



## Lahore University of Management Sciences

### FINN 400 – Applied Corporate Finance

Fall Semester 2017

(Tentative-Under review)

Instructor	Dr. Fazal Jawad Seyyed, CFA
Room No.	SDSB-307
Office Hours	TBA
Email	<a href="mailto:fazal.jawad@lums.edu.pk">fazal.jawad@lums.edu.pk</a>
Telephone	042-3560-8030
Secretary/TA	Bilal Hassan Alvi
TA Office Hours	TBA
Course URL (if any)	<a href="http://suraj.lums.edu.pk/~ro/">http://suraj.lums.edu.pk/~ro/</a>

#### COURSE BASICS

Credit Hours	3			
Lecture(s)	Nbr of Lec(s) Per Week	2	Duration	
Recitation/Lab (per week)	Nbr of Lec(s) Per Week		Duration	
Tutorial (per week)	Nbr of Lec(s) Per Week		Duration	

#### COURSE DISTRIBUTION

Core	ACF - Core
Elective	
Open for Student Category	
Close for Student Category	

#### COURSE DESCRIPTION

**Course Description:** Applied Corporate Finance is a case-based course in intermediate level finance. It provides insights into the role of the financial manager, whose primary responsibility consists of acquiring funds needed by the firm and directing these funds into projects that will maximize the value of the firm for its shareholders. In reaching this objective, financial managers perform a variety of tasks such as financial analysis and forecasting of cash flows; analysis of working capital; project evaluation and risk analysis; evaluating financing choices available to the firm; valuation of financial and real assets including valuation of M&A candidates, and cross-border transactions involving foreign currencies and global financial markets.

**Course Focus and Modules:** As an applied course, the focus is on: (a) application of financial concepts, models, and tools to address typical problems faced by financial managers, (b) examining financial theories and concepts in light of corporate practices and empirical evidence for better understanding of the critical success factors and processes related to financing, investment, and payout decisions of firms, and (c) interaction of financing and investment decisions and how they interface with capital markets and impact firm value.

**The course is divided into following four modules:**

Module 1: Overview of Financial Analysis and Financial Forecasting  
Module 2: Cost of Capital, Capital Budgeting, and Resource Allocation  
Module 3: Financing, Capital Structure, and Dividend Policy Decisions  
Module 4: Firm Valuation, M&A, and Special Topics in Finance

#### COURSE PREREQUISITE(S)

FINN 200	Intermediate Finance
----------	----------------------



## Lahore University of Management Sciences

### COURSE LEARNING OUTCOMES (CLO)

	<p><b>Upon successful completion of the course, students should be able to:</b></p> <ol style="list-style-type: none"> <li>1. Demonstrate understanding of the fundamental concepts, mainstream theories, and practices in corporate finance;</li> <li>2. Analyze financing and investment choices faced by financial managers based on financial theories and empirical evidence;</li> <li>3. Apply relevant financial concepts, tools, and theories to critically analyze and evaluate business problems/financial decisions and recommend action consistent with the objective of creating value for shareholders;</li> <li>4. Evaluate the interaction of firm specific variables with wider economic and financial factors in the securities markets and its impact on firm's choices;</li> <li>5. Discuss and debate a variety of topics in finance relevant to financial managers including the ethical and global perspectives in making financial decisions;</li> <li>6. Present and defend their analysis and recommendations effectively, both in oral and written forms. (General Learning Goal)</li> </ol>
--	---

