

FINS 3625 APPLIED CORPORATE FINANCE

Course Outline Semester 2, 2017

Course-Specific Information

The Business School expects that you are familiar with the contents of this course outline. You must also be familiar with the School's Course Outlines Policies webpage which contains key information on:

- Program Learning Goals and Outcomes
- Academic Integrity and Plagiarism
- Student Responsibilities and Conduct
- Special Consideration
- Student Support and Resources

This webpage can be found on the Business School website:

<https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>

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COURSE-SPECIFIC INFORMATION

1 STAFF CONTACT DETAILS

Lecturer-in-charge: Asfandiyar Uppal

Room BUS 339

Email: asfandiyar.uppal@unsw.edu.au

Consultation Times – Thursday 9am to 11am (or by appointment)

Tutor contact details will be made available during the first week of tutorials.

A full list of tutors will be posted on Course Website.

2 COURSE DETAILS

2.1 Teaching Times and Locations

Lectures start in Week 1(to Week 12): The Time and Location are:
Thursday 11am to 1pm at Science Theatre

Tutorials start in Week 2 (to Week 13). A full list of tutorials, times and tutors will be on the Course Website.

2.2 Units of Credit

The course is worth 6 units of credit.

2.3 Summary of Course

This course concentrates on issues and analytical problems relating to Mergers & Acquisitions, Debt Capital Markets and Equity Capital Markets. It uses case studies, textbook, journal articles and current events to illustrate key decisions made by managers, investment bankers, investors and regulators. The course also seeks to develop students' ability to make, articulate and defend their judgments in a realistic setting both orally and in writing.

2.4 Course Aims and Relationship to Other Courses

This course focuses on the application and further development of financial concepts first introduced in FINS1613 Business Finance in the corporate finance setting. It applies finance theory for the purposes of valuating businesses and understanding corporate financial transactions.

FINS1613 is necessary, but not sufficient, to perform well in this course. This course assumes that students are well-versed in the topics covered in FINS1613 at the level expected from those who finished in the top quartile of their class. The instructor will not devote lecture time to review FINS1613 material.

2.5 Student Learning Outcomes

Upon completion of this course you should be able to

1. Forecast and evaluate corporate cash flows;
2. Estimate the cost of capital;
3. Apply the multiples and discounted cash flow methods to value business;
4. Discuss the motivations, payoffs, regulation and procedures in corporate mergers and acquisitions;

5. Compute a project's free cash flows by identifying Incremental and Relevant Cash Flow and evaluate NPV analysis from a risk management perspective.
6. Apply the incremental cash flow approach to compute a project's NPV and analyze project risks.
7. Understand qualitatively and quantitatively the major features of preferred shares, warrants and convertible securities and why firms may decide to use these hybrid securities to raise capital.
8. Explain the process, costs and issues related to initial public offerings, seasoned equity offerings, rights offerings and their evidence on the value of the firm and shareholders' wealth.
9. Quantitatively show the effects of financial leverage on the risks and returns of the firm's equity, debt and real assets in the presence and absence of tax shields and bankruptcy costs.
10. Describe the different ways the firm distributes cash to shareholders, their motivation and effects on shareholder's wealth and understand how firms establish dividend payout policies.
11. Analyse and present a case study and respond to questions professionally as a team.

The Course Learning Outcomes are what you should be able to DO by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

The Learning Outcomes in this course also help you to achieve some of the overall Program Learning Goals and Outcomes for all undergraduate students in the Business School. Program Learning Goals are what we want you to BE or HAVE by the time you successfully complete your degree (e.g. 'be an effective team player'). You demonstrate this by achieving specific Program Learning Outcomes - what you are able to DO by the end of your degree (e.g. 'participate collaboratively and responsibly in teams').

For more information on Program Learning Goals and Outcomes, see the School's Course Outlines Policies webpage available at <https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>

Business Undergraduate Program Learning Goals and Outcomes

1. Knowledge: Our graduates will have in-depth disciplinary knowledge applicable in local and global contexts.

You should be able to select and apply disciplinary knowledge to business situations in a local and global environment.

2. Critical thinking and problem solving: Our graduates will be critical thinkers and effective problem solvers.

You should be able to identify and research issues in business situations, analyse the issues, and propose appropriate and well-justified solutions.

3. Communication: Our graduates will be effective professional communicators.

You should be able to:

- a. Prepare written documents that are clear and concise, using appropriate style and presentation for the intended audience, purpose and context, and
- b. Prepare and deliver oral presentations that are clear, focused, well-structured, and delivered in a professional manner.

