Valuation - WACC vs. APV Applications

Readings / Material

BDMS: 20.7

Class 10 – Feb 3

Videos to watch before class

v43 - Overview of Sealed Air Case

Readings / Material

HBS case

Class discussion & course wrap up

Sealed Air Case (no slides ; takeaways later)

Teaching evaluations

Q&A

Readings / Material

KEY DUE DATES:

Assignment	Available	Due
Online quiz 1 (covers classes 1 & 2)	January 6 (Thu) at noon	January 12 (Wed) at 11:59pm
Online quiz 2 (covers classes 3 & 4)	January 13 (Thu) at noon	January 19 (Wed) at 11:59pm
Online quiz 3 (covers classes 5 & 6)	January 20 (Thu) at noon	January 26 (Wed) at 11:59pm
Group project	January 13 (Thu) at noon	January 26 (Wed) at 11:59pm
Group case write-up	January 27 (Thu) at noon	February 2 (Wed) at 11:59pm

Note: given a tight schedule, these due dates cannot be changed. Make sure you plan accordingly.