### UNDERGRADUATE PROGRAM LEARNING GOALS & OBJECTIVES

	<p><b><u>General Learning Goals &amp; Objectives</u></b></p> <p><b>Goal 1 –Effective Written and Oral Communication</b>  <b>Objective:</b> Students will demonstrate effective writing and oral communication skills</p> <p><b>Goal 2 –Ethical Understanding and Reasoning</b>  <b>Objective:</b> Students will demonstrate that they are able to identify and address ethical issues in an organizational context.</p> <p><b>Goal 3 – Analytical Thinking and Problem Solving Skills</b>  <b>Objective:</b> Students will demonstrate that they are able to identify key problems and generate viable solutions.</p> <p><b>Goal 4 – Application of Information Technology</b>  <b>Objective:</b> Students will demonstrate that they are able to use current technologies in business and management context.</p> <p><b>Goal 5 – Teamwork in Diverse and Multicultural Environments</b>  <b>Objective:</b> Students will demonstrate that they are able to work effectively in diverse environments.</p> <p><b>Goal 6 – Understanding Organizational Ecosystems</b>  <b>Objective:</b> Students will demonstrate that they have an understanding of Economic, Political, Regulatory, Legal, Technological, and Social environment of organizations.</p> <p><b><u>Major Specific Learning Goals &amp; Objectives</u></b></p> <p><b>Goal 7 (a) – Program Specific Knowledge and Understanding</b>  <b>Objective:</b> Students will demonstrate knowledge of key business disciplines and how they interact including application to real world situations. (including subject knowledge)</p> <p><b>Goal 7 (b) – Understanding the “science” behind the decision-making process (for MGS Majors)</b>  <b>Objective:</b> Students will demonstrate ability to analyze a business problem, design and apply appropriate decision-support tools, interpret results and make meaningful recommendations to support the decision-maker</p>
--	---



## Lahore University of Management Sciences

Indicate below how the course learning objectives/outcomes specifically relate to any program learning goals and objectives.

PROGRAM LEARNING GOALS AND OBJECTIVES	COURSE LEARNING OBJECTIVES	COURSE ASSESSMENT ITEM
Goal 1 –Effective Written and Oral Communication	Students get a number of opportunities to demonstrate their ability to communicate effectively <b>(CLO #6)</b>	CP, Cases, and Exam
Goal 2 –Ethical Understanding and Reasoning	Ethical perspectives in some of the case studies are highlighted <b>(CLO #5)</b>	Cases and Exam (minor component)
Goal 3 – Analytical Thinking and Problem Solving Skills	<b>Major Goal:</b> Analytical thinking and problem solving skills are essential for success in this course <b>(CLO #1-4)</b>	CP, Quizzes, Assignments, Cases, and Exam
Goal 4 – Application of Information Technology	Application of information technology in preparing cases analyses and assignments	Assignments, Cases
Goal 5 – Teamwork in Diverse and Multicultural Environments	Students work in groups of 3-4 persons each to prepare case analyses and case briefs. Most case settings are global and multicultural.	Cases
Goal 6 – Understanding Organizational Ecosystems	Develop students understanding of the interaction of firm specific variables with the securities markets, industry, and the economy <b>(CLO #4)</b>	CP, Quizzes, Assignments, Cases, and Exam
Goal 7 (a) – Program Specific Knowledge and Understanding <b>(Subject Knowledge)</b>	<b>Major Goal:</b> Comprehensive coverage of topics in Applied Corporate Finance <b>(CLO #1-5)</b>	CP, Quizzes, Assignments, Cases, and Exam
Goal 7 (b) – Understanding the “science” behind the decision-making process	NA	NA

### GRADING BREAKUP AND POLICY

*The course grade is based on the following criteria:*

Source	% of Total
Class Participation	15
Quizzes/Assignments	30
Mid-Term Exam	25
Final Examination ( <b>comprehensive</b> )	30
<b>Total</b>	<b>100</b>

**Class Participation and Attendance:** Students are expected to attend all classes. If you are not present at the beginning of a class or leave class during the session without instructor’s prior permission, you will be considered absent for the day. You must review the assigned materials in advance of the class in order to contribute meaningfully to class discussions.

**Quizzes:** Several unannounced quizzes will be given on the assigned material (readings, cases assignments, etc.) during the term. No make-up quizzes will be given. However, the lowest quiz grade including a zero for a missed quiz will be disregarded.

**Assignments:** Spreadsheet-based assignments are designed to sharpen your financial analysis skills. The format and other requirements will be specified by the instructor. All assignments must be submitted on the due date. Late submissions will not be accepted.

**Examination:** Both exams (mid-term and final) will comprise a blend of MCQs and open-ended questions, caselets, or case-like situations.

**Calculator Requirement:** You will need a financial calculator capable of performing present value/future value functions. For example, Texas Instrument BA II meets these criteria. Many other brands are equally suitable for this course.



