



ISB - INTERNATIONAL SCHOOL OF BUSINESS

DEPARTMENT OF FINANCE
COURSE TITLE: CORPORATE FINANCE
COURSE CODE: BUAF300
3 Semester Credits

1. DESCRIPTION

This course provides an introduction to the theory, methods, and challenges of corporate finance. The main focus is on financing decisions and investment. The following topics are addressed: risk and return, asset markets and market efficiency, valuation, capital structure, capital budgeting, dividend policy, and derivative securities. Some consideration will also be given to financial management issues that multinational firms face, with an emphasis on the effects of currency denomination on financial decisions.

2. OBJECTIVES

Upon successful completion of this course students will have a general overview of financial topics, theories and techniques. They will be able to read and interpret financial data, to understand the implications of finance in the value of the business, to master specific techniques of financial planning and to assess the importance of leverage in the vision of value creation at business and corporate level.

Course topics include:

- Capital budgeting decisions and investment evaluations
- The financial tradeoff between risk and return
- The cost of capital and its importance in corporate evaluations
- The interactions between taxes, leverage and cost of capital and their impact on financial decisions
- The role of finance in the growth of the business
- The value of the firm and the market for mergers and acquisitions

3. REQUIREMENTS

There are no prerequisites for this course

4. METHOD

This course consists of lectures, class discussions, projects. Mediums for instruction used will include, but are not limited to, interactive and hands-on activities which challenge thought processes, academic texts and studies, videos, slides, guided problem solving, and experiential and/or field learning activities where applicable.

5. TEXTBOOK - FURTHER READINGS - RESOURCES

TEXTBOOK (Copy available at the university library):

R. Brealey, S. Myers, F. Allen, *Principles of Corporate Finance*, 12th Edition, McGraw Hill, 2017

The textbook is mandatory for successful completion of the course.

Where applicable, additional materials, handouts and/or notes will be provided by the instructor.

FURTHER READINGS

Aswarth Damodaran (NYU) online materials are strongly recommended.

LIBRARIES IN FLORENCE

Please consult the posted schedules for official opening times of the university library. Also note that the library is for consultation only and it is not possible to borrow materials. The library is equipped with a scanner and internet access so that you may save or email a digital copy of the pages needed.

Students may also utilize additional libraries and research centers within the local community:

BIBLIOTECA PALAGIO DI PARTE GUELFA

Located in Piazzetta di Parte Guelfa between Piazza della Repubblica and Ponte Vecchio. Please consult the library website for hours of operation:

http://www.biblioteche.comune.fi.it/biblioteca_palagio_di_parte_guelfa/

BIBLIOTECA DELLE OBLATE

Located in via dell'Oriuolo 26. Please consult the library website for hours of operation:

www.bibliotecadelleoblate.it

THE HAROLD ACTON LIBRARY AT THE BRITISH INSTITUTE OF FLORENCE

Located in Lungarno Guicciardini 9. Please consult the library website for hours of operation. This library requires a fee-based student membership. For information: www.britishinstitute.it/en

6. FIELD LEARNING

Please consult your Official Registration for any mandatory field learning dates. Field Learning Activities cited in Official Registrations are an integral part of the course and also include an assignment that counts towards your final grade, details will be provided on the first day of class.

7. COURSE MATERIALS

No additional course materials are necessary.

8. COURSE FEES

Course fees cover course-related field learning activities, visits, and support the instructor's teaching methodologies. Book costs are not included in the course fee. The exact amount will be communicated by the instructor on the first day of class.

9. EVALUATION - GRADING SYSTEM

10% Attendance

15% Class Participation, Homework and Reading

15% Assignments

20% Midterm Exam (Special/Research project in intensive sessions)

15 % Final Project

25 % Final Exam

A = 93-100 %, A- = 90-92%, B+= 87-89%, B = 83-86%, B-=80-82%, C+ = 77-79%, C=73-76%, C- =70-72%, D = 60-69%, F= 0-59%, W = Official Withdrawal, W/F = Failure to withdraw by the designated date.

