COURSE OBJECTIVE

Students passing this course will learn:

- How to apply modern financial theory to the investment and financing decisions of a corporation
- Generate creative and practical solutions by applying decision tools and research methodology
- Demonstrate professional written communication skills, including technical information
- How to find resources and use their statistical and analytical skills to tackle a real world problem of valuation of a firm.

BRIEF COURSE DESCRIPTION

The course provides an opportunity for students to gain a deep understanding of a broad range of topics that concerns managers when making financial decisions in a modern corporation. The course reviews theoretical and empirical contributions to corporate finance in the following areas: capital budgeting, capital structure, firm valuation, corporate distribution policy, financial distress, and mergers and acquisitions.

COURSE METHODS

The course involves a combination of teaching and learning methods:

1. Readings of book chapters to preview concepts and establish advanced terminology (mandatory)
2. Pre-class online quizzes covering the reading assignments
3. Short lectures to review specific concepts and the toolbox of advanced corporate finance
4. In class lab problems to be solved in groups
5. Mini-cases on current financial and economic issues
6. Final project: an application of the skills, learned in the course. In here, you (individually) identify a public firm, do a thorough valuation analysis, forecast its earnings, and finally make investment recommendations.
7. Two midterms and a final exam
TEXT and MATERIALS

Required Textbook

You might want to visit: http://www.myfinancelab.com. The website is an optional supplement for the textbook. It is not required for you to purchase access to the website; however it can be a useful learning tool that gives you more practice deepening your understanding of what we cover in class. If you would like to buy access, you can use the course ID: rastad31828.

Recommended Textbooks
• Valuation: Measuring and Managing the Value of Companies, 5th Edition By McKinsey & Company Inc., Tim Koller, Marc Goedhart, David Wessels (KGW). The book is written from the practitioners’ point of view with references to leading academic papers. I highly recommend this book especially if you are interested in a career in Corporate Finance. The book is on reserve in library.
• Financial Modeling using Excel and VB, Chandan Sengupta, Wiley Finance, 2009
• Corporate Finance (BD) by Jonathan Berk, and Peter DeMarzo, 3rd edition, Prentice Hall, 2013 (advanced version of the class textbook, BDH)

Other Readings
I also strongly recommend that you subscribe to a financial newspaper such as the Wall Street Journal. Other good examples are Business and Deal Book sections of NY Times, Economist, and APM Marketplace podcast.

IMPORTANT DATES

April 13 Project Proposal Due at 11:30 PM
April 28 First Midterm
May 11 First Report for the Project Due at 11:30 PM
May 28 Second Midterm
June 8 Final Report for the Project Due at 11:30 PM
June 13 Final Exam

CLASS ATTENDANCE
I strongly encourage you to attend all classes and actively participate in class discussions. You should bring a name card to class. I may not formally take attendance every session but tend to remember faces and names. If you are repeatedly absent from classes it will materially affect your grade. If you miss a class, it is your responsibility to check with a classmate on what took place during that class. Use of computers, laptops, tablets, and smart phones is not generally allowed in this class unless it is authorized by the instructor.
## Grading Policy

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>Assignments</td>
<td>15%</td>
<td>Pre-class and post-class quizzes, homework, mini-cases, etc.</td>
</tr>
<tr>
<td>Final Project</td>
<td>15%</td>
<td>Project proposal, two reports: summary and spreadsheet.</td>
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<tr>
<td>First Midterm Exam</td>
<td>20%</td>
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</tr>
<tr>
<td>Second Midterm Exam</td>
<td>20%</td>
<td>Noncumulative</td>
</tr>
<tr>
<td>Final Exam</td>
<td>30%</td>
<td>Cumulative</td>
</tr>
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All submissions for the assignments and the project must be done online thorough the PolyLearn.

**Grading and Regrading:** I follow Finance area guidelines for grading (see below). There will be no makeup exam and no partial grading for this course, i.e., only final answer matters. Please note that to get a full credit for quantitative multiple choice questions you need to show your work; guessing does not help. If you think there has been an error regarding your grade, you may submit a written grade appeal within a week after the grades are posted. An appeal will involve regarding the whole exam, and may lead to both a lower or higher grade.

**Area Grading Policy:** The finance area currently uses a standardized grading policy for all finance classes. That is, the proportion of A’s, B’s, C’s, etc. must adhere to general guidelines. Specifically, the policy is:

- A’s Maximum of 25%
- C’s Range of 20% to 40%
- D’s and F’s combined: Expected minimum of 10%, but could be 0%.

