



# 25558: Issues in Corporate Finance

Session 1: 30 October 2020



# Agenda

1. Introduction
3. Learning goals
4. Topics
5. Final Exam
6. SLO and Graduate Attributes
7. Disclaimer
8. Resources
9. Goals today



# Introduction

1. Degree
2. Most proud achievement
3. Favourite subject at UTS



# TOPICS (prioritize)

1. Taxation, tax regimes and implications for financial decisions.
2. Investment appraisals and option pricing theory.
3. Agency theory, stakeholders and financial choices.
4. Innovations in financing techniques.
5. Valuation and financing of new business.
6. Mergers and Acquisitions.
7. Corporate restructuring



# Learning Goals

1. Learn content
2. Enhance understanding
3. Answer case study questions on the subject for the exam



# Disclaimer

- I am here to facilitate
- **Corporate Finance I & II** at University of Sydney, Bachelor of Economics
  - **Industrial Equity Analysis, Financial Analysis and Valuation**, Grad Dip Financial Planning
- Sydney Uni textbook:
  - Principles of Corporate Finance (Brealey & Myers 1996)
  - Financial Theory and Corporate Policy (Copeland & Weston 1992)



# Final Exam Preparation

1. Revision - Lecture 12 - any exam hints?
2. [Lectures 5](#) - Corporate Takeovers I: Why mergers and acquisitions happen ([Ch 1](#))
3. [Lecture 6](#) - Corporate Takeovers II: Takeover tactics, anti takeover defences and corporate governance ([Ch 3](#))
4. [Lecture 7](#) - Corporate Takeovers III: M & A valuation and modelling ([Ch 7](#))
5. [Lecture 8](#) - Corporate Takeovers III: M & A valuation and modelling ([Ch 8](#))
6. [Lecture 9](#) - Corporate Takeovers IV: Deal structure and Financing ([Ch 11 & 13](#))
7. [Lecture 10](#) - Corporate Takeovers V: Alternative exit and restructuring strategies, diversitures, spin-off ([Ch 16](#))
8. [Lecture 11](#) - Corporate Takeovers VI: Cross-Border M &A ([Ch 18](#))
9. [SLO \(1-4\)](#)
10. Quizzes, tutorials



# Mergers and Acquisitions - Ch 1

- Textbook case study: BHP Billiton and Rio Tinto
- Economic Gains and Losses from Mergers:
  - $\text{Gain} = \text{PVab} - (\text{PVa} + \text{PVb})$
  - $\text{Cost} = \text{cash} - \text{PVb}$

$$\text{NPV} = \text{gain} - \text{cost}$$

NPV: positive - > merger

Eg. TPG and Vodafone merger

<https://www.vodafone.com.au/media/vha-welcomes-tpg-shareholder-approval-of-merger>

<https://www.vodafone.com.au/media/merger-process-enters-final-stages>





# PwC Mergers and Acquisitions

<https://www.pwc.com.au/mergers-and-acquisitions.html>



# Corporate Restructuring

- M & A
- Tender Offers
- Joint Ventures
- Sell-offs
  - Spin-offs
  - Spit-offs
  - Split ups
  - Divestures
  - Equity carve-outs
- Corporate control
  - Premium buyback
  - Standstill
  - Antitakeover amendments
  - Proxy contests



# Corporate Restructuring

- Changes in ownership structure
  - Exchange offers
  - Share repurchase
  - Going private
  - Leveraged buyout
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## SLO

1. **DISCUSS** the role of corporate governance.
2. **EXPLAIN** the reasons for mergers and acquisitions and the consequences of financing choices.
3. **APPLY** financial evaluation techniques to the analysis of mergers and acquisitions.
4. **EVALUATE** alternative strategies for corporate restructuring.

## Graduate Attributes

1. Contribute knowledge and competencies to fulfill effective career in business and finance.
2. Extend student's knowledge of the contemporary theories and practice not covered in Corporate Finance: Theory and Practice.



# Resources

## Exam Tips

- Learning style?
  - Review tutorial questions and solutions
  - Review Quizzes
  - Review Lecture slides
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- Suggested Readings
  - Summarize lecture notes into your own words
  - Highlight notes, post-it tabs
  - Review past exam papers as some exam questions are from tutorial or past papers
  - Energy - morning or evening
  - Take short breaks
  - Mindfulness to relax, switch off
  - Set small achievable goals 2-3 topics per day until exam period



# UTS Resources

## Exam Tips

- <https://www.uts.edu.au/current-students/news/top-tips-ace-your-exams>
- <https://www.uts.edu.au/current-students/news/exam-time-essentials>
- [https://www.uts.edu.au/current-students/support/student-learning-hub/events/exam-time-laptop-set-drop?utm\\_source=sfmc&utm\\_medium=email&utm\\_campaign=InternalCommunicationsUnit&utm\\_term=&utm\\_content=setting+up+your+computer](https://www.uts.edu.au/current-students/support/student-learning-hub/events/exam-time-laptop-set-drop?utm_source=sfmc&utm_medium=email&utm_campaign=InternalCommunicationsUnit&utm_term=&utm_content=setting+up+your+computer)

## Essay writing:

<https://www.uts.edu.au/current-students/support/helps/self-help-resources/academic-writing/essay-writing>



# Next Week

- What would you like to focus on?
- Wednesday, Thursday?




# Analytical Techniques

Reviewing valuation:

- Ratio Analysis
- Future Maintainable earnings (FME) analysis





# Cost of Capital of a Company under imputation system

Weighted Average Cost of Capital (WACC)

$$X_o = X_g + X_d + X_e$$

$X_o$  is operating income

$X_g$  is government's share of operating income

$X_d$  is debt holders share of operating income

$X_e$  is equity holders share of operating income