<p>4. Teamwork: Our graduates will be effective team participants. You should be able to participate collaboratively and responsibly in teams, and reflect on your own teamwork, and on the team's processes and ability to achieve outcomes.</p> <p>5. Ethical, social and environmental responsibility: Our graduates will have a sound awareness of the ethical, social, cultural and environmental implications of business practice. You should be able to:</p> <ol style="list-style-type: none"> Identify and assess ethical, environmental and/or sustainability considerations in business decision-making and practice, and Identify social and cultural implications of business situations.

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed (they may also be developed in tutorials and other activities):

Program Learning Goals and Outcomes		Course Learning Outcomes	Course Assessment Item
<i>This course helps you to achieve the following learning goals for all Business undergraduate students:</i>		<i>On successful completion of the course, you should be able to:</i>	<i>This learning outcome will be assessed in the following items:</i>
1	Knowledge	Understand and apply the set of tools needed in corporate decision making.	<ul style="list-style-type: none"> Tutorial Problems In-tutorial sessions Midterm Exam Final Exam
2	Critical thinking and problem solving	Be able to apply the knowledge and the tools acquired in FINS 3625 in any corporate financing and investment setting.	<ul style="list-style-type: none"> Tutorial Problems In-tutorial sessions Case Studies Midterm Exam Final Exam
3a	Written communication	Communicate finance related ideas in a theoretically and applicably sound manner.	Analyst Research Reports
3b	Oral communication	Communicate finance related ideas in a theoretically and applicably sound manner.	<ul style="list-style-type: none"> Analyst Research Report Participation in case study discussions Participation in tutorials
4	Teamwork	Participate collaboratively and responsibly in teams for the goal of achieving outcomes	<ul style="list-style-type: none"> Case Studies

5a.	Ethical, social and environmental responsibility	N/A	Not specifically assessed
5b.	Social and cultural awareness	N/A	Not specifically assessed

3 LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course

We take an application based approach to learning in this course. Key emphasis is on using theory in an applied context with realistic situations

3.2 Learning Activities and Teaching Strategies

Key learning activities will be through lectures, tutorial participation and case study assignments. We will also be using some MS Excel Spreadsheet exercises to better develop practical skills and implementation of theory in realistic work situations.

4 ASSESSMENT

4.1 Formal Requirements

In order to pass this course, you must:

- achieve a composite mark of at least 50; and
- make a satisfactory attempt at all assessment tasks (see below).

4.2 Assessment Details

The assessment tasks and their weighting in your composite mark are as follows:

Assessment Task	%	Length	Due Date
Tutorial Participation	10	Ongoing	Week 13
Case Study Presentation	7.5	30 minutes	TBD
Analyst Research Report and Financial Model	7.5	3 pages / 5 Sheets	TBD
Mid Session Exam	30	1:50 Hours	Week 9
Final Exam	40	2 Hours	University Exam Period

Tutorials

Tutorials in this course are 1-hour long and held weekly (weeks 2-13). Tutorials are composed of two major parts:

- 1) Group case study presentations, and
- 2) Assigned problem solving from textbook questions.

Due to time constraints and the need to cover all the relevant material, students are strongly encouraged to report to tutorials on time.

In the case study component, students are required to form groups of 6 members to analyse and present and discuss a case. Groups are to be finalized and reported to the tutor in week 2 tutorial. Tutors will assign groups for students without a group. Groups to select an ASX200 company to be their case.

Group members play the role of investment banker analysing and presenting to a major fund manager to invest into the company they are representing. The Group is required to submit a financial model and written Analyst Research Report (of no more than three pages in text (A4, 12 point fonts, double spaced format) to the tutor, and to provide to other students with a summary of key points in their presentation.

An aggregate mark of up to 15% of total course mark will be awarded based on

Case study presentation (up to 7.5%)

Assessment criteria

- Describe barriers to entry- Why is this company great?
- Understanding key revenue and cost drivers of the company.
- Articulate all risk factors and challenges facing the company and present mitigating factors to these risks.
- Summarize financial analysis based their model including valuation – DCF and comparable companies. Target share price.
- Use an appropriate Cost of Capital.
- Medium of communication (power point / projector slides) are clear and precise.
- Demonstrated good time management (group case presentation must be completed within 30 minutes followed by 20 minutes of class discussion).

Analyst Research Report and Financial Model (up to 7.5%)

Requirements

Report

- Report cover page detailing:
 - group members' student number and name
 - The work is original. In other words, plagiarism rules apply.
 - Signature of members and date
- Use standard investment banking style for Analyst Research Reports – Initiating Coverage.
- Summary of business and key revenue and cost drivers.
- Present outputs from financial model including Profit and Loss, Balance Sheet, Cash-flow forecasts and key business assumptions. Include valuation summary outputs.
- A hard copy of the Analyst Research Report is to be handed in after the presentation.
- A soft copy of the case report is to be sent via Moodle.