The policy is employed to insure that (i) the grade of A is reserved for outstanding performance, and (ii) any student who performs poorly will receive a D or F. If all students perform well, no D’s or F’s will be given. The phrase “Expected minimum of 10%” is used in the “D’s and F’s” category because history has shown that approximately 10% to 20% of the class typically underperforms. However, the 10% minimum is a “soft” target. That is, if the entire class performs well, then the number of D’s and F’s will be 0%. Of course, if there are a large number of poor performing students, then the combined number of D’s and F’s can exceed 10%.

**Exam Session Policy:** Exams are closed-book and closed-notes. You are only allowed to bring a one page handwritten cheat sheet to each exam (one-sided for midterm and two-sided for the final). The cheat sheet is collected with the exam and will be graded. You may bring a basic business calculator to the exam (neither a cell phone nor a programmable calculator) but should also be prepared to use the formulas instead of the financial functions of your calculator. All other electronic devices including cell phones must be tuned off and put away during the exam.
FINAL PROJECT

As an application of the skills learned in the course you will build a detailed valuation report step by step as the course progresses. In here, you choose a publicly traded firm (so that there will be no data availability concern). You will perform a thorough valuation analysis, forecast the firm’s earnings, and finally make investment recommendations. Please refer to Final Project handout for more details and guideline.

COMMUNICATION PROTOCOL

All online communications should be done thorough PolyLearn (not e-mail). If a question is potentially of interest of the other students you are encouraged to post it on the forum under the related topic. Important/urgent announcement are sent to you via e-mail. Please make sure that you are on my mailing list. If not, please let me know.

ACADEMIC INTEGRITY POLICY

Strict adherence to the highest standards of academic honesty is essential for a trusting and productive learning environment. I expect that you will explicitly make it clear whenever you want to use someone else’s ideas in your work. This includes your work on both final project and the class assignments such as homework and labs. The vast majority of students at Cal Poly does their work honestly, and expects that all will be graded on merit. In order to ensure fair grades, cheating and plagiarism will not be tolerated. We will abide by Cal Poly’s Office of Student Rights and Responsibilities (OSRR). You are responsible for knowing what plagiarism is. If you have questions, please see the OSRR website at http://www.osrr.calpoly.edu/plagiarism/ The sanctions for cheating and plagiarism will be an “F” for the course and the misconduct will be reported to the OSRR.

STATEMENT OF DISABILITY

If you require using Disability Resource Center (DRC) please let me know during the first week of the class.

COURSE SCHEDULE

This a tentative outline for the course. Changes may be made as the course progresses. Please make sure you check the course website on PolyLearn regularly for any updates. Throughout the course, I may cover materials that are not from the textbook, including current events, Excel modeling, articles and papers. It is ultimately students’ responsibility to track ALL the material covered in class AND the textbook. In what follows the book chapters (in Italic) are from BDH unless otherwise stated.

Topic 0: Preview of the Course
Overview of the Syllabus and Final Project
Introduction to Corporate Finance
Chapter 1 (1.1, 1.3, 1.4, 1.6)

Topic 1: Valuing a Cash Flow
Review of Time Value of Money and Interest Rates
Chapter 4 (all sections including the appendix) and Chapter 5 (5.3)
Topic 2: Capital Budgeting
Estimating Free Cash Flow
Options in Corporate Finance
Real Options (Rule of Thumb)
Chapter 9 (all sections)

Topic 3: The Cost of Capital and Valuation
Weighted Average Cost of Capital (WACC)
Valuation: Discounted Cash Flow (DCF) Method
Comparables and Multiples
Chapter 13 (all sections) and Chapter 10 (10.1, 10.2)

Topic 4: Long-Term Financing
Raising Equity Capital
Debt Financing
Chapter 14 (all sections) and Chapter 15 (all sections)

Topic 5: Capital Structure
MM Theorem: Capital Structure Irrelevance
Debt and Taxes
Cost of Financial Distress
Optimal Capital Structure
Chapter 16 (all sections)

Topic 6: Valuation with Leverage
WACC Method Revisited
Adjusted Present Value (APV) Method
Flow-to-Equity Method
Lecture notes based on Chapter 18 (18.2, 18.3, 18.4) of BD

Topic 7: Payout Policy
Dividend vs. Repurchase
MM Theorem: Payout Policy Irrelevance
Tax Considerations
Payout vs. Cash Retention
Chapter 17 (all sections)

Topic 8: Mergers and Acquisitions
Synergies
Takeover Process and Defense
Leverage Buyouts and Spin offs
Chapter 22 (all sections)

Topic 9: Corporate Governance
Agency Conflict and Monitoring
Compensation Policies
Online Chapter (all sections)