## Lahore University of Management Sciences

EXAMINATION DETAIL	
Midterm Exam	Yes/No: <b>Yes</b> Combine/Separate: - <b>Combined</b> Duration: - <b>3 Hours</b> Preferred Date: - Exam Specifications: <b>Financial calculator and 1-Page A-4 size formula sheet is allowed</b>
Final Exam	Yes/No: <b>Yes</b> Combine Separate: Duration: <b>3 Hours</b> Exam Specifications: <b>Financial calculator and 1-Page A-4 size formula sheet is allowed</b>

COURSE SCHEDULE			
MODULE/ SESSION	SESSION TOPIC AND CASE	READING MATERIAL	SESSION OUTCOME(S) (STUDENTS WILL BE ABLE TO ...)
<b>Module 1: Overview of Financial Analysis and Financial forecasting</b>			
<b>Session 1</b>	<b>Topic:</b> Overview of Corporate Finance  <b>Reading:</b> Note to the Student: How to Study and Discuss Cases	<ul style="list-style-type: none"> <li>RWJ Ch 1: Introduction to Corporate Finance (Optional)<sup>1</sup></li> </ul>	-Appreciate the scope of corporate finance and how finance can be a source of value for a firm. (CLO # 1) -Understand how to study and benefit from the case method approach. (CLO # 1-6)
<b>Session 2</b>	<b>Topic:</b> Analyzing the Firms Operations and Environment  <ul style="list-style-type: none"> <li><b>Case:</b> Z-Factor Rescue by the Numbers</li> </ul>	<ul style="list-style-type: none"> <li>BS Chapter 6: Analyzing the Firm's Operations</li> </ul>	Analyze the firm's operations and its environment. (CLO # 1)
<b>Session 3</b>	<b>Topic:</b> Financial Analysis & Performance Assessment  <b>Case:</b> Krispy Kreme Doughnuts, Inc.; BES #8	<ul style="list-style-type: none"> <li>BS Chapter 6: Analyzing the Firm's Operations</li> </ul>	Examine linkages between corporate strategy and firm's performance. (CLO # 1)
<b>Session 4</b>	<b>Topic:</b> Free Cash Flows and Building Financial Models  <b>Case:</b> The Thoughtful Forecaster, BES #6	<ul style="list-style-type: none"> <li>BS Chapter 4: Building Pro-Forma Financial Statements</li> </ul>	Estimate and forecast free cash flows and its applications in building financial models for valuation. (CLO # 1)
<b>Session 5</b>	<b>Topic:</b> Financial Analysis & Forecasting  <b>Case:</b> The Body Shop International PLC 2001: An Introduction to Financial Modeling; BES #9	<ul style="list-style-type: none"> <li>BS Chapter 4: Building Pro-Forma Financial Statements</li> </ul>	Evaluate firm's health and forecast performance. (CL # 1)
<b>Session 6</b>	<b>Topic:</b> Corporate Financial Strategy and Financial Markets  <b>Case:</b> Bill Miller and Value Trust; BES #2	<ul style="list-style-type: none"> <li>Market Efficiency</li> </ul>	Understand linkages between corporate financial strategy and financial markets. (CLO # 5)



