

FIN 521 Corporate Finance Module III, 2015-2016

Course Information

Instructor: Daniel Sungyeon Kim

Office: PHBS Building, Room 745

Phone: +86 (755) 2603-5295

Email: kimds@phbs.pku.edu.cn

Office Hour: Tuesday and Friday 12:30-1:30

Teaching Assistant:

Phone:

Email:

Classes:

Lectures: Tuesday and Friday, 10:30-12:20

Venue: PHBS Building, Room 231

Course Website:

www.danskim.com

1. Course Description

1.1 Context

Course overview:

Welcome to *Corporate Finance* at Peking University HSBC Business School! In this course, we will focus on “valuation,” i.e., understanding the value implications of investment and financing decisions that firms make. By the end of this course, you should be able to:

- Evaluate corporate projects and make decisions based on financial data.
- Analyze a firm's financial statements and value the firm.
- Understand how investment and financing decisions impact the value of the firm.
- Develop complex spreadsheet models in Excel.

We will build on the time value of money concepts and risk and return concepts that you have learned in earlier finance courses. However, this class is much more detailed and practical. As you will see, a significant component of the grade comes from real-life projects, which require complex spreadsheet modeling in Excel. Even the in-class exercises and exams will focus on applications of concepts to solving real-life problems faced by businesses. We will also make extensive use of some of the accounting concepts. So it's a good idea to brush up on your accounting concepts, specifically, the organization of the balance sheet and the income statement.

The course is a mix of lecture and discussion. Lecture notes and excel files must be downloaded from the course website before class. I expect students to come to class prepared for active participation. Class attendance is strongly encouraged and is required during group presentations. To make the most efficient use of limited class time, students who miss a class or are late are responsible themselves for getting notes, assignments, and announcements from their classmates. It is your responsibility to keep yourself informed of important developments pertaining to the course. Keeping your University

email account updated is important. We do problems in class, so bring a calculator. A basic financial calculator is best, though a good basic scientific calculator that does powers is fine. Solutions to in-class exercises will not be distributed or posted.

Please remember to turn off your cell phone before class.

Prerequisites:

N/A

1.2 Textbooks and Reading Materials

- “Corporate Finance” by Ross, Westerfield and Jaffe, McGraw-Hill Inc., 9th edition (RWJ)
- “Excel Modeling and Estimation in Corporate Finance (Third Edition),” by Craig W. Holden.
- Lecture notes, assignments, and other useful information will be posted on the course web page at <http://www.danskim.com/cf.html>. You are expected to download and print the required material before coming to the class.
- Course packet: Administrative office (Room 113) has a copy of the course packet. You are required to make a photocopy of the course packet.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	✓
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	✓
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	✓
	2.2. Students will be able to apply leadership theories and related skills.	
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	
	3.2. Our students will practice ethics in the duration of the program.	
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	✓
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	✓
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	✓
	5.3. Our students will demonstrate competency in critical thinking.	✓

2.2 Course specific objectives

2.3 Assessment/Grading Details

Assessment task	Weighting
Project 1	10%
Project 2	20%
Presentation of Project 2	10%
In-class group assignments	10%
Participation	20%
Mid-term Exam	30%
Total	100%

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics, Teaching and Assessment Schedule

