

# Universidad Pontificia Comillas – ICADE

## Corporate Finance

### 1 Course Information

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Course Title	: Corporate Finance
Semester	: 1 <sup>st</sup>
Course	: 2017/2018
Meeting Days	: Tuesday 10:30 AM – 12:30 PM, Thursday 12:30 AM – 14:30 PM
Meeting Room	: Tuesday O-201A, Thursday O-106
Prerequisite	: An introductory course in Corporate Finance is necessary, and previous knowledge on accounting and statistics will help.

### 2 Instructor Information

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Name	: Paolo Saona Hoffmann, Ph.D.
Office Location	: Sala de Profesores
E-mail	: <a href="mailto:prsaona@comillas.edu">prsaona@comillas.edu</a> (please use the prefix “Corporate Finance” to start the subject line in all e-mails pertaining to this class. For example: “Corporate Finance– I will be absent on Monday”)
Office hours	: One hour before each class, previous appointment
Contacting me	: First, ask questions in class (it helps and others will likely have the same questions). Second, make an appointment during my office hours as listed above. Third, if neither of these options is possible, please send me an e-mail and alternative arrangements can be decided on

### 3 Course Required Material

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#### Required Textbook:

Ross, Westerfield, Jaffe and Jordan (2011): Core Principles and Applications of Corporate Finance. 3rd ed. McGrawHill.

#### Suggested Optional Reading:

Brealey, Richard A.; Myers, Stewart C. and Marcus, Alan J. (2007): Fundamentals of Corporate Finance, Fifth Edition. Ed. McGraw-Hill International Edition.

Keown, Art J.; Martin, John D.; Petty, John W. and Scott, David F. (2007): Foundations of Finance: The Logic and Practice of Finance Management. Ed. Prentice Hall.

Brealey, Richard A.; Myers, Stewart C. and Franklin, Allen (2011): Principles of Corporate Finance, Concise Edition, Second Edition. Ed. McGraw-Hill International Edition.

**Other material:** Additional material will be provided by the instructor (e.g. power point presentations shown in class, the solution to the end of the chapter problems, the simulator

for the Hewlett Packard Calculator, the case studies, and special readings on corporate finance issues, among others).

**Financial calculator:** *HP-10B* or *HP-17B* highly recommended. Alternatively students can download free applications on their mobile devices.

**Recommended Readings:** *The Economist*, *The Wall Street Journal*, *Harvard Business Review*, *Financial Times*.

## 4 General Information

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This course will be taught with a combination of lectures, interactive discussion sessions and the solution of different examples and exercises. Lecture sessions will cover key aspects of conceptual and difficult sections of the chapters. Tests will be based on lectures, the study of the chapters, and assigned readings.

## 5 Course Requirements

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### Grade Components and dates:

The overall grade is calculated in the following way:

30% of it corresponds to the partial tests (the 3 best grades out of the 4 you must take along the course)

20% of it is related to active class participation and attendance.

50% of it corresponds to the final examination in December 14<sup>th</sup> at 12:30 PM

### Grade Scale:

The grade scale is in the 0-10 score, with 5 as minimum for passing the course.

### Grading Methodology:

- *Partial Tests (30%):* Four tests are administered along the semester and the three best scores will compound 30% of the overall grade. This partial tests are multiple choice tests with 10 questions.
- *Class participation (20%):* It corresponds to the active student participation in class through short 10-15 minutes presentations on particular topics on corporate finance either suggested by the instructor or chosen by the students. These presentations will include for instance short speeches on current corporate scandals, issues on capital markets, non-traditional ways to raise capital, corporate governance issues, real life examples on topics covered in class, Excel demonstrations of real life situations and/or theories, multinational corporate finance, changes in interest rates and/or exchange rates and their impact on financial decisions, role of capital markets, financial distress, discussion of scientific financial papers, global economic recession, identification of financial theories that describe the real world better, solution of a particular challenging case study, among many other issues raised by students and instructor.

These presentations are essentially individual assignments. However, depending on how challenging the topic chosen by the students is, such presentation can be delivered in teams of two students.

For participation in classes, students will be called upon randomly throughout the

semester to give answers or comments on questions and issues. It is expected that the student attend the classes and follow the chapters with a high critical thinking behavior.

- *Final Examination (50%):* The comprehensive final test is a combination of practical problems (about 55% of the test), short answer questions (about 15% of the test), and multiple choice questions (30% of the test).

