



FIN 202a: Corporate Finance

Fall 2018

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Professor Office Hours: Mondays and Wednesdays 2pm-3pm

Other times by appointment

Class Meeting Days & Times: Mondays and Wednesdays 12:30-1:50pm

Class Meets in Room Lemberg 55

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COURSE DESCRIPTION

The goal of this course is to develop the skill sets required for analysis of the major investments and financing decisions faced by modern corporations in a global environment.

Topics covered include the opportunity cost of capital, discounted cash flow analysis and capital budgeting decisions and risk analysis; corporate capital structure and financing decisions; dividend policy, investment and financial decisions in the international context, mergers & acquisitions and issues of corporate governance and control as well agency problems that arise between different stakeholders of modern corporations. Each of the concepts will be integrated in valuation framework that we present during the class and students are expected to apply to their equity analyst report that they will be working on through-out the semester. The course teaching methodologies involve first exposing students via lectures to the leading conceptual and theoretical frameworks of corporate investment, financing decisions & related topics and each of which will be followed by cases from HBS Publishing to demonstrate the applications of those theories & concepts as applied to the real world decisions faced by global corporations.

PREREQUISITES

FIN201a (Investments) and FIN212a (Accounting & Financial Analysis) and students must understand basic statistics such as mean, variance, covariance and simple regressions

LEARNING GOALS:

- Understand & develop skill sets for:
 - Major decisions faced and methods used for making investment decisions;
 - Financing decisions such as capital structure and dividend policy decisions;
- Gain a understanding of
 - Valuations Models and Applications
 - Merger & Acquisition & Corporate Control
 - Corporate Financial Risk Management
 - Equity Research Analysts Report

Required Textbook and Course Packet

Corporate Finance by Ross, Westerfield, Jaffe and Jordan (RWJJ), 11th edition, McGraw-Hill, 20116

ELECTRONIC EDITION IS RECOMMENDED! We will use CONNECT, an online platform that comes with book to do assigned problem sets. The electronic edition and CONNET platform are bundled together and are cheaper than buying the hard copy of the book and separately buying CONNECT.

The Course Packet: The course packet contains Harvard Business School cases & notes and some additional readings. Students will purchase the course packet online from Harvard Business School Publishing. The website link to purchase the cases from HBS is posted on Latte.

I may assign additional readings on some of the topics during the semester.

Regular reading of the Wall Street Journal, the Economist and Financial Times is strongly recommended.

Course Requirements

Attendance: All students are required to attend and actively participate in each class throughout the semester. We will take class attendance. Unless there is a documented medical and family emergency where students may be excused upon providing documentation, any student who miss a class, his/her final percentage point will be reduced by 1% for each class missed.

Final Grade Determination

Group Case Studies Write up	10%
Class Participation	10%
Problem Sets	15%
Midterm	20%
Equity Analyst Group Report	15% (includes presentation and teamwork – 5%)
Final Exam	<u>30%</u>
Total	<u>100%</u>

Please read the following description of what is expected in each of the above section used for determination of the total course grade.

Group Case Studies Write ups (10%)

I expect students in this course to form Case Study Groups consisting of 2 students in each group. Throughout the semester, there will be five group case studies and write up that must be submitted at the beginning of the class when that case will be discussed. As you will note from the detailed course outline below, the cases are HBS cases that you will purchase online from Harvard Business School Publishing. You will get access code to the course packet at beginning of the semester. For each of the cases you will get questions to guide you and focus your case write up. The format of the case write up will be a page of an executive summary of your analysis of the major corporate finance decisions that the company managers face and a maximum of three pages write up addressing the questions raised in the case. You may include tables and graphs of your analysis as additional pages as exhibits

Class Participation (10%)

As indicated above, the teaching methodologies in this course involves combination of lectures, real world case studies, student equity research and problem solving. It is imperative therefore active class participation specifically in case studies is very important in the learning and teaching process of this course. . In each class, group members of one or two case study groups

may be “cold-called” to address the questions asked while other class members will add to their response or debate their response. The class participation will be measured by the quantity and quality of each student’s participation which includes answering directed questions, asking perceptive questions that moves the class discussion forward, comments/suggestions on the case/problem solving, participating in discussion motivated during lectures and active listening to the fellow classmates’ participation.

Problem Sets (10%)

Problem Sets: The best way to learn finance is by doing series of problem sets to digest the concepts developed in class lectures and textbook readings. I will assign problem sets throughout the semester on Connect platform. Problem set questions are carefully selected to help you prepare and use them as study tools for the midterm and final exams. Therefore, you need to work on the problem sets not just for their percentage contribution to your final grade but also for their contribution to your performance on the midterm and final exams. Problem sets will be submitted electronically via the CONNECT platform and you will get instant feedback on your work and performance. I may also assign additional practice questions prior to the midterm and final exams.