## Lahore University of Management Sciences

### Module 2: Cost of Capital, Capital Budgeting, and Resource Allocation

<b>Session 7</b>	<b>Topic:</b> Cost of Capital – Theory and Practice  <b>Case:</b> Roche Holding Ag: Funding the Genentech Acquisition; BES # 14	<ul style="list-style-type: none"> <li>BS: Capital Structure and Cost of Capital</li> </ul>	Examine various approaches and issues in estimating cost of capital of a firm. (CLO # 1)
<b>Session 8</b>	<b>Topic:</b> Estimating Cost of Capital of the Firm  <b>Case:</b> Nike, Inc.: Cost of Capital; BES # 15	<ul style="list-style-type: none"> <li><b>Survey:</b> “Best Practices” in Estimating the Cost of Capital: An Update, 2013.</li> </ul>	Apply theory and insights from practice to estimate a firm’s cost of capital. (CLO # 3,6)
<b>Session 9</b>	<b>Topic:</b> Multifaceted Capital Investment Decisions  <b>Case:</b> The Investment Detective BES # 18	<ul style="list-style-type: none"> <li>RWJ Ch 6-7: Making Capital Investment Decisions and Risk in Capital Budgeting (Optional)</li> </ul>	Plan and evaluate multifaceted capital investment projects. (CLO # 2,3)
<b>Session 10</b>	<b>Topic:</b> Capital Budgeting – Relevant Cash Flows <b>Case:</b> Victoria Chemicals plc (A): The Merseyside Project; BES # 24	RWJ Ch 6-7: Making Capital Investment Decisions and Risk in Capital Budgeting (Optional)	Estimate relevant cash flows to evaluate capital project(s) of a firm. (CLO # 2,3,6)
<b>Session 11</b>	<b>Topic:</b> Risk in Capital Budgeting  <b>Case:</b> The Procter and Gamble Company - BES # 23	<ul style="list-style-type: none"> <li>RWJ Ch 18: Valuation and Capital Budgeting for the Levered Firm (Optional)</li> </ul>	Apply scenario analysis in capital project decision. (CLO # 2,3)
<b>Session 12</b>	<b>Topic:</b> Working Capital Management Policies  <b>Case:</b> Dell’s Working Capital	<ul style="list-style-type: none"> <li>RWJ Ch 26-28: Short-Term Financing, Cash, Receivable and Inventory Management (Optional)</li> </ul>	Appraise a firm’s working capital policies and short-term financing requirements. (CLO # 1, 2,3)

### Module 3: Financing, Capital Structure, and Dividend Policy Decisions

<b>Session 13</b>	<b>Topic:</b> Structuring Corporate Financial Policy  <b>Case:</b> Structuring Corporate Financial Policy; BES # 32	<ul style="list-style-type: none"> <li>BS: Capital Structure and Cost of Capital</li> </ul>	Examine and evaluate various financing choices available to modern corporations and their impact on firm value. (CLO # 2,3)
<b>Session 14</b>	<b>Topic:</b> Analysis of Leverage Restructuring  <b>*Case:</b> The Wm Wrigley Jr. Co.; BES # 34	<ul style="list-style-type: none"> <li>BES: An Introduction to Debt Policy and Value (#31)</li> </ul>	Analyze change in capital structure and its impact on firm’s value. (CLO # 2,3,4,6)
<b>Session 15</b>	<b>Topic:</b> Financial Flexibility and Alternative Sources of Financing  <b>Case:</b> Deluxe Corp.; BES # 35	<ul style="list-style-type: none"> <li>BES: Structuring Corporate Financial Policy (#32)</li> </ul>	Understand the value of financial flexibility and its impact. (CLO # 3,4)
<b>Session 16</b>	<b>Topic:</b> Introduction to Leasing	<ul style="list-style-type: none"> <li>RWJ Ch 21: Leasing (Optional)</li> </ul>	Understand leasing as an alternative to corporate borrowing. (CLO # 2,3)
<b>Session 17</b>	<b>Topic:</b> Lease Financing Analysis  <b>*Case:</b> Primus Automation Division, 2002- BES # 40	<ul style="list-style-type: none"> <li>RWJ Ch 21: Leasing (Optional)</li> </ul>	Evaluate lease financing as an alternative to borrowing. (CLO # 2,3,6)