## **6 Classroom Philosophy, Policy of Missing Exams & Late Submission**

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- You are required to attend each class session prepared to participate and think critically during lecture and discussion sessions. You will be required to prepare in advance each class according to the instructions of the professor. As responsible adults, I trust you will be able to sustain a mutually respectful classroom atmosphere by treating all classmates as equals.
- Tests and assignments due dates are scheduled well in advance, so you can plan around these dates. I feel that exams/assignments are fair to everyone if and only if everyone completes them at the same time. It is not only impossible to come up with an alternative which is fair to everyone but it also imposes a significant cost on other students and me. Therefore, I have strict policy on late assignments/exams.
- Any consideration for missing a test will be taken into account only under truly exceptional circumstances. I will require, at a minimum, a signed formal note and a phone number of the physician or other relevant person. Be aware that a mere note indicating that you visited a physician around the date of the exam will not be sufficient. The burden of the proof will be on the student. Missing exams or late submission of assignments without a formal note justifying the fact will be graded with 0.0%.
- No late submissions will be accepted. All required assignments are to be submitted on time. Students are expected to be working on the assignments throughout the term and not just on the last few days. Hardware failure or inaccessibility is not an excuse reason.
- There will be NO makeup exam/test. In order to be excused from an exam/test, the student must contact me before the exam. In most cases I will require students to provide me with additional documentation to justify why the student is unable to take the exam. Please note that a simple note indicating that you were seen at the health center the day of the exam does not, in and of itself provide sufficient documentation. Excuses will be granted if the student is unable to take the exam because of serious illness or injury, or a significant personal or professional commitment.
- Tardiness is at best a rude disruption to your fellow classmates who are punctual, and except for legitimate reasons (doctor's letter certifying illness for example), you are expected to attend all class sessions.
- Although there are no credits for attendance, ALL the students are expected to attend every single session. Absence will for sure be detrimental in the student's individual performance.

### **Early Warning:**

If you want to receive a good grade it is vital that you attend class and stay current with the material. If you miss a class for any reason it is up to you to obtain notes through someone else. I am more than happy to discuss finance (topics discussed either in class or ones that have special interest to you). However, do not expect me to repeat or summarize any lectures that you have missed. Average midterm and final examination grades typically fall

into the “6” range. To preemptively answer a question that you may have – *yes, this class is extremely difficult*. But hard continual work and dedication can ensure that you are well prepared for examinations when the time comes.

## 8 Course Outline<sup>1</sup>

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### 1. REVIEW OF CAPITAL INVESTMENT DECISIONS, RISK AND RETURN AND COST OF CAPITAL *Weeks 1, 2, 3 and 4.*

#### **a. Net Present Value and Other Investment Rules (Chap. 7) *Test***

*Why use Net Present Value?*  
*Payback period method*  
*Discounted payback period method*  
*Average accounting return method*  
*Internal rate of return (IRR)*  
*Major limitations of IRR method*  
*Independent and mutually exclusive projects*  
*Profitability index*  
*Assessing a long-term investment: A practical case*

#### **b. Return and Risk: The Capital Asset Pricing Model (CAPM) (Chap. 11)**

*Individual securities*  
*Expected return, variance, and covariance*  
*Return and risk of portfolios*  
*Efficient portfolio*  
*Systematic and unsystematic risk*  
*Diversification*  
*Capital Asset Pricing Model (CAPM)*

#### **c. Risk, Cost of Capital, and Capital Budgeting (Chapter 12) *Test***

*The cost of equity capital*  
*Beta coefficient and its determinants*  
*Discounted dividend model*  
*Weighted Average Cost of Capital (WACC)*  
*WACC and flotation costs*

### 2. CORPORATE FINANCIAL DECISIONS *Weeks 5, 6 and 7*

#### **a. Capital Structure: Basic Concepts (Chapter 14 & 15 –partially covered–)**

*Capital structure theories*  
*Financial leverage and firm value*  
*Modigliani and Miller: Proposition II (world without taxes)*  
*Taxes*  
*Signaling effect*  
*Underinvestment problems: A note on agency cost of equity*  
*Pecking order theory*  
*How firm establish capital structure*

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<sup>1</sup> This schedule is subject to change. Eventual variations will be announced in class.

**b. Dividends and Other Payouts (Chapter 16) Test**

*Types of dividends*  
*Cash dividend payment*  
*Irrelevance of dividend policy*  
*Stock repurchase*  
*Taxation and dividends*  
*Dividend policy and real-world factors*  
*Clientele effect*  
*Stock dividends and stock splits*

**3. COMPANY VALUATION Weeks 8, 9, 10, 11, 12 and 13**

**a. An Overview of Value Creation**

*Loose Ends in Valuation: Distress, Dilution & Illiquidity*  
*DCF Valuations*

**b. Company Valuation: Principles and Practice**

*Relative valuation. First principles*  
*PE ratios*  
*Other earnings multiples*  
*Book value multiples*  
*Revenue multiples*  
*Asset based valuation*

**c. Merger and Acquisitions (Chapter 21) Test**

*The legal form of acquisitions*  
*Taxes and acquisitions*  
*Accounting and acquisitions*  
*Gains from acquisitions*  
*Financial side effects of acquisitions*  
*The cost of acquisition*  
*Divestitures and restructuring*

**4. ETHICAL DILEMMAS IN CORPORATE FINANCE Week 14**

*What is ethics?*  
*Ethics and corporate finance*  
*Corporate scandals and ethical issues*