Midterm (20%) and the Final exam (30%)

There will be a midterm exam on **October 22, 2018. You are permitted to bring one sheet written on both sides with notes/formula. Note that it is only one sheet that is allowed! Please do not abuse this privilege.** Other than that sheet, the exam is closed notes and closed books.

The final exam will be scheduled by the Registrar office during the University examination. **You are permitted to bring one sheet of paper with formula/notes written on both sides. Again it is both sided but one sheet!** Other than that, the final exam is also closed notes and closed books.

Details of the exam procedures and instruction will be given in due course.

POLICY ON CALCULATORS:

For both midterm and final exam you are allowed to use financial calculator. The suggested financial calculator is Texas Instrument’s TI BA II Plus financial calculator. You can also use HP 12C financial calculator. For the exams you are not allowed to use other calculators with notes taking capability. You can use also use excel for doing your cases and problem sets but you cannot use excel for the exams since the exams are closed book.

Equity Analyst Group Report and Final Presentation 15%

There will be an Equity Analyst Group report and final presentation that each group will be working on through the semester. For this project you should form group of 2 students. You will select an industry and from that industry you will have 2 companies based on the number of

students in your group. As the course progresses through the semester, you will focus on your companies' decision on, for example, the cost of capital determination, when we are covering the cost of capital in the course, dividend policy, capital structure policy, etc. as we cover these topics, finally bringing all together in your equity research report and presentation. You will submit a progress report and November 5, 2018 and a final report and presentation on December 10. I will provide detailed guideline on this project in a separate document that I will post on Latte.

As you have noticed already there are two group deliverables in this course: Group Case Studies Write up and Equity Analyst Group Report and Final Presentation. Since these involve dealing with and learning group dynamics which is an important skill set in business, it is important to pay attention to group dynamics and fair contribution to group deliverables. When you communicate with me regarding group assignments, make sure you include all group members in your email or coming to my office hours together. A point will be reduced from the grade of the student in the group who is not following this policy.

Workload expectation

- **Please note as FIN 202a is a four-credit course, you are expected by Brandeis University to spend a minimum of 9 hours of study time per week in preparation for class (readings, problems sets, discussion sections, preparation for exams, case studies, etc.). The workload in this course is designed in line with this University wide expectations.**

Use of Laptop Computers and Cell Phones in Class:

Cell phones must be turned off during lectures. Laptops may be used but only to browse the lecture slides or take notes.

ACCOMMODATION FOR DISABILITIES:

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately. For more information go to: <http://www.brandeis.edu/disability>

ACADEMIC INTEGRITY:

You are expected to be familiar with and to follow the University's policies on academic integrity. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.

See: "Brandeis University Rights and Responsibilities" chapter 3;

(<http://www.brandeis.edu/studentlife/sdc/rr/>).

Here is the first part: “3.0 Every member of the University community is expected to maintain the highest standards of academic integrity. A student shall not submit work that is falsified or is not the result of the student's own effort. Infringement of academic honesty by a student subjects that student to serious penalties that may include failure on the assignment, failure in the course, suspension from the University or other sanctions (see Section 21). A student who is in doubt regarding standards of academic honesty in a course or assignment should consult the faculty member responsible for that course or assignment before submitting the work. A student's lack of understanding is not a valid defense to a charge of academic dishonesty.” If you are ever in doubt about any of these rules please contact me immediately.

Detailed COURSE OUTLINE

Please note Brandeis Days: Thurs. Sept 6th, and Tues. Sept.25th - both running **Monday class schedules** as indicated in this detailed schedule below.

<u>Class</u>	<u>Date</u>	<u>Topics</u>	<u>Assignment (Readings are in RWJ)</u>
1	Wed., 8/29	<ul style="list-style-type: none"> • Introduction to Corporate Finance, • Goals of the firm • Agency problems between firm’s stakeholders and their remedies 	Read Chapters 1 & 2
	Mon. 9/3	No Class: Labor Day	
2	Wed., 9/5	<ul style="list-style-type: none"> • Corporate Financial Statements • Incremental Cash Flows 	Read Chapters 2 & 4
3	Thurs., 9/5 (Brandeis Monday)	<ul style="list-style-type: none"> • Discounted Cash Flow Analysis • Alternative Investment Decision Methods (NPV, IRR, PI....) 	Read Chapters 4 & 5.
	Monday, Sept. 10 — Tuesday, Sept. 11	Rosh Hashanah: No university exercises.	
4	Wed., 9/12	<ul style="list-style-type: none"> • Making Investment Decisions; • Case Analysis and Discussions: “Investment Analysis and Lockheed TriStar” 	Submit Group Assignment 1 before class: “Investment Analysis and Lockheed TriStar”