## Lahore University of Management Sciences

<b>Session 18</b>	<b>Topic:</b> Dividends and Alternative Payouts  <b>Case:</b> Gainesboro Machine Tools Corporation - BES # 29	<ul style="list-style-type: none"> <li>RWJ Ch 19: Dividend and other Payouts (Optional)</li> </ul>	Evaluate corporate dividend policies in light of finance theory and business practices. (CLO # 2,3)
<b>Module 4: Firm Valuation, M&amp;A, and Special Topics in Finance</b>			
<b>Session 19</b>	<b>Topic:</b> Alternative Methods of Firm Valuation  <b>Case:</b> Methods of Valuation for Mergers and Acquisitions – BES #42	<ul style="list-style-type: none"> <li>BS: Valuation by Multiples</li> </ul>	Understand alternative methods of firm valuation. (CLO # 3)
<b>Session 20</b>	<b>Topic:</b> Valuation of the Firm  <b>Case:</b> American Greetings – BES #43	<ul style="list-style-type: none"> <li>BS: Valuation by Multiples</li> </ul>	Apply free cash flows and market multiples approaches to value a firm. (CLO # 2,3,6)
<b>Session 21</b>	<b>Topic:</b> Raising Capital Through Public Offerings: IPO Valuation	<ul style="list-style-type: none"> <li>RWJ Ch 20: Issuing Securities to the Public (Optional)</li> </ul>	Understand why companies go public. (CLO # 2,3,6)
<b>Session 22</b>	<b>Topic: The IPO Process</b>  <b>Case:</b> The First Meat Sector IPO: Al Shaheer Corporation, LUMS	<ul style="list-style-type: none"> <li>RWJ Ch 20: Issuing Securities to the Public (Optional)</li> </ul>	Understand the IPO process and apply valuation techniques in an initial offering. (CLO # 2,3,6)
<b>Session 23</b>	<b>Topic:</b> Introduction to Adjusted Present Value (APV)  <b>Case:</b> Using APV: A Better Tool for Valuing Operations	<ul style="list-style-type: none"> <li>RWJ Ch 18: Valuation and Capital Budgeting for the Levered Firm (Optional)</li> </ul>	Understand adjusted present value (APV) and its applications as an alternative to WACC based valuation. (CLO # 1,5)
<b>Session 24</b>	<b>Topic:</b> Merger and Acquisition Evaluation  <b>Case:</b> Sun Microsystems; BES # 48	<ul style="list-style-type: none"> <li>BES # 42: Methods of Valuation for Mergers and Acquisitions)</li> </ul>	Apply various valuation methods to appraise merger and acquisition candidates. (CLO # 3,6)
<b>Session 25</b>	<b>Topic:</b> Financial Distress and Corporate Restructuring  <b>Case:</b> Massey Ferguson, 1980	<ul style="list-style-type: none"> <li>RWJ Ch 30: Financial Distress and Restructuring (Optional)</li> </ul>	Appreciate special situations such as financial distress that typically require corporate restructuring & reassessment. (CLO # 5)
<b>Session 26</b>	<b>Topic:</b> International Corporate Finance – Currency Risk Management  <b>Case:</b> Carrefour S.A. – BES #37 (CDC)	<ul style="list-style-type: none"> <li>RWJ Ch 31: International Corporate Finance (Optional)</li> </ul>	Appreciate issues and complexities in evaluating cross border investing and financing alternatives. (CLO # 5)
<b>Session 27</b>	<b>Topic:</b> Ethical Perspectives in Finance  <b>Case:</b> Ethics in Finance Final Exam Review		Understand the ethical perspective in financial decisions and its implications for firm value. (CLO # 5)
<b>Sessions 28</b>	<b>Final Exam Review</b>		
<p><sup>1</sup><b>Note:</b> Reading material designated as “Optional” is not part of the study pack. You may use any standard Corporate Finance textbook of your choice to review the session topic.</p>			



## Lahore University of Management Sciences

### TEXTBOOK(S)/SUPPLEMENTARY READINGS

#### **Casebook:**

Bruner, Eades, and Schill, *Case Studies in Finance: Managing for Corporate Value Creation*, 7<sup>th</sup> Edition, McGraw Hill/Irwin Series in Finance, 2014. (BES)

#### **Textbook:**

No specific textbook is required for this course. You may use any standard corporate finance textbook to review the assigned topic. A number of corporate finance textbooks are listed below. The course schedule refers to relevant chapters from *Corporate Finance* by Ross, Westerfield, and Jaffe (RWJ) for your convenience (indicated as “Optional”). Material indicated as “Optional” is not mandatory reading. You can substitute this material with any textbook of your choice. The study pack does not contain readings designated as “Optional”.

#### **Reference Books:**

- Ross, Westerfield and Jaffe, ***Corporate Finance***, 9<sup>th</sup> Edition, McGraw Hill, 2010. **(RWJ)**
- Benninga, Simon and Sarig, *Corporate Finance: A valuation Approach*, McGraw-Hill, 1997. **(BS)**
- Brigham, Eugene and Daves, P., *Intermediate Financial Management*, 8<sup>th</sup> (or a later edition), Thomson, South Western.
- Brealey, Myers, and Allen, *Principles of Corporate Finance*, 8<sup>th</sup> Edition, McGraw-Hill/Irwin, 2006.

#### **Additional Recommended Readings:**

Students are encouraged to read financial publications such as The Wall Street Journal, Financial Times; Business Recorder to stay abreast of developments related to this course.