UNIVERSIDAD DEL PACIFICO
ACADEMIC DEPARTMENT OF FINANCE
1F0352 INTERNATIONAL CORPORATE FINANCE, SECTION A
2023– 01-PRE
Professors: Jorge Eduardo Lladó Márquez, and Santiago Villafuerte

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COURSE SYLLABUS

1. GENERAL INFORMATION

Professors:

Jorge Eduardo Lladó Márquez, llado_je@up.edu.pe

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2. INTRODUCTION

The content of the course consists of the main financial decisions that firm faces. Students will develop competencies to identify good practices in the main financial decisions, and methodologies to measure if current practices followed by firms are adding value to its shareholders. Although focus will mainly be on Peruvian corporate firms, tools could be generalized to any firm without any loss of accuracy.

At the end of the course, students will be able to understand the issues involved in the main financial decisions that must make the firm. Those main financial decisions are:

- Financing of short-term operations.
- Estimation of the Cost of Capital.
- Determination of Capital Structure.
- Determination of Dividends Policy.
- Firm Valuation.
- Evaluation of potential M&A.

Additionally, students will have a clear understanding of the metrics of Peruvian corporate companies.

3. COMPETENCIES

Students will be able to evaluate:

- Solvency, efficiency, profitability, and liquidity of a non-financial company.
- Appropriateness of a financial strategy.
- Solvency, asset quality, efficiency, profitability, and liquidity of a bank.
- Role of Liquid Assets and Equity in a bank.
- Mix of spontaneous liabilities, negotiated resources, and non-current liabilities.
- Reasonable ranges of CAPM and WACC.
- Optimality of capital structure.
- Dividends Policy.
- Reasons to an M&A.
- Takeover Strategies.
- Takeover Defenses.
- Firm valuation.
- Consistency of a firm valuation.

4. SPECIFIC KNOWLEDGES

- Techniques of Financial Analysis: horizontal and vertical analysis; financial ratios; degree of operative leverage; degree of financial leverage; break-even point; and sustainable growth rate.
- Distinctive features of Financial Institutions for Financial Analysis.
- Management of Working Capital.
- Financial Strategies: conservative, neutral, and risky. Spontaneous Liabilities. Operating Needs of Funds or operating working capital. Negotiated Resources.
- Mistakes incurred while estimating the Cost of Capital.
- Financing Sources. Advantages and Disadvantages of Leverage. Optimal Leverage.
- Determinants of Dividend Payout.
- Basic Theory of M&A.
- Distinction between price and value.
- Projections of Financial Statements, and basic accounts.
- How to incorporate strategic elements in the projected financial statements.
- The FCFF valuation method.
- Mistakes incurred when a valuation model is applied.
- How to choose multiples of comparable firms, and multiples of comparable transactions.

Additionally:

- Familiarization with Business Cases of *Harvard Business School* (HBS).
- CFA Readings: Levels 1 and 2.
- Use of financial technological tools: *Bloomberg*, *Thomson Eikon Reuters*, *Market Screener*, and *Economática*
- Articles of the Wall Stret Journal.

5. LEARNING UNITS

We will have 27 theoretical sessions (2 hours each) and 13 practical sessions (2 hours each).

FIRST PART

Introducing syllabus, instructor, and students (one session)

I. Financial Analysis and Diagnosis on a non-financial company (three sessions)

Horizontal and Vertical Analysis. The Statement of Sources and Uses. Analysis of Ratios. Liquidity. Efficiency or Use of Assets. Solvency. Profitability. Market Valuation Ratios. Break-down of Du Pont. Factors that influence on ratios. Interpretation of Ratios. Comparability of Ratios. Limitations of Ratio Analysis. Sustainable Growth Rate. Operating Leverage. Financial Leverage. Break-even Point. BUSINESS CASE: AT&T versus Verizon: A Financial Comparison.

Readings: R1. R2. R3 (Ch.2).