Financial Model

- Required sheets (4):
 - Introduction: summarise case study company and your group name and student IDs etc. Insert company logo.
 - Assumptions: describe the key revenue and cost drivers for the business which should link into the financial statements.
 - Financial Statements: include the P&L, Balance Sheet and Cash-Flow Statements linked to the Assumptions sheet.
 - Valuation: DCF and Comparable Companies Valuation summaries.
- A soft copy of the financial is to be sent via Moodle.

Assessment criteria

- Articulation of arguments to 'convince' the Fund Manager to invest
- Comparison with template Analyst Research Reports.
- Usability of financial model and understanding of using excel in financial analysis.
- Clear and professional presentation and financial model.
- Late submissions or non-compliance with requirements may result in penalties being applied.

Tutors will provide QUALITATIVE feedback to the presenting groups after their presentations. Final case study and tutorial grades will be made available for viewing after week 13 when all groups have completed their presentations.

The second component of the tutorial program involves students to discuss issues, and work through problems related to the lecture material and course text. Tutors will assess their student's (particularly students not assigned the case of the week) performance based on their participation.

Punctual attendance is necessary and does not constitute a basis for passing this component. Students must be active and participative.

Mid-Session and Final Examination

The two examinations focus on evaluating students' understanding of the main concepts covered in class with a special focus on the learning outcomes. Both examinations may consist of multiple choice, short-essay and problem solving questions. The exams will be designed to focus on and highlight concepts covered in class, but computations are required to convey concepts numerically.

Quality Assurance

The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential.

5 COURSE RESOURCES

You will be able to obtain the latest course announcements and course material via Moodle. Lecture notes will be available for download at the latest one day prior to the lecture. Students are encouraged to read the corresponding reference material prior to lectures. Tutorial solution will be posted after the teaching week.

The website for this course is on Moodle at:
<http://moodle.telt.unsw.edu.au>

The textbook for this course are:

Investment Valuation: Tools and Techniques for Determining the Value of Any Asset, 3rd Edition, Aswath Damodaran, ISBN: 978-1-118-01152-2

The course tutorials will focus extensively on the end of the chapter problems.]

Other good and optional textbooks are:

Brigham and Daves, Intermediate Financial Management, 11th ed. South-Western..

Ross, Westerfield, Jordan, Corporate Finance, 9th ed. McGraw-Hill Irwin [a different style textbook]

Brealey, Myers, Allen, Corporate Finance. 8^h ed. McGraw-Hill Irwin [a classic, revised over the years]

Grinblatt and Titman. Financial Markets and Corporate Strategy. 2nd ed. McGraw-Hill Irwin. [Advanced, for the serious finance students, not for the faint-hearted]

6 COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process is one of the ways in which student evaluative feedback is gathered. In this course, we will seek your feedback through the end of semester.

7 COURSE SCHEDULE

Lectures start in Week 1 and finish in Week 12.

Tutorials start in Week 2 and finish in Week 13.

COURSE SCHEDULE		
Week	Lecture Topic	References
Week 1 24 July	Introduction and Forecasting Financial Statements	
Week 2 31 July	Cost of Capital	
Week 3 7 August	Corporate Valuation	
Week 4 14 August	Capital Budgeting and Risk Analysis	
Week 5 21 August	Financial Options	
Week 6 28 August	Real Options and Valuation Issues	
Week 7 4 September	Hybrid Securities	
Week 8 11 September	Guest Speaker	
Week 9 18 September	In-Class Midterm Exam. Topics from week 1 to 5 inclusive	
Mid-semester break: 23 September – 2 October inclusive (2 Oct = Labour Day Public Holiday)		
Week 10 3 October	Capital Structure	
Week 11 9 October	Mergers and Acquisitions	
Week 12 16 October	Initial Public Offering, Investment Banking and Financial Restructuring	
Week 13 23 October	NO LECTURES	

Tutorial Schedule

Tutorials start in Week 2 and finish in Week 13.

TUTORIAL SCHEDULE		
Week	Topic	References
Week 1 24 July	NO TUTORIALS	
Week 2 31 July	Introduction and Forecasting Financial Statements	
Week 3 7 August	Cost of Capital	
Week 4 14 August	Corporate Valuation	
Week 5 21 August	Capital Budgeting and Risk Analysis	
Week 6 28 August	Financial Options	
Week 7 4 September	Real Options and Valuation Issues	
Week 8 11 September	Midterm Review	
Week 9 18 September	Hybrid Securities	
Mid-semester break: 23 September – 2 October inclusive (2 Oct = Labour Day Public Holiday)		
Week 10 3 October	Real Options and Hybrid Securities	
Week 11 9 October	Capital Structure	
Week 12 16 October	Mergers and Acquisitions	
Week 13 23 October	Initial Public Offering, Investment Banking and Financial Restructuring	