10. ATTENDANCE - PARTICIPATION

Academic integrity and mutual respect between instructor and student are central to the academic policy and reflected in the attendance regulations. Student presence is mandatory and counts toward the final grade.

Absences are based on academic hours: 1 absence equals 3 lecture hours.

Two absences: 6 lecture hours, attendance and participation grade will be impacted.

Three absences: 9 lecture hours, the final grade may be lowered by one letter grade.

Four absences: 12 lecture hours, constitutes automatic failure of the course regardless of when absences are incurred.

Please note:

- The above hours refer to lecture hours. Please note that the contact / credit hour policy in the academic catalog includes additional distribution ratios according to delivery category. Ex: 1 absence equals 6 FL/SL/Lab hours or 9 EL hours.

- Hours may be distributed in different formats according to the academic course schedules.

LATE ARRIVAL AND EARLY DEPARTURE

Arriving late or departing early from class is not acceptable. Two late arrivals or early departures or a combination will result in an unexcused absence. Travel is not an exceptional circumstance.

TRAVEL (OR DELAYS DUE TO TRAVEL) IS NEVER AN EXCUSE FOR ABSENCE FROM CLASS.

It is the student's responsibility to know how many absences are incurred. If in doubt, speak with your instructor!

Participation: Satisfactory participation will be the result of contributing to class discussions by putting forth insightful and constructive questions, comments and observations. Overall effort, cooperation during group work, proper care of work space and tools, responsible behavior, and completion of assignments will be assessed. All of the above criteria also apply to Field Learning and site visits.

11. EXAMS - PAPERS - PROJECTS

Attendance and participation

Satisfactory participation will be the result of contributing to class discussions by putting forth insightful and constructive questions, comments and observations. Overall effort, cooperation during group work and in-class activities, responsible behavior, and completion of assignments will be assessed.

Reading and quizzes

Along with participation, reading accounts for 15% of the final course grade. Reading of the text book is mandatory for successful completion of the course, further reading is highly recommended. Regular reading quizzes have been designed to ensure that you are completing the reading and engaging in active learning and critical thinking about course concepts outside of class. They are also designed to help you prepare for the final exam in manageable increments. Quizzes may be open-note, which means you may use your notes to assist you in taking the quiz. Notes must be originals (not photocopied) and in your own handwriting. Quizzes will NOT be open book.

Exams

The **Midterm** and the **Final** exam account for 20 and 25% of the final course grade

Format (for both exams): the exam is divided into four sections:

- Multiple choice questions.

- True-false questions
- Short-answer questions (concise explanations, main ideas, key words, names, etc.)
- Essay questions

Please note, the instructor may use a different format for the exam. TBA on the first lesson.

Remember that the date and time of the exams cannot be changed for any reason, so please organize your personal activities accordingly and consult the course calendar.

12. LESSONS

Lesson 1	
Meet	In class
Lecture	Course overview, assignments and expectations. Introduction to Corporate Finance. Corporate Investment and Financing Decisions. The financial goal of the corporation. How to calculate present values. The financial value of time.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Demonstrate an understanding of the course content, objectives, assignments and expectations - Understand the financial goals of a corporation - Calculate future values, present values, evaluate an investment opportunity - Calculate NPV - Be familiar with perpetuities and annuities
Reading	Textbook, Chapter 1; Chapter 2.1-2.4

Lesson 2	
Meet	In class
Lecture	Valuing bonds using the present value formula. The term structure of interest rates. Real and nominal interest rates. Corporate bonds and default risk. Sovereign bonds and default risk.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Apply the PV formula to price bonds - Understand the term structure of interest rates - Understand the difference between interest rate risk and default risk
Homework/ Assignments	Assignment #1 (Review the course website)
Reading	Textbook, Chapter 3

Lesson 3	
Meet	In class
Lecture	Net Present Value and other investment criteria. Payback period. Discounted payback. Internal Rate of Return. The IRR rule. Capital budgeting: investing with limited resources.

Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Compare different investment criteria - Understand the dynamics of IRR - Choose among competing investment projects
Homework/Assignments	Assignment #2 (Review the course website)
Reading	Textbook, Chapter 5

Lesson 4	
Meet	In class
Lecture	Estimating cash flows for the NPV rule. A practical case
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Build the relevant cash flows that will be used for capital budgeting decisions - Understand the difference between monetary and non-monetary items - Become familiar with the concept of net working capital
Homework/Assignments	Assignment #3 (Review the course website)

Lesson 5	
Meet	In class
Lecture	Risk, return and the cost of capital. Measuring portfolio risk: the benefit of diversification. Market risk and the concept of beta. Portfolio theory and CAPM: building the efficient portfolio. Class discussion of assigned case.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Fully understand the tradeoff between risk and return in finance - Master the concept of diversification and the benefit in terms of risk reduction - Make efficient investment decisions choosing among competing portfolios of financial assets
Homework/Assignments	Case study (group assignment)

Lesson 6	
Meet	In class
Lecture	Valuing common stocks. Price/earning (P/E) ratio. Price to book value. Estimating the cost of equity capital. The link between stock price and earnings per share (EPS). Calculating the present value of growth opportunities. Valuing a business by discounted cash flows. Estimating horizon value

Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Master the concept of P/E ratio and price to book value - Understand the equity cost of capital - Value a business by discounted cash flow - Understand the horizon value
Homework/Assignments	Assignment #4 (Review the course website)
Reading	Textbook, Chapter 4

Lesson 7	
Meet	In class
Lecture	MIDTERM EXAM

Lesson 8	
Meet	In class
Lecture	ACADEMIC BREAK

Lesson 9	
Meet	In class
Lecture	Financial analysis: reading financial statements and working out financial ratios. The balance sheet and the income statement with a financial perspective. Measuring efficiency, performance, leverage from financial statements. Financial planning: link between short-term and long-term decisions. Cash planning.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Demonstrate familiarity with the most common financial ratio - Assess efficiency, performance, leverage, and liquidity from financial statements - Demonstrate an understanding of the mechanism of cash planning, be able to read and possibly prepare a financial plan

Lesson 10	
Meet	In class
Lecture	Cash flow estimate and projection. The statement of cash flows. From accounting to finance. Projection cash flows to estimate the value of the firm.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Demonstrate and understand the statement of cash flow - Build a projection of financial flows

Lesson 11	
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Meet	In class
Lecture	Introducing the company cost of capital. Estimating cost of equity using beta. What beta conceptually is. The effect of financial leverage: does debt matter? Modigliani-Miller I and II. Calculating WACC and tax-adjusted WACC
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Demonstrate an understanding of the concept of WACC - Display knowledge of Modigliani-Miller I and II - Demonstrate an understanding of the impact of financial leverage
Homework/Assignments	Assignment #6 (Review the course website)

Lesson 12	
Meet	In class
Lecture	Financial structure and the value of the firm. Splitting corporate value into business units. Valuing the firm Case discussion: the Walt Disney case.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Demonstrate familiarity with corporate valuation - Assess the value of the business units by discounting future cash flows - Value a multi-business corporation

Lesson 13	
Meet	In class
Lecture	Mergers, acquisitions and corporate restructuring. Sensible motives and dubious motives for mergers. Estimating mergers gains and costs. Right and wrong ways to estimate gains and costs. Proxy fights, takeovers and the market for corporate control. Leveraged buyouts and restructuring. Private equity.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Demonstrate an understanding of the rationale behind mergers and acquisitions - Estimate merger gains and costs - Display familiarity with the concept of leveraged buyouts - Explain how private equity and venture capital work - Display knowledge of corporate restructuring
Homework/Assignments	Assignment #7 (Review the course website)

Lesson 14	
Meet	In class

Lecture	Orangina-Lion case (Harvard Business Review): case study discussion. Students will discuss in group a previously assigned business case regarding a real example of corporate acquisition from a private equity investor.
Objectives	By the end of this class students will be able to: <ul style="list-style-type: none"> - Apply evaluation techniques to a real case - Demonstrate an understanding of the logic of private equity

Lesson 15	
Meet	In class
Lecture	FINAL EXAM