II. Management of Working Capital (two sessions)

Financial Strategy: conservative, neutral, and risky. Gross and Net Working Capital. Spontaneous Liabilities. Negotiated Resources. Operating Needs of Funds. Management of Current Assets. Cash. The Cash Conversion Cycle. Models of Cash Management:

deterministic and stochastic. *Baumol*. *Miller-Orr*. Techniques of Cash Management. Acceleration of Collections. Delays of Payments. Management of Credit. Credit Policy. Billing Policy. Collection Policy. Prediction and Control Policies. BUSINESS CASE: Supply Chain at P&G.

Readings: R3 (Ch. 26 & 27). R5

III. The Cost of Capital (three sessions)

The Capital Asset Pricing Model (CAPM). Foundations. Its main assumptions. Determinants of betas. Equity and firm betas. The risk-free asset. The premium for market risk. The country risk. The WACC. The cost of debt. Common mistakes when estimating the Cost of Capital. BUSINESS CASE: The Boeing 7E7. TEAM ASSIGNMENT

Readings: R6. R7. R8 (Ch. 4).

IV. Financial Analysis and Diagnosis of a Bank (three sessions)

Financing Sources: deposits, borrowed funds, inter banking funds, issuance of no subordinated and subordinated bonds. Use of funds. The Importance of Liquid Assets. Investments. Portfolio of Credits. Provisions Policy. Financial Ratios. Break-even point. **BUSINESS CASE TO BE DEFINED**

Readings: R4 (Ch.1, 7 & 20).

V. Capital Structure (three sessions)

Modigliani-Miller (MM) without and with taxes. Miller Model with personal taxes. Trade-off Theory. Direct and indirect costs of Financial Insolvency. Determination of optimal Capital Structure. *Pecking Order Theory*. *Signaling Theory*. Theory of Firm Life Cycle.

Readings: R8 (Ch.7, 8, and 9). R9.

VI. Dividend Policy (two sessions)

Dividend Policy. Theories. MM: irrelevance of dividends policy. Taxes and Dividends. Signaling Theory. The Clientele Effect. Transference of Resources from Bondholders to Shareholders. Firm Cycle of Life. Alternative ways of distributing to shareholders: *Buybacks, Spinoffs, Divestitures y Stock Dividends*.

Readings: R8 (Ch. 10, and 11).

VII. Mergers and Acquisitions (three sessions)

The Big Picture. Introduction. Types of Takeovers. Investment Banking Classification. M&A Waves. A cost-benefit analysis. Tax savings. Operating synergies. Financial synergies. Incentives & Information. The Empirical Evidence. **TEAM ASSIGNMENT**

Readings: R3 (Chap. 28).

VIII. Introduction to Firm Valuation (one session)

Objective of Valuation. Differences and discrepancies between Price and Value. Markets Efficiency. Asymmetric Information. Valuation methods.

Readings: R11 (Chap. 1).

IX. Discounted Cash Flow Valuation / Projections of Financial Statements / (three sessions)

The DCF Valuation. The Method of Free Cash Flow to the Firm (FCFF). The CAPM and WACC. The extraordinary growth and the ordinary (stable, perpetual, residual or sustainable) growth. Basic assumptions: base year; consolidated or individual financial statements; currency; period of projection; revenues (volume, prices); margins; dividend policy; operative working capital; CAPEX; Debt; Sustainable Growth Rate. Sensitivity Analysis. Scenario Analysis. What Valuation Model to Use? Valuation of illiquid firms. Valuation of small firms.

Readings: R11 (Chap. 4).

X. Relative Valuation (two sessions)

Multiples of Comparable firms. P/E. EV / EBITDA. EV / Sales. MV/BV. Multiples of Comparable (preceding) Transactions. The problem of Control.

Transaction Derived Value. Opinion of Analysts. The *football field*.

Common mistakes in valuation.

