

FIN 534: Advanced Corporate Finance I – Valuation Spring 2020, Section 4

Instructor

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Class Time

Thursday: 6:15PM – 9:15PM SH 103

Course Description

This course considers issues faced by corporate financial managers with respect to the valuation of projects, divisions, and entire companies. The prime focus is on assessing the profitability of different business alternatives in a forward-looking sense that explicitly accounts for firms' financing choices. Also covered is an introduction to measuring the role of flexibility inherent in business alternatives. The course is "hands-on" and heavily focuses on direct applications of the theory. The course content is designed to balance theories, computations, and applications through a combination of lectures, case discussions, and practice problems.

Prerequisites

It is assumed that you are familiar with topics covered in "Financial management" or an equivalent introductory course. Examples include present value concepts, bond valuation, dividend growth model, free cash flows, IRR, NPV, WACC, and the CAPM equation. These topics are covered in chapters 3-10 in the course textbook. For a review of accounting terms, see chapter 2.

Course Materials

- Textbook (BD): *Corporate Finance* by Jonathan Berk and Peter DeMarzo (Pearson, 4th or 5th edition). Print version, digital version, and the less expensive international paperback edition are all fine. You do not need MyLab Finance.
- Course packet: Available in bookstore. Includes copies of case studies. To ensure we do not violate copy rights, you need to sign the first page and hand it to me in the beginning of lecture.
- Lectures slides and lecture notes: Copies of slides will be handed out in the beginning of each class and will also be available on Canvas. Additional notes may be posted on canvas following the lecture. The slides and notes may not contain everything that I say in class or write on the board. You should also take your own notes.
- Solutions to homework problems and additional practice problems with solutions: will be posted on canvas.

Course Requirements

- Attendance: You need to attend all classes and display your nameplate. I suggest that you bring the course packet and a calculator to class. All other electronic equipment must be set on airplane mode.

Homework assignments: An assignment will be posted on canvas every Thursday (except for the last week) and will be due the following Thursday by 5:30pm. There will be a total of 5 homework assignments. The 4th assignment is an individual assignment and will include practice problems. All other assignments are group assignments and will mostly involve case analysis, including the use of spreadsheet. The recommended group size is 3-4 students, but I will allow any number between 1 to 5. You must join one of the groups on Canvas no later than 9pm on January 20th. Anyone not in a group at this time will be randomly assigned to one. Assignments should be submitted on Canvas. The maximum points for each assignment is 100, and each assignment will have equal weight in the final grade.

- Some rules: When preparing for homework assignments, you can consult and compare solutions with any student taking this class. However, you must follow two rules. First, the writing should be your own writing for an individual assignment and the group's own writing for a group assignment. In particular, you should not just copy answers or use word documents or spreadsheets of others. Second, you must have a full understanding of everything you put your name on, including the relevant spreadsheets. I will deduct points for individuals who do not meet this criterion.
- Final exam: The final exam will take place in class (SH 103) on Thursday February 27 6:15 - 9:15 pm. The exam will be closed book and closed noted, but you are allowed to bring one 8.5 by 11 inch piece of paper with hand-written or typed notes. You can copy material from lecture slides, lecture notes, and/or solutions to homework problems and problem sets, but you must write it down or type it by yourself; you cannot just scan a picture of the course material. The "cheat sheet" can contain notes on both sides, must include your name large enough that I can find it, and must be turned in after the exam is over. You should also bring a calculator. Cell phones, laptops, and any other electronic material are not allowed during the exam.

Course Grade

- Attendance will count towards 10% of your grade. Homework assignments will count towards 40% of your grade, and the final exam will count for 50%. That is,

$$\text{Course Grade} = 0.1 (\text{Attendance}) + 0.4 (\text{Homework}) + 0.5 (\text{Final Exam})$$

- You could also earn up to 2 bonus points based on class participation. These points will be added to your final course grade. Participating means that you actively engage in the course and/or contribute to the rest of the class. It's okay if you don't always make correct arguments - that's part of the learning process.
- Another course requirement is that you must submit all homework assignments in order to pass the course. If you submit an assignment after the due date, the weight of this assignment will shift to the final exam, but you will still need to submit. Moreover, I will deduct 4 points from your final course grade for each late submission.

Additional Remarks

1. Every student should attempt to solve the homework assignments by himself or herself before discussing the solution with other group members. Stronger students could benefit from including

weaker students in their group. Having the ability to explain your solution approach and/or being able to explain why some approach is incorrect will enhance your understanding of the material and will also be important in your future career when working with colleagues or presenting your work.

2. Practice problems with solutions will be posted weekly. You should think of these problems as part of your homework, except that you don't need to submit anything.
3. Students in this class come from different backgrounds and may have different learning styles. I will do my best to accommodate everyone and guide you all through the learning process to get the best out of you. I encourage you to participate in class by asking questions (let me know if something is not clear) and responding to my questions. Although this is a large class, I might have some flexibility in adjusting the speed and difficulty. I may also be able to allocate some time in class to review problems or concepts that a large number of you struggle with. But you will need to let me know.
4. Learning does not end in class. Finance is a big field, and we keep seeing new innovations. The purpose of this class is to give you some tools that will be useful throughout your career not only in the short run, but also in the long run.
5. Please limit email communication to simple questions about administrative issues. If you have questions that require long explanations about the course material, you should attend office hours or talk to me in class.
6. Course material is for use by students in this class and should not be distributed to anyone outside this class.

Course Topics (*tentative*)

1. Capital budgeting and valuation

Determining free cash flows	BD: 8.1 – 8.4
DCF model	BD: 9.3 (only: discounted FCF model)
Multiples	BD: 9.4; Example 23.4
Interest tax deduction	BD: 15.1
Cost of capital	BD: 12.1 – 12.5
WACC, APV, Flow to equity	BD: 18.1 – 18.6
Advanced material (optional)	BD: 18.8, Ch. 18 appendix
Cases	PlanetTran, Radio One, Sampa, Snap

2. Valuing flexibility and real options

Binomial trees and risk-neutral probabilities	BD: 20.1, 21.1, 21.3
Option to purchase, option to expand	BD: 22.1 – 22.2, 22.4, 22.8
Case	Right of acquisition

3. Valuation in mergers and acquisitions

Background	BD: 28.1– 28.3 (skim)
Valuation	BD: 28.4 (first two pages)
Cases	BD: 19; AirThread