5	Mon. 9/17	Continued...Case Discussions: Investment Analysis and Lockheed TriStar	“Investment Analysis and Lockheed TrisStar” Connect Problem Set 1 Due on 9/18 at 1pm
	Wed., 9/19	Yom Kippur: No university exercises. Staff holiday.	
6	Mon., 9/24	Sukkot: No university exercises	
7	Tues. 9/25 (Brandeis Monday)	Cash Flow Projections & Making Capital Investment Decision	Read Chapter 6
8	Wed., 9/26	Where is the Cost of Capital or the Opportunity Cost of Capital for Evaluating Projects or valuation of companies come from?	Read Chapters 11 and 12
	Mon., 10/1	Shmini Atzeret: No university exercises.	
9	Wed. 10/3	The Divisional and Company Cost of Capital	Read Chapter 13
10	Mon., 10/8	Case Analysis & Discussion: “Marriott Corporation: Divisional & Company Cost of Capital”	Submit Group Assignment 2 HBS Case Marriott Corporation: The Cost of Capital (Abridged) HBS 9-289-047
11	Wed., 10/10	Financing Decision Capital Structure I: Modigliani and Miller <ul style="list-style-type: none"> • No taxes • Taxes • WACC 	Read Chapters 14 and 17

12	Mon. 10/15	<p>Capital Structure II: Limits to the use of Debt</p> <ul style="list-style-type: none"> • Costs of Financial Distress Issues • What is the Optimal Capital Structure? • Pecking Order Theory Trade off theory 	<p>Read Chapter 18</p> <p>Connect problem Set 2 Due on Connect Platform at 11pm on 10/10</p>
13	Wed., 10/17	<p>Case Analysis and Discussions:</p> <ul style="list-style-type: none"> • Winfield Refuse Management Inc.: Raising Debt vs. Equity. 	<p>Submit Group Assignment 3:</p> <p>Winfield Refuse Management Inc.: Raising Debt vs. Equity.</p>
14	Mon. 10/22	<ul style="list-style-type: none"> • Midterm 	<p>Please bring your financial calculator</p>
15	Wed. 10/24	Dividend Policy-Lecture	Read Chapter 19
16	Mon., 10/29	<p>Case Analysis and Discussions:</p> <p>Dividend Policy at FPL</p>	Submit Group Assignment 4
17	Wed. 10/31	<p>Valuation: Part I</p> <ul style="list-style-type: none"> • Dividend Discount Model, Free Cash Flow Models, Adjusted Present Value, Valuation using Multiples 	Read Chapters 8 and 9?
18	Mon., 11/5	<p>Equity Analyst Group Report 1</p> <p>Valuation Continued: Part II</p> <p>Adjusted Present Value, Valuation using Multiples</p>	<p>Please submit your progress report 1</p> <p>Read Chapters 13.5 and 18 and 19</p>
19	Wed., 11/7	<p><u>Special Topics in Corporate Finance</u></p> <ul style="list-style-type: none"> • Mergers & Acquisitions • Corporate Restructuring 	<p>Chapters 29 & 30</p> <p>7 & 25</p> <p>Connect Problem Set 3 due at 11pm on 11/7</p>
20	Mon., 11/12	Special Topics in Corporate Finance	Chapters 29 & 30

		<ul style="list-style-type: none"> Corporate Governance & Control <p>Corporate Risk Management</p>	7 & 25
21	Wed., 11/14	<p>An Integrated Case Discussion</p> <p>On Valuation, LBO, MBO and Corporate Control:</p> <ul style="list-style-type: none"> RJR Nabisco Case 	Submit Group Assignment 5 RJR Nabisco
22	Mon., 11/19	Continued-Integrated Case Analysis: LBO and RJR Nabisco Case	
23	Wednesday, Nov. 21 – Friday, Nov. 23	Thanksgiving holiday: No university exercises	
	Mon., 11/26	Cross Border Valuation: Lecture	<p>HBS Note: Note on Cross-Border Valuation</p> <p>Connect Problem Set 4 due on 11/26 at 11pm on Connect Platform</p>
23	Wed. 11/28	<p>Case Analysis and Discussion</p> <p>Groupe Ariel S.A: Parity Conditions and Cross Border Valuation</p>	Submit Group Assignment 6 Groupe Ariel S.A: Parity Conditions and Cross Border Valuation
24	Mon. 12/3	TBA	
25	Wed. 12/5	Course Wrap-up and Review for the final Exam	
26	Mon., 12/10	Equity Analyst Group Report and Final Presentation	<p>Electronic Copy of the final Equity Analyst Report and PPT due on Latte at 9am on Latte.</p> <p>Please bring hard copy of your final report and PPT to the class on Wed. and</p>

			submit prior to the start of the presentation
27	Final Exam	Please note that the final exam will be scheduled by the registrar office.	Please see final exam schedule

Note: Please note that I reserve the right to add and remove readings from the course and to alter or modify the lecture schedule as required. I will give you advance notice of any such changes or modifications.