Readings: R11 (Chap. 6). R12. R13. R14. R15. R16.

6. READINGS

R1. Harvard Business School, Financial Statement Analysis, 9-195-177, November 2010.

R2. Darden Business Publishing, University of Virginia, An Overview of Financial Statement Analysis: The Mechanics, UV 0911, May 2016.

R3. Berk Jonathan, and Peter DeMarzo (2020), Corporate finance, Global edition, Fifth Edition, Pearson Education.

R4. Saunders Anthony (2011), Financial Institutions Management: A Risk-Management Approach, McGraw-Hill Irwin, Seventh Edition.

R5. Takamura, Nathalie (2012), Key Factors in Working Capital Management in the Brazilian market, Revista de Administración de Empresas (RAE) vol. 52, núm. 1, febrero, pp. 55-69.

R6. Mongrut, Samuel (2006), Tasa de Descuento en Latinoamérica: Hechos y Desafíos, III Simposium de Finanzas, Colombia, 13 y 14 de julio de 2006.

R7. Ernst & Young (2017), ¿Su empresa está al tanto de las últimas prácticas de valorización en el mercado?

R8. Damodaran Aswath (1999), Applied Corporate Finance: A User´s Manual, John Wiley & Sons, Inc.

R9. Mendoza, Jazmín y André Miranda (2010), Efectos de las condiciones macroeconómicas sobre la velocidad de ajuste de la estructura de capital en Latinoamérica, Investigación Económica 1, Semestre 2010-II.

R10. García Estévez Pablo (2006), Fusiones Comentadas: análisis de las fusiones más comentadas de los últimos años, Prentice Hall, Financial Times.

R11. Pinto Gerald, Elaine Henry, Thomas Robinson, and John Stowe, John (2007), Equity Asset Valuation, Second Edition, CFA Institute Investment Series, John Wily & Sons, Inc.

R12. IESE Business School, Multiples in Firm Valuation, IES597 FN-628-E, April of 2016.

R13. Harvard Business School, Corporate Valuation and Market Multiples, 9-206-309, January of 2009.

R14. Fernández Pablo, 80 Common Errors in Company Valuation, 2004, IESE Business School.

7. DIDACTIC STRATEGIES

Slides and readings will be delivered in advance, so you can be prepared for class.

Your active participation will be highly appreciated in class.

8. GRADING

The final score is calculated as follows:

- 4 Practice tests: 30%
- Business Cases & Assignments: 20%
- Midterm exam: 25%
- Final Exam (Project): 25%

<u>Graded tests (30%)</u>

PT1 April 14 (Topics I and II)

PT2 May 5 (Topics III, IV and V)

PT3 June1 (Topics VI, VII, and VIII)

PT4 June 23 (Topics IX and X)

Business Cases & Assignments (20%)

There will be 3 Business Cases. While they will be prepared prior to class and discussed in class, a two-sheet summary of conclusions will be required. Individual work.

There will be 2 Assignments (Discount rate, and M&A). Teamwork.

Midterm Exam (25%)

Material to be covered are all the topics developed before midterm week.

Final Exam (Project): 25%

A firm valuation.

There will be advising sessions, so you can finish a short consistent valuation report.

Participation in class and practice sessions will be considered for borderline cases, so it is highly recommended attendance and active participation.

9. MISCELLANEOUS POLICIES

Any make-up of class will be held on Saturdays from 2 y 30 pm to 4 y 30 pm. It will be given early notice. Alternatively, we can start classes earlier.

If, for any reason, some deadline cannot be met, it must be assumed that the deadline must be met in the next class.

Teams will be formed by the very students.

10. CALENDAR

Classes will be held on Mondays and Wednesdays 7:30 pm to 9:30 pm, and on Fridays from 7:30 am to 9:30 am. As a rule, session on Mondays and Wednesdays will be conducted by Jorge Lladó, while sessions on Fridays will be held by Santiago Villafuerte.