<i>Class Number</i>	<i>Topics Covered</i>	<i>Notes</i>
1 (Feb 23)	<u>Introduction</u> Syllabus <u>Review Financial Tools</u> Valuation Basics Time Value of Money Inflation <u>Cash Flows</u> Effects of Accrual Accounting Free Cash Flow	Syllabus RWJ Ch 1 RWJ Ch 6
2 (Feb 26)	<u>Cash Flows</u> Examples <u>Capital Budgeting</u> Incremental Project Cash Flow Net Present Value & others	
3 (Mar 1)	<u>Comparing Projects</u> Projects of Equal Life Equivalent Annual Cost Setting the Bid Price <u>Project Analysis</u> Managerial Options Scenario Analysis Sensitivity Analysis Spreadsheet Modelling <u>Explanation of Project 1</u>	RWJ Ch 10 RWJ Ch 10 & 11 Holden Ch 12 & 13
4 (Mar 4)	<u>Projecting Sales Growth</u> Trends in sales growth Relation to Industry Economic Analysis: Regressions <u>Financial Statement Analysis</u> Ratio Analysis Dupont Identity Operating Leverage <u>Financial Modelling</u> Relation between Financial Statements Solving by iterations Financing with Debt Maintaining debt-equity ratios Using Cash Reserves	RWJ Ch 3 Holden Ch 15.4 & 16 Holden Ch 15 Download files from web for class

<i>Class Number</i>	<i>Topics Covered</i>	<i>Notes</i>
5 (Mar 8)	<u>Discounted Cash Flow Valuation</u> Sequential Valuation <u>Multiples Valuation</u> Definition of Market Ratios Price-Earnings Ratio <u>Explanation of Project 2</u>	
6 (Mar 11)	<u>Cost of Capital</u> WACC without and with taxes Divisional WACC <u>Capital Structure (I): Perfect Market</u> Proposition I: WACC Proposition II: Cost of Equity Business and Financial Risk Unlevering Beta	RWJ Ch 15
7 (Mar 15)	<u>Capital Structure (II): Imperfect Market</u> WACC with Taxes WACC with Bankruptcy Costs Incorporating Changes in Leverage Value of Levered Firm Dollar gain from Tax Benefit Dollar cost due to Bankruptcy <u>Capital Structure (III): The Real World</u> Agency Costs: Debtholders and Shareholders Agency Costs: Managers and Shareholders Discuss Capital Structure Puzzle	RWJ Ch 15 RWJ Ch 16 RWJ Ch 17 Case: Financing Alibaba's Buyout: Syndicated Loan in Asia PROJECT 1 DUE
8 (Mar 18)	<u>Raising Capital</u> IPOs Private Equity Market Rights Corporate Bond	RWJ Ch 20 HBS Case: IPO Process Case: Prada: To IPO or not to IPO: That is the question, again
9 (Mar 22)	<u>Case discussion</u> Alibaba and syndicated loans <u>Case discussion</u> Prada and IPO	
10 (Mar 25)	<u>Mergers and acquisitions</u> Forms of acquisitions Synergy and coinsurance effects Financing acquisitions Empirical evidence	RWJ Ch 29 Case: Tsingtao Brewery Co. Case: Alcan (B): Reacting to the Alcoa Offer

<i>Class Number</i>	<i>Topics Covered</i>	<i>Notes</i>
11 (Mar 29)	<u>Payout Policy</u> Types of Dividends Irrelevancy of Dividends Taxes Stock Repurchases Dividend Clienteles Signalling	RWJaffe Ch 18 Case: Dividend Policy at Linear Technology
(Apr 1)	MIDTERM	In the classroom, during class time
12 (Apr 5)	<u>Case discussion</u> Tsingtao and M&A <u>Case discussion</u> Alcan and M&A	
13 (Apr 8)	<u>Agency cost and Information Asymmetry</u> Debt Holder-Equity Holder Conflicts Equity Holder-Manager Convertibles Capital Structure Payout Policy	Case: Apple: Corporate governance and stock buyback
14 (Apr 12)	<u>Case discussion</u> Linear and dividends <u>Case discussion</u> Apple and corporate governance	
15 (Apr 15)	<u>Introduction to VC and PE</u> Fund Structure Geography of VC/PE Financial Contracting Exit Strategy <u>Case discussion</u> Shanda and going private	Case: Shanda games: A buyout of a Chinese family firm PROJECT 2 DUE
(Apr 17) 13:00-17:00	Group Presentations MANDATORY ATTENDANCE DAY	

4. Miscellaneous